FOR AGENDA

SM/87/188

<u>CONTAINS CONFIDENTIAL INFORMATION</u>

July 31, 1987

To: Members of the Executive Board

From: The Secretary

Subject: <u>Zimbabwe - Staff Report for the 1987 Article IV Consultation</u>

Attached for consideration by the Executive Directors is the staff report for the 1987 Article IV consultation with Zimbabwe, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 26.

Mr. R. C. Williams (ext. 6511) or Mr. Taha (ext. 8751) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL INFORMATION

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1987 Article IV Consultation

Prepared by the Staff Representatives for the 1987 Article IV Consultation with Zimbabwe

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

Approved by A.D. Ouattara and W.A. Beveridge

July 29, 1987

I. Introduction

Discussions for the 1987 Article IV consultation with Zimbabwe were held in Harare during the period May 28-June 12, 1987. The Zimbabwean representatives included Dr. B.T.G. Chidzero, Minister of Finance and Economic Planning and Development, Mr. E.N. Mushayakarara, Permanent Secretary of Finance and Economic Planning and Development, Dr. K.J. Moyana, Governor of the Reserve Bank, as well as other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. R.C. Williams (head), E. Taha, P. Young (all-AFR), Ms. B. Vibe Christensen (ETR), Mr. C. Schiller (FAD), and Mrs. S. Bright (secretary-AFR).

The last Article IV consultation with Zimbabwe was concluded by the Executive Board on September 17, 1986. Zimbabwe continues to avail itself of the transitional arrangements of Article XIV.

The last stand-by arrangement with Zimbabwe (for 18 months and SDR 300 million, or 200 percent of quota) was approved by the Fund on March 23, 1983. Zimbabwe purchased SDR 175 million under this arrangement, but could not purchase the remainder because of substantial deviations from the program's fiscal targets and intensification of exchange restrictions on current payments. The stand-by arrangement expired in September 1984.

A summary of Zimbabwe's relations with the Fund and the World Bank are presented in Appendices I and II, respectively. Statistical issues are discussed in Appendix III, and basic economic and financial data are presented in Appendix IV. Social indicators are summarized in Appendix V. Appendix VI contains medium-term balance of payments and Appendix VII provides information on Zimbabwe's debt service payments.

II. Recent Economic Developments and Policies, 1980-86

Since independence in 1980, the performance of Zimbabwe's economy has been uneven. After rapid growth in 1980-81 when real GDP growth averaged 11 percent per year, there was virtual stagnation in 1982-84. With the return of favorable weather conditions, there was a marked revival in economic activity in 1985 with over 9 percent real GDP growth. The recovery was again short-lived, real GDP growing by only 0.2 percent in 1986 (Table 1 and Chart 1). Over the 1981-86 period, the rate of inflation (measured by the average of the consumer price indices for the higher- and lower-income groups) averaged about 15 percent per annum. While exports stagnated, imports were severely compressed through restrictive foreign exchange allocations, especially from 1983 onwards.

Several exogenous factors as well as domestic policies contributed to the unstable pattern of growth in the economy. Consecutive droughts reduced foodgrain production substantially for each of the 1982/83 and 1983/84 growing seasons and necessitated large grain imports. A bumper harvest in the 1984/85 growing season, together with a related increase in manufacturing output, supported a sharp GDP growth in 1985 but there was a return to stagnation in 1986. Superimposed on this recurring adverse weather cycle were stagnating exports, declining terms of trade, and increased cost and uncertainties relating to transportation of traded goods. In addition, gross domestic investment was declining partly because of foreign exchange shortages.

During the three fiscal years 1981/82-1983/84, the public sector imbalances worsened with the deficits of the Central Government and the limited public sector (excluding grants) in relation to GDP widening by more than 2.5 percentage points to 11 percent and 12 percent, respectively (Table 1). 1/ The central government deficit rose, as expenditure increased by the equivalent of 5 percentage points of GDP (Table 2). There was a considerable increase in the wage bill partly arising from the introduction of a minimum wage system in 1981 and a rapid expansion of the civil service as well as increased outlays on education, health, and other social services, defense, and transfers to parastatals. In 1984/85, the public sector performance improved as the limited public sector deficit (excluding grants) fell by about 1.5 percent of GDP. The main factors behind the improvement were a cut in the growth rate of central government expenditure by one half, to 8.5 percent. This slowdown in the growth of expenditure was brought about by freezing wages and salaries and keeping outlays on goods and services constant in nominal terms. Furthermore, transfer payments fell

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1/ The limited public sector deficit is defined as the central government deficit (including grants) plus the operating or current deficits of the public enterprises that require government subsidies, less transfers from the Central Government to these enterprises.

Table 1. Zimbabwe: Selected Economic and Financial Indicators, 1982-87

	1982	1983	1984	1985	1986	1987
	Actual				Prel.	Est.
	(Annual percent changes, unless otherwise specified)					
National income and prices						
Real GDP (at factor cost)	-1.4	-4.2	2.6	9.3	0.2	-1.9
GDP deflator	12.4	18.3	10.8	12.2	12.5	12.5
Consumer prices 1/	14.6	19.6	16.3	9.2	14.2	14.0
External sector						
Exports, f.o.b. (millions of SDRs)	1,194	1,087	1,163	1,116	1,132	1,029
Imports, c.i.f. (millions of SDRs)	-1,461	-1,161	-1,081	-992	-943	-906
Export volume 2/	2.9	3.6	-1.3	-4.6	3.0	1.3
Import volume	7.7	-16.2	-0.4	-12.4	1.8	-7.0
Terms of trade (deterioration -)	-2.5	-3.8	15.8	2.3	0.6	-7.4
Nominal trade-weighted effective exchange rate, end of period (depreciation -)	-6.7	-11.1	-8.1	-10.4	-11.9	...
Real trade-weighted effective exchange rate, end of period (depreciation -)	-1.9	1.8	-7.7	-11.2	-4.8	...
Central government budget 3/						
Revenue and grants	35.1	32.7	12.2	13.8	13.2	14.5
Total expenditure and net lending	31.5	31.6	16.6	8.5	16.4	18.4
Money and credit						
Domestic credit	25.9	15.0	-4.8	13.9	12.9	...
Government	14.8	-8.3	-8.6	-19.4	-2.4	...
Money and quasi-money (M2)	14.8	--	16.0	15.9	5.0	...
Velocity (GDP relative to M2)	1.4	18.8	-5.9	4.3	7.4	...
Interest rate (annual rate, one-year time deposit or alternative rate)	10.50	14.20	10.50	10.50	10.25	...
	(In percent of GDP)					
Central government budget deficit 3/						
Excluding grants	-7.8	-8.6	-10.5	-9.6	-9.2	-10.3
Including grants	-7.1	-7.6	-9.1	-7.1	-7.9	-9.5
Domestic bank financing	-0.3	1.9	3.2	-3.7	-2.6	2.0
Foreign financing	4.6	0.9	0.8	6.6	2.4	1.4
Limited public sector deficit 3/						
Excluding grants	-8.9	-12.0	-11.5	-10.1	-10.4	-10.9
Including grants	-8.2	-11.1	-10.1	-7.6	-9.1	-10.1
Gross domestic investment	21.4	23.1	16.1	23.1	18.7	17.0
Of which: gross fixed capital formation	(21.1)	(19.9)	(16.6)	(16.6)	(16.0)	(15.5)
External current account						
Including official transfers	-10.5	-7.4	-1.3	-1.8	0.2	-0.3
Excluding official transfers	-11.1	-8.3	-3.1	-2.9	-0.9	-1.7
External debt						
Including use of Fund credit	32.9	41.6	42.5	43.4	41.8	40.3
Debt service ratio 4/	20.6	26.4	27.6	30.2	30.0	40.0
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	-55	-293	95	81	23	--
Gross official reserves (weeks of imports)	7.9	9.0	8.1	12.5	11.1	5.8 5/

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

1/ Based on average of high- and low-income family indices.
2/ Excluding net sales of gold from official sources.
3/ The data refer to fiscal years ended June of the year indicated. For 1986/87 the data represent the estimated fiscal outturn.
4/ Includes Fund; in percent of exports of goods and nonfactor services.
5/ Assumes no change in external short-term liabilities or sales of external securities, which are not included in gross official reserves.

Table 2. Zimbabwe: Summary of Operations of the Limited Public Sector, 1981/82-1986/87 1/

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Budget estimate	1986/87 Estimated outturn
	(In millions of Zimbabwe dollars)						
Central government revenue and grants	1,367.9	1,815.8	2,037.3	2,318.1	2,623.4	2,997.1	3,006.0
Total revenue	1,333.7	1,763.1	1,943.5	2,131.8	2,516.3	2,835.1	2,926.0
Tax revenue	1,207.6	1,579.5	1,743.5	1,902.1	2,246.0	2,525.9	2,593.0
Nontax revenue	126.2	183.6	200.1	229.7	270.3	309.2	333.0
Grants	34.2	52.7	93.8	186.3	107.1	162.0	80.0
Central government expenditure and net lending	1,707.6	2,246.4	2,618.4	2,841.5	3,306.7	4,051.0	3,915.8
Current expenditure	1,435.5	1,820.0	2,223.2	2,438.1	2,912.8	3,485.7	3,464.8
Capital expenditure	158.2	191.9	208.7	203.2	224.0	342.8	254.0
Net lending	113.8	234.5	186.5	200.2	169.9	222.5	197.0
Central government deficit	-339.7	-430.6	-581.0	-523.4	-683.3	-1,053.9	-909.8
Plus parastatal losses	-148.2	-297.2	-271.0	-327.0	-407.0	...	-463.8
Less government transfers to parastatals	93.8	103.8	207.1	286.7	302.6	382.0	404.0
Limited nonfinancial public sector deficit	-394.1	-624.0	-644.9	-563.7	-787.7	...	-969.6
	(In percent of GDP)						
Memorandum items:							
Total revenue and grants	28.6	32.1	31.8	31.4	30.4	30.1	31.3
Total revenue	27.8	31.2	30.3	28.8	29.2	28.5	30.5
Tax revenue	25.1	28.0	27.2	25.7	26.1	25.4	27.0
Nontax revenue	2.6	3.2	3.1	3.1	3.1	3.1	3.4
Grants	0.7	0.9	1.5	2.5	1.2	1.6	0.8
Total expenditure and net lending	35.5	39.8	40.8	38.4	38.4	40.7	40.8
Current expenditure	29.8	32.2	34.7	33.0	33.8	35.1	36.1
Capital expenditure and net lending	5.7	7.6	6.1	5.4	4.6	5.6	4.7
Central government deficit	-7.1	-7.6	-9.1	-7.1	-7.9	-10.6	-9.5
Parastatal losses	-3.1	-5.3	-4.2	-4.4	-4.7	...	-4.8
Central government transfers to parastatals	2.0	1.8	3.2	3.9	3.5	3.8	4.2
Limited nonfinancial public sector deficit	-8.2	-11.1	-10.1	-7.6	-9.1	...	-10.1
Central government financing	7.1	7.6	9.1	7.1	7.9	10.6	9.5
External financing (net)	4.6	0.9	0.8	6.6	2.4	0.8	1.4
Domestic financing (net)	2.5	6.7	8.3	0.5	5.5	9.8	8.1
Banking system	-0.3	1.9	3.2	-3.7	-2.6	...	2.0
Nonbank borrowing	2.8	4.9	5.1	4.2	8.1	...	6.1

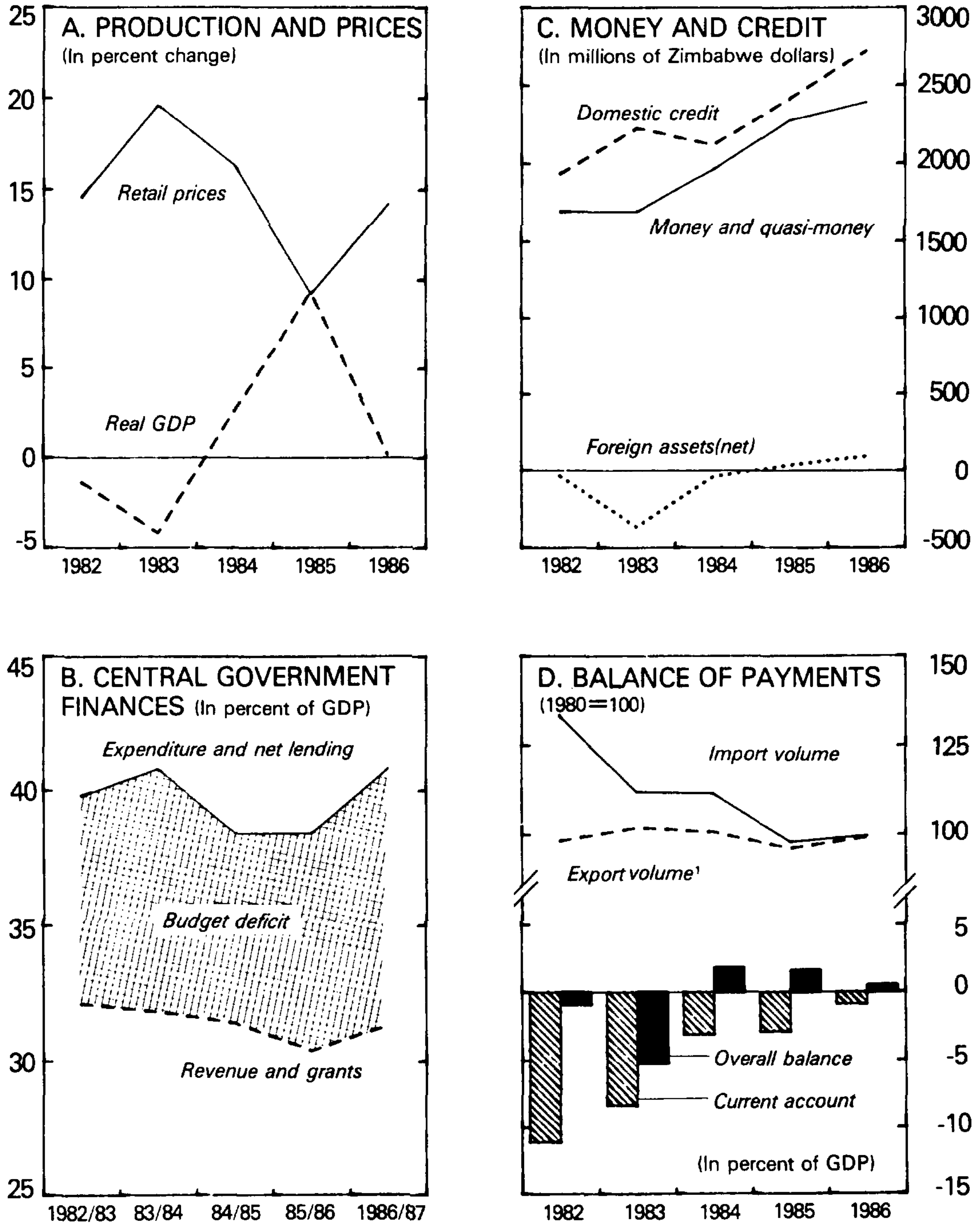
Sources: Reports of the Comptroller and Auditor General; financial statements; and data provided by the Ministry of Finance, Economic Planning, and Development.

1/ Comprises the Central Government and selected public enterprises which receive government subsidies.

CHART 1

ZIMBABWE

SELECTED ECONOMIC INDICATORS, 1982-87



Sources: Data provided by the Zimbabwean authorities, and staff estimates.
[1]Excluding sale of gold from official reserves.

by 8 percent, reflecting the tapering off in some defense-related grants and drought relief payments.

The public finance situation deteriorated again in fiscal year 1985/86. The limited public sector deficit (excluding grants) increased slightly to 10.1 percent of GDP, as the improvement in the central government position was not sufficient to offset the deterioration in the parastatal performance. The overall deficit of the Central Government (excluding grants) decreased by 0.4 percentage point to 9.2 percent of GDP, mainly because of a decline in capital expenditure and net lending owing to shortages of building materials and transportation problems as well as a swing in short-term net lending to net repayments as a result of the improved income position of farmers. The combined losses of parastatals widened by 0.3 percent of GDP, largely because of a swing into deficit in the trading account of the Grain Marketing Board (GMB).

The financing of the central government deficit (including grants) changed considerably during the four fiscal years ended June 30, 1986. In 1981/82-1983/84, the deficit was financed principally from domestic sources with heavy recourse to the nonbank sector. In the following two years, a large proportion of total net financing requirements was provided by the use of blocked funds of nonresidents, boosting external financing to an average of 4.5 percent of GDP. At the same time, the Government issued a sizable amount of bonds to the domestic nonbank sector. This led to a decline in the Government's net indebtedness to the domestic banking system of 3-7 percent of GDP in 1984/85 and 2.6 percent of GDP in 1985/86.

Monetary expansion, which averaged about 12 percent a year during 1984-86, was broadly in line with nominal GDP growth and reflected both an increase in net foreign assets and in private sector domestic credit, including credit to parastatals (Table 3). In 1985, credit to the private sector grew by only 7 percent, but credit to public enterprises rose by 40 percent, mainly to the Agricultural Marketing Authority (AMA) for financing the purchase, transportation, and storage of a bumper maize crop. In 1986, credit to public enterprises (including the AMA) rose by 10 percent and that to the private sector increased by 20 percent. The sharp increase in private sector credit was to finance the purchase of a large tobacco crop which should be self-liquidating as soon as export payments were made. Broad money rose by 5 percent in 1986 compared with about 16 percent in the previous year. The modest rate of monetary expansion was due to the slowdown in economic activity in 1986. There was also a shift in time and saving deposits from deposit money banks to nonbank domestic institutions. The shift was also encouraged by a decline in short-term interest rates offered by domestic money banks and by the tax-exempt status of deposits with the Post Office Saving Bank and to a lesser extent building societies which achieved that status for some deposits beginning in November 1986.

Table 3. Zimbabwe: Monetary Survey, December 1982-March 1987

(In millions of Zimbabwe dollars)

	1982	1983	1984	1985				1986				1987
	Dec.	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
Foreign assets (net)	-36.9	-367.7	-43.1	-10.7	3.4	67.9	37.0	102.5	69.1	128.2	93.1	129.3
Reserve Bank (net)	-44.5	-368.9	-22.2	21.6	26.8	100.3	87.1	126.8	105.7	162.0	157.9	167.3
Assets	206.0	206.9	421.0	420.5	444.3	537.1	449.2	475.6	472.1	516.1	448.6	419.5
Liabilities	250.5	575.8	443.2	398.9	417.5	436.8	362.1	348.8	366.4	354.1	290.7	252.2
Of which: IMF	(37.0)	(206.6)	(295.5)	(295.5)	(233.6)	(226.4)	(219.2)	(212.0)	(186.9)	(164.9)	(128.2)	(106.3)
Deposit money banks (net)	7.6	1.2	-20.9	-32.3	-23.4	-32.4	-50.1	-24.3	-36.6	-33.8	-64.8	-38.0
Domestic credit (net)	1,934.0	2,224.5	2,117.0	1,998.8	2,109.0	2,265.3	2,411.5	2,282.9	2,376.6	2,640.6	2,722.9	2,670.8
Claims on Government (net)	594.2	544.8	497.9	480.5	455.2	361.0	401.4	334.2	232.3	304.3	391.9	424.8
Claims on public sector 1/	423.2	593.9	632.3	524.2	516.3	756.0	888.1	788.2	756.3	869.8	979.2	875.0
Of which: AMA	(361.2)	(456.5)	(472.2)	(360.7)	(375.7)	(567.3)	(695.5)	(583.6)	(543.0)	(661.3)	(785.7)	(680.3)
Claims on private sector	916.6	1,085.8	1,046.8	994.1	1,137.5	1,148.3	1,122.0	1,160.5	1,388.0	1,466.5	1,351.8	1,371.0
Money (M1)	771.0	740.4	881.9	768.7	847.0	926.6	972.4	903.3	917.6	1.016.7	1,062.3	1,011.5
Currency	237.5	227.4	258.8	250.3	262.2	297.5	321.1	330.4	306.9	345.6	379.8	353.5
Demand deposits	533.5	513.0	623.1	518.4	584.8	629.1	651.3	572.9	610.7	671.1	682.5	658.0
Quasi-money	921.8	952.1	1,081.0	1,103.9	1,133.5	1,243.0	1,303.4	1,220.5	1,213.4	1,315.8	1,327.9	1,337.0
Short-term deposits	465.5	527.6	671.3	640.4	618.9	683.7	646.3	665.0	644.6	713.7	776.1	756.0
Other term deposits	456.3	424.5	409.7	463.5	514.6	559.3	657.1	555.5	568.8	602.1	551.8	581.0
Broad money	1,692.8	1,692.5	1,962.9	1,872.6	1,980.5	2,169.6	2,275.8	2,123.8	2,131.0	2,332.5	2,390.2	2,348.5
Other items (net)	204.3	164.3	171.0	115.5	131.9	163.6	172.7	261.6	314.7	436.3	425.8	451.6

Source: Data provided by the Zimbabwean authorities.

1/ Includes Agricultural Marketing Authority, National Railways of Zimbabwe, Air Zimbabwe Corporation, Zimbabwe Iron and Steel Company and Agricultural Finance Corporation.

Despite declining current account deficits and realization of overall balance of payments surpluses in recent years, Zimbabwe's external payments position remained difficult throughout the post-independence period (1980-86). The contributing factors included stagnating export earnings, rising interest payments, lower loan disbursements, and increased amortization payments (Table 4). While export volume rose by 3 percent, it was still not higher than the level of the early 1980s. Import volume grew by 2 percent following a decline of 12 percent in 1985. Even this modest increase was only possible because of sales of gold and external securities of the Reserve Bank amounting to about SDR 100 million. 1/ Concern about private investment led to the easing of restrictions on dividends and profit payments in early 1986, which resulted in an outflow of about SDR 50 million. 2/ Besides cutbacks in foreign exchange allocations for imports and the sale of gold from reserves, the authorities allowed the Zimbabwean dollar to depreciate in an effort to ease the strain on the balance of payments. There was a cumulative depreciation of 14 percent in real effective terms during 1985 and the first half of 1986 (Chart 2). This policy was relaxed in the second half of 1986 with the real effective rate remaining broadly unchanged. However, during the first five months of 1987, the real effective exchange rate depreciated by 4 percent compared with December 1986.

World Bank lending in 1986 amounted to SDR 35 million, compared with SDR 45 million in 1985. Gross official reserves declined from the equivalent of 13 weeks of imports at end-1985 to 11 weeks of imports at end-1986. External debt amounted to SDR 2 billion (41.8 percent of GDP) at end-1986, and external debt service payments to 30 percent of exports of goods and nonfactor services, as in the previous year.

III. Report on the Discussions

During the Board discussion concluding the 1986 Article IV consultation, Executive Directors noted with concern the persistence of large budgetary deficits. They urged the authorities to take actions to reduce the deficits, particularly by restraining the wage bill and current transfers. Directors stressed the urgency of actions to raise domestic savings, an important element of which should be the reduction of the fiscal deficits. They noted the role of interest rates in mobilizing private savings and emphasized that the increased availability of resources for investment should be accompanied by measures aimed at increasing investment and production incentives.

1/ The reduction in gross official reserves was only SDR 11 million, mainly because gold is valued at only 50 percent of its market value and the stock of external securities is excluded from gross official reserves.

2/ Effective January 1, 1986, the pre-March 1984 regulation on remittances of profits and dividends on the basis of a maximum of 50 percent after-tax profit was reinstated.

Table 4. Zimbabwe: Balance of Payments, 1982-87

	1982	1983	1984	1985	1986 Prel.	1987 1/ Proj.
	(In millions of SDRs)					
Current account (excluding official transfers)	-686	-472	-161	-146	-43	-82
Trade balance, f.o.b.	-139	81	193	209	270	210
Exports, f.o.b.	1,194	1,087	1,163	1,116	1,132	1,029
Imports, f.o.b.	-1,333	-1,006	-970	-908	-863	-819
Nonfactor services	-229	-236	-161	-182	-136	-136
Shipment	-128	-155	-111	-84	-80	-75
Other transportation	17	4	7	-4	-3	-2
Travel	-60	-44	-34	-15	7	-5
Other	-58	-42	-24	-79	-60	-53
Investment income	-195	-211	-136	-127	-153	-143
Interest	-100	-169	-139	-149	-118	-134
Other	-95	-41	3	22	-35	-9
Private transfers	-123	-106	-56	-45	-22	-14
Capital account	512	164	244	168	64	82
Official transfers	41	51	92	54	50	70
Direct investment	--	-2	7	3	--	-13
Portfolio investment 2/	-43	-38	-39	-37	-32	-45
Medium- and long-term	380	328	136	95	59	62
Government	100	213	102	105	49	76
Receipts	108	248	164	153	111	184
Payments	-8	-34	-62	-48	-62	-108
Public enterprises	227	97	40	2	11	-18
Receipts	230	116	90	65	75	74
Payments	-3	-19	-50	-63	-64	-92
Private sector	53	18	-6	-12	-1	4
Receipts	82	40	17	5	14	13
Payments	-29	-22	-22	-16	-15	-9
Short-term	134	-176	48	53	-13	7
Government	61	-152	4	-22	17	--
Public enterprises	51	-22	35	56	-37	--
Private sector	22	-2	8	18	8	7
Errors and omissions	119	14	12	59	1	--
Overall balance	-55	-293	95	81	23	--
Financing	55	293	-95	-81	-23	--
Gross reserves (- increase)	-16	-1	-21	-66	-11	81
IMF	--	150	62	-21	-50	-81
Sale of securities	--	--	43	45	33	--
Other short-term liablities	71	144	-179	-39	5	--
Memorandum items:						
World Bank lending 3/	12	38	57	45	35	39
	(In percent of GDP)					
Current account						
Excl. off. transfers	-11.1	-8.3	-3.1	-2.9	-0.9	-1.7
Incl. off. transfers	-10.5	-7.4	-1.3	-1.8	0.2	-0.3

Sources: Reserve Bank of Zimbabwe; and staff estimates.

1/ Staff projection.
2/ Mainly amortization of government bonds.
3/ Including IDA.

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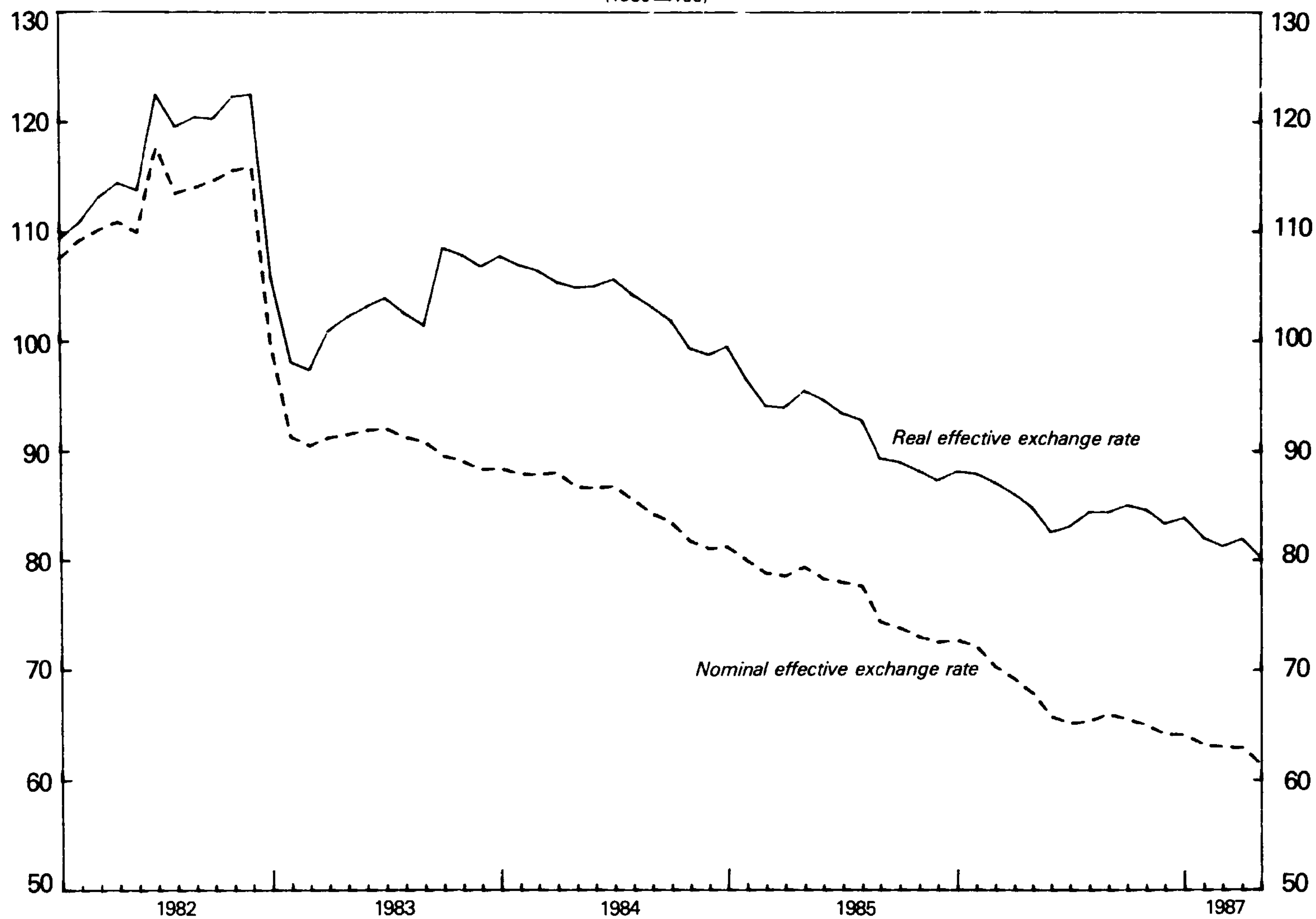
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1982-87

(1980=100)



Source: IMF, *Information Notice System.*

The staff discussions with the Zimbabwean representatives for the 1987 consultation took place against a deteriorating economic situation, growing fiscal imbalances, and increasing pressures on the balance of payments. The discussions focused on the range of financial policies and those of a structural nature needed to revitalize and restructure the economy and to lay the base for sustainably higher growth.

1. Production, employment, wages, and prices

a. Production prospects and policies

The Zimbabwean representatives expected real GDP to decline by about 2 percent in 1987 with widespread economic contraction affecting agriculture and industry, including manufacturing, mining, construction, and utilities. Agricultural output, which fell by 12 percent in 1986, was projected to decline further in 1987 mainly because of drought that had sharply curtailed output of food crops, particularly maize. The drought was expected to lead to a decline in maize stocks, which by end-March 1987 amounted to 1.8 million tons, equivalent to about two years' consumption. Output of the main cash crop, tobacco, rose in 1987, partly reflecting the lifting of production controls by the tobacco growers. The larger crop, however, was of a poorer quality because of the drought. Industrial output had been constrained by the shortage of foreign exchange for the purchase of spare parts and raw materials and to a lesser extent by the decline in agricultural incomes. Production of minerals was also expected to remain stagnant primarily because of continued low world demand. Some of the production operations were also affected by the shortage of foreign exchange to replace outdated equipment.

In view of the high cost involved in financing maize stocks and the limited opportunities for exports, the authorities decided in April 1987 to maintain the producer price for maize at Z$180 per ton for the third successive year, implying a reduction in real terms. While considering this policy stance broadly appropriate, the staff representatives inquired why the authorities did not reduce producer prices in nominal terms to encourage farmers to shift speedily to other crops and to reduce trading losses of the Grain Marketing Board (GMB) more rapidly. The Zimbabwean representatives responded that maize was a strategic commodity and that a reduction in nominal producer prices would undermine a major policy goal of meeting national requirements. Furthermore, producer prices of other crops provided adequate incentives for increased production of crops which had export potential. Producer prices for soybeans and sunflower seeds were raised by 13 and 14 percent, respectively, and those for groundnuts by 20 percent in April 1987. A larger increase of 30 percent was provided for beef to compensate for real decline in producer prices and to provide incentives for rebuilding of the national herd as well as to promote exports. The staff representatives pointed out that the GMB had incurred large trading losses in the past, and without faster and larger adjustment in producer prices, these losses were expected to be a heavy drain on the budget in the future.

Turning to the industrial sector, the Zimbabwean representatives said that the Government's industrial policy would be gradually shifted toward promoting exports while pursuing efficient import substitution. The Zimbabwean representatives reported that on May 28, 1987 the Government announced its intention to allow surplus funds, belonging to nonresidents and previously kept in block accounts, to be considered for export-oriented or import-substitution projects and projects in other areas approved by the authorities. The staff representatives indicated that the industrial policy stance advocated by the authorities implied encouraging competitiveness of domestic industries, making active use of the exchange rate for allocation of foreign exchange, and decontrolling domestic prices. While welcoming the intention to liberalize the use of surplus funds for investment, the mission regretted that this move was linked to intensifying restrictions on remittances of projects and dividends abroad. The staff representatives noted the authorities' intention to remove these restrictions as soon as the balance of payments situation permitted. It was also indicated to the Zimbabwean representatives that their policy to promote increased private investment would be enhanced by simplifying and, if appropriate, removing existing administrative guidelines for investment. They explained that investment controls were instituted to prevent investment in already existing domestic activities so as to save foreign exchange. All new investments involving foreign exchange had to be submitted for approval to the Investment Projects Committee, and projects requiring foreign exchange of more than Z$2.5 million also required approval from the External Loans Coordinating Committee. Important criteria for approval were (i) whether the goods were already in local production, (ii) whether they would substitute for imports or be intended for exports, and (iii) whether the investment would give rise to foreign exchange earnings corresponding to the initial foreign exchange cost within a short period. The mission commented that the criteria for investment approval had sheltered domestic production from competition and had lead to inefficiencies.

b. Employment, wage, and pricing policies

The Zimbabwean representatives noted that since 1980, both employment and wage policies aimed at reducing income differentials and raising the living standard of the lowest paid workers. All workers were covered by a minimum wage regulation, and were also subject to a maximum wage increase determined annually by the Government and announced around midyear. Factors taken into account when determining the maximum wage increase included overall economic activity, inflation, and the employment situation. In view of the current economic contraction and increase in inflation, a temporary wage and salary freeze was put into effect on June 24, 1987 covering the public and private sectors, as well as parastatal organizations. Annual increments fixed by employment contracts in the public and private sectors are excluded from the freeze. The Government intends to review the situation in January 1988.

The mission was concerned over wage and salary reviews that had tended to provide higher-paid employees with smaller salary adjustments than lower-paid ones. Such a policy could have deleterious effects on incentives and productivity, especially in the public sector where evasion of guidelines is more difficult. An alternative, possibly more appropriate policy to limit increases in the government wage bill would be through containment of the number of civil servants. The staff representatives also indicated the need for a more flexible mechanism for establishing wage rates in the private sector. They encouraged the authorities to extend to all sectors a system of collective bargaining which would allow greater differentiation among sectors and firms, thus permitting wages to better reflect differences in productivity and promote more efficient use of resources.

An important element of employment policy in Zimbabwe had been restrictions on the laying off and firing of workers to ensure job security. Such a policy was likely to limit new hirings in the short run and to induce a shift to capital-intensive techniques over time. The Government intends to reduce unemployment (estimated at 20 percent) over the medium term partly by increased emphasis on vocational training in the education system.

The authorities maintain a system of administered prices covering producer and consumer prices. Agricultural producer prices continued to be operated with flexibility and, as mentioned before, were last adjusted in April 1987. Consumer price controls took different forms. For a limited number of goods, price increases required Cabinet approval. In other cases, the authorities used a pricing formula or set a certain markup over cost. The mission reiterated the position that such controls introduced distortions into the economy by constraining the movement of resources to most efficient uses, contributing to parastatal losses, and imposing an additional burden on government finances. The Zimbabwean representatives felt that the existing system was not overly burdensome, but that they remained committed to streamlining administrative procedures. For example, the Ministry of Trade and Commerce had proposed granting automatic price increases when they were less than a predetermined maximum. In such cases, Cabinet approval would no longer be required. 1/ In addition, the amount of supporting documentation to demonstrate changes in the cost structure for the 45 commodities subject to markup controls was also being reduced. With respect to prices, no new control measures were announced on June 24, 1987 in conjunction with the wage freeze. The Zimbabwean representatives indicated that the Government would continue to apply these controls flexibly with respect to new investments in accordance

1/ This applies to eight commodities: steel, fertilizer, cement, maize, milk, sugar, cooking oil, and matches.

with recent guidelines announced at end-May 1987. The staff representatives expressed the view that delays in adjusting consumer prices as well as cumbersome administrative procedures could have adverse effects on investment decisions. They encouraged the Zimbabwean representatives to phase out price controls as soon as possible.

2. Financial policies

a. Fiscal policy

Preliminary estimates based on actual data for the first 10 months of the fiscal year indicate that the budgetary situation deteriorated in 1986/87. At Z$990 million, the overall deficit of the Central Government (excluding grants), although smaller than the budgeted amount (Z$1,216 million), widened by the equivalent of 1.1 percentage points of GDP to 10.3 percent due to a rapid growth of expenditure. The overall deficit of the central government (including grants) was also high (9.5 percent of GDP) as foreign grants fell far below budgeted levels. In 1986/87, the Government covered the equivalent of 6.1 percent of GDP of its financing needs from the nonbank sector. In contrast to the last two years, it also increased its borrowing from the banking sector to finance an equivalent of 2 percent of GDP of the deficit. The remaining deficit (1.4 percent of GDP) was estimated to have been financed from external sources including the blocked accounts of nonresidents.

The revenue/GDP ratio increased by 1.3 percentage points of GDP although the budget had included tax measures intended to reduce the tax burden. Among others, the rate of sales tax on general goods was reduced from 15 percent to 12.5 percent, and the increase in the specific rates of excise duties was kept well below the rate of inflation. As a consequence, indirect taxes grew somewhat slower than GDP. In contrast, profit and income taxes were very buoyant, growing by 23 percent, reflecting the 1984/85 boom period's lagged effect on profit tax receipts and a sizable expansion of wage income in both the private and public sectors.

Total central government expenditure and net lending increased by the equivalent of 2.4 percentage points to 40.8 percent of GDP, fueled by a rapid expansion of current expenditure. The wage bill grew by almost 19 percent, with about half of the increase accounted for by a general pay adjustment of 3-10 percent. Another rapidly growing item was expenditures on other goods and services, partly as a consequence of the increased military commitment to the security of the Beira corridor in Mozambique. The parastatals continued to be a heavy fiscal burden. Current transfers to parastatals to cover largely past losses increased from 3.5 percent of GDP to 4 percent of GDP. While the current expenditure/GDP ratio increased by 2.3 percentage points of GDP, capital expenditure and net lending grew approximately in line with GDP. Only a small fraction of the financing needs of the Central Government was satisfied by external borrowing, including the use of blocked funds of nonresidents. The bulk of the financing was provided by issuing securities to the domestic nonbank sector.

The Zimbabwean representatives said that they shared the staff's concern about the Central Government's large overall deficit in 1986/87 and its adverse impact on future growth of the economy. They noted, however, that the financing needs of the Central Government were kept well below the level envisaged in the original budget in spite of a supplementary budget (Z$170 million) introduced during the course of the fiscal year. As for revenue, the Zimbabwean representatives explained that the Government was currently reviewing the report of the Commission of Inquiry into Taxation. Although no information was made available about its recommendations, the Zimbabwean representatives indicated that the Government was likely to adopt some of the proposals in due course, and these were expected to have a favorable impact on private investment.

Turning to expenditure, the Zimbabwean representatives shared the staff representatives' concern about the rapid expansion of current expenditure, while capital expenditure had continued to fall substantially short of budgetary provisions. They noted several factors contributing to the growth in current outlays, including expansion in education and health services, increased defense outlays reflecting the critical political and security situation in southern Africa, increasing debt service payments, and past losses of parastatals.

The combined total current losses of parastatals remained virtually unchanged in terms of GDP in 1986/87. However, this was entirely due to a sharp turnaround in the financial situation of the National Oil Company of Zimbabwe (NOCZIM), which benefited from the sharp drop in world market prices of oil products while pump prices remained unchanged. Excluding NOCZIM, current losses of parastatals widened by the equivalent of 1.5 percent of GDP, largely because of increasing trading losses of various marketing boards and the poor financial performance of the National Railway of Zimbabwe (NRZ) and the Zimbabwe Steel Company (ZISCO). As a result, the limited public sector deficit grew by 1 percentage point to 10.1 percent of GDP.

The Zimbabwean representatives agreed with the staff representatives that there was an urgent need to improve the financial performance of the parastatal sector. They noted that the financial situation of the parastatals was currently being reviewed by the Commission on Parastatals; reports on three parastatals had been issued so far, and the Government's intention was to implement the Commission's recommendations as soon as possible with a view to reducing and eventually eliminating the parastatals' dependence on budgetary support. The staff representatives emphasized the importance of implementing specific measures aimed at reducing their dependence on budgetary transfers. Measures pertaining to the agricultural marketing boards, would involve a rapid adjustment in prices, in particular for maize and milk. For both products, the Government would have to continue to reduce real producer prices and increase real consumer prices. These interseasonal price adjustments should be supplemented by a flexible intraseasonal producer price policy for the marketing of meat, which would allow the Cold Storage Commission (CSC) to operate at least on a break-even basis. Furthermore, the losses of the NRZ, Air Zimbabwe (AZC), and ZISCO should be gradually eliminated through a combination of changes in prices, implementation of more appropriate market strategies, and improvement in overall efficiency. Finally, by maintaining domestic oil prices at their current real levels, NOCZIM should be able to generate sizable surpluses given current world market prices for oil.

The Zimbabwean representatives could not yet provide quantitative information on the 1987/88 budget because it was still under preparation. While they were cognizant of the need to reduce the budget deficit, they indicated that they intended to avoid sharp cuts in outlays over such a relatively short period of 12 months. They were also concerned about the social and political impact of abrupt reductions in outlays on wages and salaries, education, health, and other services. The staff representatives responded that any approach to reducing the budget deficit should also be looked at in relation to its impact on growth over the medium term. As indicated in Section IV below, even a modest reduction in the deficit would require new measures to boost revenue and reduce outlays.

b. Monetary and credit policy

The Zimbabwean representatives indicated that the main objective of monetary policy was to contain monetary aggregates in a way that did not allow monetary growth to be a factor in fueling domestic inflation. The policy focus was more closely on narrow money and quasi-monetary deposits of 30-day maturity, and that in recent years, monetary expansion had been broadly in line with growth in nominal GDP.

The staff representatives inquired why inflation accelerated from 9 percent in 1985 to about 14 percent in 1986 despite the RBZ's policy to constrain monetary expansion. The Zimbabwean representatives believed that the higher rate of domestic inflation in 1986 was due mainly to cost pressures resulting from the shortage in foreign exchange. Notwithstanding price controls, supply and demand imbalances in some areas where there were shortages of spare parts and raw materials led to pressures on domestic prices. It was also noted that the domestic unit costs were affected by the cost of foreign exchange for imports that enter into production of goods and services.

The monetary authorities had not pursued an active interest rate policy (except to prevent destabilizing movements) largely because of low private sector demand for credit, reflecting constrained imports, stagnating exports, and declining private investment. The Zimbabwean representatives said that because of this weak private sector credit demand, there was no crowding out from domestic financing of the budget deficit. However, they agreed with the mission that the budget deficit should be reduced substantially to permit growth in private investment and production. During February and March 1987, interest rates on three-month certificates of deposit rose from an average of 9.35 percent in January to 10.9 percent in February, and further to 11.25 percent in March. The authorities believed that the upward pressure on interest reflected not only underlying demand/supply conditions for credit but were also due to speculative movements relating to an anticipated change in the exchange rate for the Zimbabwe dollar, which resulted in significant leads and lags in foreign trade payments. The Reserve Bank provided assistance to the market through the purchase of RBZ bills. As a result, interest rates on three-month certificates of deposits declined to 10 percent in April and further to 9.8 percent in May. The Zimbabwean representatives said that while prevailing interest rates were negative in real terms, there was no cause for concern as long as the demand for credit by the private sector was weak. Looking ahead, they agreed with the mission that they should aim at achieving positive real rates to encourage mobilization of domestic savings to finance investment as economic recovery got under way.

The staff representatives encouraged pursuit of a less accommodating monetary and credit policy to contain inflationary pressures and a more flexible interest rate policy for more efficient allocation of credit and for the mobilization of domestic savings. They were also concerned about the reduction of interest payable on foreign stockholders' surplus funds from 9 percent to 5 percent. This decision which was part of the end-May 1987 policy package, provided an indirect subsidy to financial institutions holding these surplus funds.

3. External sector policies

The balance of payments situation was expected to deteriorate further in 1987 partly because of the deceleration in economic growth in partner countries. Domestically, the drought had reduced the quantity and quality of several agricultural crops. For example, tobacco, which accounts for one fifth of export proceeds, had been of poor quality, a factor which was expected to be reflected in a decline in export prices by 20 percent in SDR terms. Moreover, international prices for coffee and maize have dropped compared with 1986. Consequently, the terms of trade were expected to deteriorate by 7.4 percent, while export volume was to increase by only 1.3 percent. The discouraging prospects for export receipts had led to a further tightening in the allocation of foreign exchange for imports; import volume was expected to drop by 10 percent to a level which was 33 percent below the previous peak in 1982.

The Zimbabwean representatives pointed out that import compression and the attendant shortages of essential raw materials and intermediate products were imposing increasing constraints on output growth. However, this was a necessary price for continuing to service debt obligations promptly and avoiding external arrears, which had permitted the country to maintain good relations with external creditors.

The rising debt service burden was also exerting increasing pressure on the foreign exchange situation. The debt service ratio was expected to increase from 30 percent of exports of goods and nonfactor services in 1986 to nearly 40 percent in 1987.

In order to cope with the external payments difficulties, the authorities took the following three measures in 1987. First, the Reserve Bank continued to sell external securities amounting to SDR 33 million during the first five months of 1987, thereby reducing the stock of these securities to less than SDR 10 million. 1/ Second, the Government arranged "bridging finance" from commercial banks amounting to £70 million (SDR 88 million), which would possibly be augmented by another £20 million (SDR 25 million). The loans were expected to be disbursed in four tranches with six-month intervals beginning in the second half of 1987, and were intended to bridge an export promotion loan which the authorities were hoping to negotiate with the World Bank. The proceeds were to be used for the Export Revolving Fund for the import of inputs for the export sectors. Third, on May 28, 1987, the Finance Minister announced a package of new measures entitled The State of the Economy, Foreign Exchange, and Investment. Effective June 1, 1987, the maximum remittance of dividends and profits to nonresidents was reduced from 50 percent to 25 percent of the current net-after-tax profits of companies, branches, and partnerships. Amounts in excess of the new limit would be placed in blocked accounts and would qualify for remittance through 12- or 20-year 4 percent external bonds. At the same time, the interest ceiling on surplus funds 2/ held in bank deposits was reduced from 9 percent to 5 percent in order to encourage firms to use the funds for productive investment.

These restrictive measures were supplemented by liberalization of the use of surplus funds. Previously, 50 percent of all investment proceeds had to come from external resources. However, in lieu of external funds, surplus funds could in the future be considered for investment in export-oriented and import-substitution projects that generated employment or introduced new products or technology, especially if based on local raw materials. Special priority would be given to projects located in rural areas or areas designated for decentralized industry. In addition, companies which had declared 25 percent dividends might, instead of remitting the funds abroad, opt to retain and utilize these funds for procuring essential imports, such as raw materials, spare parts, and capital goods. In this event, both the 20 percent withholding tax on dividends and import duties would be

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1/ External securities amounting to about SDR 160 million were acquired in 1984 by the Reserve Bank, in return for payments in local currency from nominee companies on behalf of residents and former residents of Zimbabwe.

2/ Funds held by foreign-controlled companies which are kept either in blocked accounts with banks or in external bonds.

waived. The staff representatives welcomed the liberalization of use of surplus funds for investment, but expressed concern that it had been necessary, once again, to intensify restrictions on profit and dividend remittances and urged the authorities to remove these restrictions as soon as possible. Otherwise, investor confidence would be undermined precisely at a time when the policy objective was to stimulate private investment. The Zimbabwean representatives responded that this measure was considered temporary and would be lifted as soon as the foreign exchange situation eased. In this connection, they referred to the intensified restrictions on remittances introduced in 1984 which had been lifted in April 1985 and January 1986. 1/

Since December 1982, when a large discrete depreciation of the Zimbabwe dollar took place, exchange rate policy had remained flexible, taking into account the movement of exchange rates and relative price and cost developments in major trading partners. Special consideration was given to competitiveness with neighboring countries. As mentioned above, in 1985 and the first half of 1986, a more active exchange rate policy had been pursued, giving rise to a depreciation of the currency in real effective terms. This was partly to prevent too rapid a decline in competitiveness vis-à-vis South Africa when the rand was dropping sharply against most currencies. While the real effective exchange rate had remained almost constant during the second half of 1986, the authorities pointed to some renewed depreciation in recent months. Although they would continue to pursue a flexible exchange rate policy, they also emphasized that the exchange rate instrument should not bear too much of the adjustment burden, as changes in structural policies and fiscal policy, in particular, were equally important. The mission stated that the weak export growth and the gap between the demand and supply of foreign exchange for imports were clear evidence of a need for a more active exchange rate policy combined with restrained demand management.

The authorities emphasized that there were various schemes in place to reinforce export incentives, including an import duty drawback system and export subsidy. The import duty drawback scheme gave the exporter a rebate on both customs duties and the import surtax levied on imported inputs for export production. The export subsidy amounted to 9 percent on the free-on-board value of nontraditional export commodities which had a minimum value added of 25 percent. It applied to about 14 percent of total export receipts in 1986.

Turning to the import allocation system, the authorities indicated that there had been no change during the year. They continued to make semiannual balance of payments projections on the basis of which foreign exchange was allocated for imports, taking into account estimated foreign exchange receipts from exports and capital flows and scheduled

1/ These measures were described in SM/85/234, 8/19/85 and SM/86/228, 9/4/86.

debt service payments. The allocation was based on historical shares in imports and priorities of imports for the economy, e.g., essential imports in domestic production. The authorities recognized that the system had weaknesses in terms of securing efficient resource allocation. A working group was to be set up shortly to study changes in the system. It was likely that a limited range of goods would be transferred to open general licensing. It would include goods which were both competing and not competing with domestic products. This was also in line with World Bank proposals. However, it was still too early to indicate the exact changes in the system or the timetable for their implementation. The authorities were not in favor of a rapid liberalization of import restrictions because it might have adverse effects on employment and income distribution.

IV. Medium-Term Prospects

With respect to the Five-Year Development Plan (1986-1990), the authorities acknowledged that its growth target averaging 5 percent a year needed revision particularly because in the first two years no real growth was expected. They added that they were in the process of formulating an annual plan for fiscal year 1987/88 indicating a more realistic growth target and stating the necessary policies to be pursued to achieve the annual growth rate. The authorities were not in a position to provide the mission with details relating to the annual plan, as it had not yet been finalized or approved by the Government. The mission observed that growth prospects over the medium term would depend critically on revival of investment to replace old equipment and to increase the capital stock. The authorities were encouraged to adopt policies to promote investment, including a reduction in the overall budget deficit.

A continuation of present economic policies is unlikely to provide a solution to the vicious circle of Zimbabwe's economy, which is underlined by weak export growth, which constrains import growth, domestic investment, and production. The staff's view was that within this policy setting, the economy would not realize its growth potential, with real growth expected to remain below population growth in the medium term. To illustrate this situation, the staff provided the authorities a baseline scenario based on broadly unchanged policies (Table 5 and Appendix VI). As an alternative, the authorities could opt for a comprehensive set of adjustment and structural policies to be implemented expeditiously. The effects of this alternative approach were summarized in a growth scenario (Table 6 and Appendix VI).

In the baseline scenario, the deficits of the Central Government and the limited public sector were projected to decline by only 1 percentage point of GDP a year during the 1987-91 period. The modest improvement in the financial performance was based, inter alia, on the following assumptions concerning fiscal policy. (1) The revenue policy was geared towards maintaining the current revenue/GDP ratio; this would require additional revenue measures of the order of 0.7 percent of GDP

Table 5. Zimbabwe: Medium-Term Projection: Baseline Scenario, 1985-91

	1985	1986	1987	1988	1989	1990	1991
				(Percentage change)			
Real GDP	9.3	0.2	-1.9	3.6	3.4	2.4	1.5
				(In percent of GDP)			
Gross fixed capital formation	16.6	16.0	15.5	15.2	14.9	14.7	14.5
Public	7.9	7.8	7.9	7.7	7.6	7.7	7.7
Private	8.8	8.2	7.6	7.5	7.3	7.0	6.8
Domestic resource balance 1/	-0.2	2.9	2.5	3.0	2.3	1.8	1.3
Public	-13.0	-11.4	-12.6	-11.7	-11.7	-11.2	-10.8
Private	12.8	14.2	15.0	14.7	14.0	13.0	12.1
External current account 2/	-2.9	-0.9	-1.7	-0.4	-1.1	-1.4	-1.6
Exports (goods and nonfactor services)	26.2	27.4	24.9	25.1	24.2	23.6	23.2
Imports (goods and nonfactor services)	-26.4	-24.5	-23.0	-22.5	-22.1	-22.1	-22.2
External debt outstanding	43.4	41.8	40.3	37.3	35.5	33.8	32.4
Debt service ratio 3/	30.2	30.0	40.0	33.9	23.3	21.9	20.5
Central government deficit (-) 4/	-7.4	-8.7	-10.6	-9.1	-8.2	-7.6	-7.1
Revenue	28.7	29.8	30.4	30.4	30.4	30.4	30.4
Measures to maintain buoyancy	—	—	—	0.4	0.5	0.8	0.8
Expenditure and net lending	38.0	39.6	41.8	40.6	39.6	38.9	38.4
Of which: wage bill	(9.3)	(9.9)	(10.1)	(9.8)	(9.6)	(9.5)	(9.5)
subsidies to parastatals	(3.6)	(3.9)	(4.7)	(4.5)	(4.0)	(3.5)	(3.0)
gross fixed investment	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Operating losses of parastatals	-4.5	-4.8	-4.4	-3.9	-3.4	-2.9	-2.4
Limited public sector deficit 5/	-8.3	-9.6	-10.3	-8.5	-7.7	-7.0	-6.5
Foreign financing (net)	6.2	1.6	0.4	0.3	1.8	1.8	1.5
Domestic financing (net)	2.2	8.0	9.9	8.2	5.9	5.2	5.1
Of which: banking system	(2.0)	(0.9)	(0.9)	(0.9)	(0.9)	(1.1)	(1.1)
				(Percentage change)			
GDP deflator	11.6	12.5	12.5	12.5	12.5	12.5	12.5
Real gross fixed capital formation	-12.9	-3.6	-4.9	1.6	1.4	1.1	0.1
Real consumption	0.2	1.9	0.7	3.3	4.7	3.4	2.4
Export volume 6/	-4.6	3.0	1.3	1.4	1.6	1.8	2.0
Import volume	-12.4	1.8	-7.0	2.0	2.0	3.0	3.0

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

1/ Gross domestic savings less gross domestic investment.
2/ Excluding official transfers.
3/ In percent of exports of goods and nonfactor services.
4/ Including grants.
5/ Central government deficit less transfers plus operating losses of parastatals.
6/ Excluding exports of gold from official reserves.

Table 6. Zimbabwe: Medium-Term Projection: Growth Scenario, 1985-91

	1985	1986	1987	1988	1989	1990	1991
			(Percentage change)				
Real GDP	9.3	0.2	-1.9	5.0	5.0	4.6	4.2
			(In percent of GDP)				
Gross fixed capital formation	16.6	16.0	15.5	16.0	16.5	18.0	20.0
Public	7.9	7.8	7.9	8.1	8.4	8.9	9.3
Private	8.8	8.2	7.6	7.9	8.1	9.1	10.7
Domestic resource balance 1/	-0.2	2.9	2.5	2.5	1.4	1.1	0.9
Public	-13.0	-11.4	-12.5	-11.1	-9.6	-8.0	-6.5
Private	12.8	14.2	15.0	13.5	11.0	9.1	7.3
External current account 2/	-2.9	-0.9	-1.7	-1.8	-2.8	-3.0	-3.2
Exports (goods and nonfactor services)	26.2	27.4	24.9	27.2	28.5	28.0	27.7
Imports (goods and nonfactor services)	-26.4	-24.5	-23.0	-25.2	-27.3	-27.1	-27.0
External debt outstanding	43.4	41.8	40.3	42.9	45.2	43.3	41.9
Debt service ratio 3/	30.2	30.0	40.0	33.3	22.6	20.9	19.8
Central government deficit (-) 4/	-7.4	-8.7	-10.6	-8.4	-6.1	-4.3	-2.6
Revenue	28.7	29.8	30.4	30.8	31.3	31.4	31.6
Expenditure and net lending	37.9	39.6	41.8	40.4	38.6	37.0	35.5
Of which: wage bill	(9.3)	(9.9)	(10.1)	(9.9)	(9.7)	(9.6)	(9.5)
subsidies to parastatals	(3.6)	(3.9)	(4.7)	(4.4)	(3.3)	(2.3)	(1.2)
gross fixed investment	(2.6)	(2.6)	(2.6)	(3.0)	(3.4)	(3.8)	(4.2)
Operating losses of parastatals	-4.5	-4.8	-4.4	-3.3	-2.2	-1.1	0.0
Limited public sector deficit 5/	-8.3	-9.6	-10.3	-7.4	-5.0	-3.1	-1.4
Foreign financing (net)	6.2	1.6	0.4	-0.5	1.8	1.9	1.6
Domestic financing (net)	2.2	8.0	9.8	7.8	3.2	1.2	-0.2
Of which: banking system	(2.0)	(0.9)	(0.9)	(-0.2)	(0.4)	(0.5)	(0.3)
			(Percentage change)				
GDP deflator	11.6	12.5	12.5	10.4	8.7	7.2	6.0
Real gross fixed capital formation	-12.9	-3.6	-4.9	8.4	8.3	14.1	15.7
Real consumption	0.2	1.9	0.7	4.4	5.8	3.0	1.9
Export volume 4/	-4.6	3.0	1.3	3.4	3.7	3.9	4.1
Import volume	-12.4	1.8	-7.0	7.0	8.0	5.0	5.0

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

1/ Gross domestic savings less gross domestic investment.
2/ Excluding official transfers.
3/ In percent of exports of goods and nonfactor services.
4/ Including grants.
5/ Central government deficit less transfers plus operating losses of parastatals.
6/ Excluding exports of gold from official reserves.

each year. (2) The annual pay adjustments continued to be kept below the cost of living increase; as a result, the wage bill would decline in terms of GDP, but only modestly, reflecting the offsetting effects of the civil servants automatic step advancement and a continued expansion of the civil service. (3) Capital expenditure would remain stable in relation to GDP. (4) Measures were taken to strengthen the financial performance of parastatals that resulted in a reduction in the losses of parastatals equivalent to 0.5 percent of GDP per year. However, despite the adjustment effort implied by the above assumptions, the Central Government and the limited public sector deficits would not be reduced enough to release sufficient resources to raise private sector investment to levels consistent with maintaining real per capita income.

On the external side, the baseline scenario assumed maintenance of the real effective exchange rate, no major change in the import allocation system, and no change in foreign market growth or in the transport situation in the region. In these circumstances, export volume was projected to grow by only 1.5-2 percent a year. Given the continued weak export performance and the bunching of debt service payments in the period 1987-88, in particular, imports were projected to decline sharply in 1987 and to recover only slowly thereafter to reach the same import volume by 1991 as in 1986. External debt would decline from 40.3 percent of GDP at end-1987 to 32.4 percent of GDP by end-1991. The external debt service ratio would peak at 40.0 percent of exports of goods and nonfactor services in 1987 and then decline steadily to 20.5 percent by 1991. Real GDP was expected to average only 2.7 percent a year in the period 1988-91, along a declining trend with a notable decline in real per capita GDP in the later years of the period.

In the growth scenario, the staff projections indicated that a real GDP growth target of 4-5 percent a year during 1988-91 was achievable with adequate macroeconomic and structural policies. Most important, on the macroeconomic policy side, the overall deficits of the Central Government and the limited public sector should be reduced by about 9 percentage points of GDP over the 1987-91 period; this would bring public finances to near balance. The staff representatives argued that such a steep reduction in the deficits, combined with structural measures, was not only necessary to achieve sustainably higher growth rates, but was also feasible. It could be accomplished, for example, through implementation of a package of policies that would include on the domestic policy front: (i) a reduction in the operating deficits of the parastatals by at least 1 percentage point of GDP per year through improved pricing policies and cost reduction measures, as well as improvements in management policy that would eliminate the aggregate operating losses of these enterprises by 1991; (ii) somewhat greater emphasis on consumption taxation with a view to encouraging private savings and investment; (iii) an increase in the government investment/GDP ratio by 1.6 percentage points over the period; and (iv) strict limits on the expansion in the civil service, and more selectivity in granting annual step advancements.

External policies would focus on liberalization of the foreign exchange allocation system and the import regime within the framework of steadily increased external competitiveness via real exchange rate depreciation. The active exchange rate management policy would promote exports, allocate foreign exchange more effectively, and permit a phasing-out of the export subsidy. The liberalization of the import regime was assumed to involve a phased transfer of goods to open general licensing. In this scenario, it would still be necessary to secure additional balance of payments financing amounting to about SDR 140 million in the period 1988-89 over the financing already assumed in the baseline scenario. Based on the foregoing assumptions, export volume was projected to grow by 4 percent a year in the medium term, which would permit import volume growth of 6 percent a year in support of the higher rate of economic growth. The external current account deficit was expected to widen somewhat from 1 percent of GDP in 1987 to 2.5 percent of GDP, on average, in the period 1989-91. External debt was projected to remain about 43 percent of GDP in the medium term, while the debt service ratio would decline from 40 percent of exports of goods and nonfactor services to about 20 percent by 1991. This decline assumed continued prudent debt management policy throughout the period.

The staff also considered it crucial for the effectiveness of external policies that they be complemented with a liberalization of domestic price and investment controls to promote competition for the highly protected domestic industries. The mission encouraged the authorities to simplify and eventually remove administrative restraints on prices and, in the meantime, to allow increases for controlled items quasi-automatically within specified ranges. Where increases beyond these amounts were justified, they should be speedily approved.

The monetary authorities should aim at containing inflation to lower levels than at present. This policy stance, coupled with provision of adequate credit to the private sector, would facilitate revival of investment. Monetary policy should facilitate the attainment of positive and flexible real interest rates in support of mobilization of financial resources and their efficient allocation to productive activities.

V. Staff Appraisal

When the present Government came to power in 1980, it focused on improving socioeconomic conditions and achieving a more equitable distribution of income. Significant progress has been made to expand education and health services and to create employment, particularly in the public sector. However, Zimbabwe's economy has been operating below its growth potential in the face of export stagnation, import shortages, and declining fixed investment. The difficult economic situation has been exacerbated by drought-related declines in agricultural output and incomes, and the economy is faced with a clear prospective decline in 1987. In the face of weak export growth, rising debt service payments, and declining official reserves, the authorities intensified controls over foreign exchange and imports. This led to lower rates of capacity utilization in industry and further undermined investment incentives. Furthermore, inflation has recently accelerated, unemployment is rising, and sizable internal imbalances continue to be reflected in large public sector deficits.

Notwithstanding the poor outlook for the period immediately ahead, the staff believes that policy options are available to induce a recovery of output and move the economy toward a sustainable medium-term growth path. In its favor, the economy's productive base is strong, its infrastructure well maintained, and, after a temporary bunching of maturities in 1987-88, the external debt service burden is expected to become manageable. Zimbabwe has also maintained an excellent record in timely servicing of its external debt obligations. Moreover, the authorities are cognizant of the need for measures to strengthen investment, particularly in the traded goods sectors. In this regard, the staff welcomes the approach of formulating an annual plan for economic developments in which the policy adaptations necessary to achieve the targets are explicitly identified. However, the policies in place or in process of implementation fall considerably short of those necessary to revitalize and restructure the economy for it to realize its growth potential.

While some economic recovery should accompany a return to more normal rainfall, major additional policy initiatives will be required if the economy is to avoid a medium-term path of stagnant or declining per capita growth. The recovery strategy should focus on the need to stimulate investment, particularly in private productive activities, but also public investment consistent with the constraint imposed by the need to reduce the budget deficit. A comprehensive policy package should include a substantial reduction in the limited public sector deficit, a major reform of the exchange and trade system, within the framework of an active exchange rate policy, as well as actions to liberalize regulations in respect of domestic investment, prices, wages, and employment.

In the staff's view, improvement in the public finances is the central policy issue in the development of a macroeconomic policy framework conducive to growth. Even though fiscal revenues have remained buoyant, the sharp rise in expenditure--by almost 2.5 percent of GDP to a level over 40 percent--worsened the fiscal situation measurably again in 1986/87. The expenditure increases have been concentrated in current outlays and transfers, with weakening investment performance. In addition to continued heavy outlays for education, defense, and general social services, the wage bill and subsidy payments to parastatals have expanded particularly rapidly. The operating losses of parastatals were almost 5 percent of GDP in 1986/87, and the limited public sector deficit again rose to over 10 percent of GDP. The financing of these deficits has continued to command domestic resources that are needed to increase the country's stock of fixed capital. The fiscal situation needs early and forceful remedial actions, which not only will release resources for redirection into productive investment, but will also provide positive signals to the business community.

A major deficit reduction is feasible and compatible with preservation of the Government's main expenditure priorities, especially over the medium term. Relatively more emphasis could be placed on consumption taxation, with a view to encouraging savings and investment. Preferably, some of the recent cut in the sales tax rate could be restored and specific excise duties increased to more realistic levels. On the side of expenditures, major attention needs to be directed to containing the wage bill while maintaining the efficiency of the civil service. To make progress in this direction, the expansion in the civil service needs to be more strictly limited and annual step advancements made more selective.

The other equally important element of a financial reform package should be eliminating the operating deficits of parastatals. It is recognized, in this regard, that a number of actions have already been taken or are in progress, such as improved management and tariff adjustments. However, further actions are needed to reduce operating costs, to strengthen revenue, and to improve management efficiency. Eliminating the operating deficits within five years, together with the other fiscal measures proposed, would lead to near-balancing of the limited public sector deficit by 1991/92.

An important objective of monetary and credit policy is to reduce inflation and maintain it at lower levels than at present. This requires pursuit of nonaccommodating monetary policy, and a more flexible interest rate policy leading to positive interest rates. Within Zimbabwe's well developed financial system, interest rates should reflect underlying supply and demand conditions for credit in order to facilitate mobilization of savings to support increased investment and growth.

To lay a stronger base for growth over the medium term, Zimbabwe also needs to improve efficiency in the allocation of domestic resources. In the staff's view, this requires (1) reducing labor market rigidities through further steps towards collective bargaining, which allows for greater differentiation in wage rates among sectors and firms; (2) simplifying and eventually removing administrative controls on prices; (3) phasing out the wage and price freeze as soon as possible; and (4) liberalizing investment controls to promote production in the traded goods sector and to increase competition for the domestic market.

Zimbabwe has achieved a remarkable reduction in the external current account deficit from over 11 percent of GDP in 1982 to below 1 percent of GDP in 1986. However, it is troublesome that this adjustment has occurred mainly through import compression by use of a restrictive foreign exchange allocation system, while exports have stagnated in volume terms. The authorities recognize that import compression is exerting an increasing downward pressure on current production and prospective growth in the economy. The vicious circle of weak export and import growth demonstrates the need for a much more active exchange rate policy, combined with the pursuit of stabilization and structural policies, in order to strengthen the traded goods sector. In this connection, the staff welcomes the renewed, albeit modest, depreciation of the Zimbabwe dollar in real effective terms in early 1987 and urges the authorities to improve competitiveness more speedily in the future. Priority should also be given to beginning to liberalize the highly restrictive import system, while at the same time reducing price and investment controls that have protected domestic enterprises for several years. If a comprehensive set of policies were adopted, the economy is likely to benefit from additional capital inflows.

The authorities have generally pursued a prudent external debt management policy over the last couple of years. The staff, however, would caution against additional commercial borrowing for balance of payments financing except in association with strong adjustment policies, as the debt service burden is already very high in 1987-88.

Zimbabwe retains restrictions on payments and transfers for current international transactions in accordance with Article XIV, except that a 20 percent fee on sales of foreign exchange for purposes of holiday travel and a 9 percent export subsidy constitute multiple currency practices subject to Fund approval under Article VIII. The approval of these practices is not proposed. In May 1987, restrictions on transfers of dividends and profits were intensified. The authorities have indicated that those measures are temporary and will be lifted when the balance of payments situation permits. The staff urges the authorities to adopt policies which would allow the lifting of these intensified measures, as well as of remaining restrictions as soon as possible.

It is recommended that the next Article IV consultation with Zimbabwe be held within 12 months.

VI. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Zimbabwe's exchange measure subject to Article VIII, Sections 2 and 3, in concluding the 1987 Article XIV consultation with Zimbabwe and in light of the 1987 Article IV consultation with Zimbabwe, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 as amended ("Surveillance of Exchange Rate Policies").

2. As described in SM/87/ , Zimbabwe continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the exchange restrictions arising from the limitations on remittances of profits and dividends are subject to approval under Article VIII, Section 2(a) and that the multiple currency practice arising out of the 20 percent fee on sales of foreign exchange for tourist travel and a 9 percent export subsidy are subject to approval under Article VIII, Section 3. The Fund encourages the authorities to take measures that will permit the elimination of these restrictions as soon as possible.

Zimbabwe - Relations with the Fund
(At June 30, 1987)

(Amounts in millions of SDRs, unless otherwise specified)

I. Membership Status

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

A. Financial Relations

II. General Department

a. Quota: *SDR 191 million*

		Millions of SDRs	Percent of Quota
b.	Total Fund holdings of Zimbabwe dollars	346.5	181.4
c.	Fund credit		
	Credit tranches	49.5	25.9
	Enlarged access resources	85.0	44.5
	Compensatory financing facility (exports)	21.0	11.0
	Buffer stock financing facility	--	--
d.	Reserve tranche	-- 1/	--

III. Stand-By Arrangements and Special Facilities

	Date of Arrangement	Duration (Months)	Total Amount	Utilization	Undrawn Balance
a. Previous stand-by arrangements					
(i)	April 1981	12	37.5	37.5	--
(ii)	March 1983	18	300.0	175.0	125.0

	Date of Arrangement	Total Amount
b. Special facilities		
Compensatory financing (exports)	March 1984	56.1
Buffer stock financing	January 1984	2.1

1/ Actual amount is SDR 39,407.

Zimbabwe - Relations with the Fund (continued)

		Amount (SDR millions)	Percent of allocation
IV.	SDR Department		
	a. Net cumulative allocation	10.2	100.00
	b. Holdings	5.8	36.86
V.	Trust Fund Loans		
	a. Disbursed Outstanding	None	
	b. SFF Subsidy Account payments	None	

VI. Financial Obligations Due to the Fund:

	Overdue Financial Obligations July 31, 1987	Principal and Interest Due 1987 (August-Dec.)	1988	1989	1990
Principal					
Repurchases	--	35.5	58.1	30.0	17.4
Charges		2.3	6.7	3.5	1.7
Total	--	37.8	64.8	33.5	19.1

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

The Zimbabwe dollar is determined on the basis of an unannounced trade-weighted basket of currencies. The intervention currency is the U.S. dollar. The representative rate on June 30, 1987 was Z$1 = US$0.5972.

Zimbabwe - Relations with the Fund (concluded)

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

The last Article IV consultation was conducted in 1986 (SM/86/200 and SM/86/228), and the following decision was adopted on September 17, 1986:

1. The Fund takes this decision relating to Zimbabwe's exchange measures subject to Article VIII, Section 3, in concluding the 1986 Article XIV consultation with Zimbabwe, in light of the 1986 Article IV consultation with Zimbabwe, conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/86/228, Zimbabwe continues to maintain restrictions on payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the multiple currency practice arising out of the 20 percent fee on sales of foreign exchange for holiday travel is subject to approval under Article VIII, Section 3. The Fund encourages the authorities to take measures that will permit the elimination of these restrictions as soon as possible.

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

Zimbabwe - Relations with the World Bank Group

Before 1965, the Bank made five loans totaling US$130.8 million benefiting Rhodesia--two directly to the Government for agriculture (US$5.6 million) and power (US$28.0 million), two loans totaling US$87.7 million to the Central African Power Corporation (CAPCO), and a US$9.5 million loan to the Rhodesia Railways. As a guarantor of each of the loans, the United Kingdom serviced them after 1964. The loans for agriculture, power and railways have been repaid, and the Central African Power Corporation resumed servicing its two loans after the lifting of sanctions on December 21, 1979.

Since fiscal year 1981, Zimbabwe has received nine Bank loans and four IDA credits totaling US$464 million. Three operations supported the reorientation of agricultural services toward communal areas, for a small farm credit project in 1982 (an IDA credit of US$30.4 million), a forestry project in 1983 (an IDA credit of US$7.3 million), and an agricultural extension and research project, also in 1983 (US$13.1 million). Two operations involved support for the manufacturing sector, a Manufacturing Rehabilitation Program in 1981 (involving a Bank loan of US$50 million and an IDA credit of US$15 million) and a manufacturing export promotion project in 1983 (US$70.6 million). Three operations supported reconstruction in the transport sector, including two loans for National Railways of Zimbabwe, for equipment and spare parts in 1981 (US$42 million) and training and technical assistance in 1983 (US$40 million) and one for highway development and maintenance in 1982 (US$26.4 million). Two operations in 1982 financed energy development, for studies on petroleum supplies (US$1.2 million) and power development (US$105 million). An urban development project (US$43 million) is helping to increase the supply of affordable low-cost housing and related services in the country's main urban centers, and a small-scale enterprise project (US$10 million) is aimed at providing technical and financial assistance to the emerging small-scale enterprise sector. Finally, in July 1986, a family health project (US$10 million) with a major emphasis on population was approved.

IFC's first investment in Zimbabwe was in 1981 in the Wankie Colliery Company Limited, primarily to help finance a project for producing coal for the nearby thermal power station. The original investment was in the form of a US$38 million loan, but was subsequently reduced to a total of US$22.8 million, of which US$12.0 million was for IFC'S own account and US$10.8 million for commercial bank participation. In 1984, IFC invested US$2.2 million equivalent, of which US$2.0 million is in the form of a loan and the balance in the form of equity, in UDC Limited, a hire-purchase/factoring institution. In 1986, two investments were approved. The first involved an investment for US$4.8 million (US$4.15 million loan and the balance equity) in Crest Breeders International Pvt Ltd, expansion of an integrated poultry operation which is designed to double by 1988 production of day-old chicks, broilers and feed concentrates for the domestic and export

Zimbabwe - Relations with the World Bank Group (continued)

markets. The second was an investment of US$10 million for IFC's own account and US$5.1 million for the account of participating commercial banks to support the modernization and expansion of Hunyani Paper and Packaging Ltd, a diversified industrial and packaging operation with a significant export orientation.

The World Bank Group also has several projects that are now under consideration, including a second export promotion project, and operations in the transport, manpower, power, and agricultural sectors.

Zimbabwe - Relations with the World Bank Group (concluded)

A. IBRD/IDA operations (as of April 30, 1987)

	(In millions of U.S. dollars)			
	Committed		Disbursed	
	IBRD	IDA	IBRD	IDA
Agriculture	13.1	37.7	2.38	27.92
Industry	130.6	15.0	121.04	14.06
Of which: program lendihng	(120.6)	(15.0)	(120.6)	(15.0)
Energy 1/	105.0	0.97	46.94	0.93
Population, health and nutrition	10.0		--	
Transport	108.4	--	59.42	--
Of which: program lending	(42.0)	(--)	(35.8)	(--)
Urban	43.0	--	6.32	--
Total	410.1	53.67	236.4	42.91
Of which: has been repaid	(4.73)	(--)	(--)	(--)

B. IFC investments (as of March 31, 1987)

	Committed	Disbursed
Total	184.12	13.4

Sources: IBRD and IFC.

1/ Does not include two fully disbursed loans to CAPCO totaling US$87.7 million, of which US$86.3 million has been repaid.
2/ Commitments net of repayments and cancellations.

Zimbabwe--Statistical Issues

There is generally a well-established statistical base in Zimbabwe. The main sources of statistics used in the report are the Central Statistical Office, the Reserve Bank of Zimbabwe, and the Ministry of Finance, Economic Planning and Development. During the past year, the reporting of data by the Zimbabwean authorities to the Bureau of Statistics has been satisfactory, but there is still scope for improvement in some areas.

1. Outstanding statistical issues

a. Government finance

The 1986 *GFS Yearbook* contains data for local governments and budgetary Central Government through 1983 and 1984, respectively. A recent technical assistance mission on government finance statistics expanded coverage to show data for consolidated Central Government. The annual data in *IFS* are the same as those published in the *GFS Yearbook*.

b. Monetary accounts

A technical assistance mission in the field of money and banking statistics was undertaken in May 1986. A report containing the recommendations of the mission was sent to the authorities. In particular, the report reviewed the data base and sectorization criteria relevant for compilation of the monetary accounts and financial statistics and recommended a modernization of the compilation procedures.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Zimbabwe in the July 1987 issue of *IFS*. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Zimbabwe, which during the past year have been provided on a regular basis.

Zimbabwe - Statistical Issues (concluded)

		Latest Data in July 1987 IFS
Real sector	- National Accounts	AA 1983 1/
	- Prices: Industrial Share Prices	October 1986
	Consumer Prices	February 1987
	- Production: Manufacturing Prod.	Q4 1985 1/
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/Surplus	1985
	- Financing	1985
	- Debt	1985
Monetary accounts	- Monetary Authorities	March 1987
	- Deposit Money Banks	March 1987
	- Other Financial Institutions	March 1987
Interest rates	- Bank Rate	March 1987
	- Bank Lending/Deposit Rates	March/Feb. 1987
	- Bond Yields	March 1987
External sector	- Merchandise Trade: Values:	
	Exports	December 1986
	Imports	September 1986
	Unit Values	Q4 1984
	- Balance of Payments	Q3 1985
	- International Reserves	May 1987
	- Exchange Rates	May 1987

1/ Data through 1986 will be published in the August 1987 issue.

ZIMBABWE - Basic Data

Area, population, and GDP per capita

Area	390,600 square kilometers
Population: Total (1986 est.)	8.63 million
Growth rate	3 percent
GDP per capita (1986 est.)	SDR 542

	1982	1983	1984	1985 1/	1986 1/
GDP (at current prices)					
Total (millions of Zimbabwe dollars)	5,160	6,132	6,696	8,099	9,129
Agriculture (percent of total)	13	8	10	12	10
Mining (percent of total)	4	6	7	7	6
Manufacturing (percent of total)	22	22	23	26	27
Annual real rate of growth (percent) 2/	-0.7	-4.2	2.6	9.3	0.2
Investment as percent of GDP (at current market prices)	21	23	16	23	19
Prices (in percent change)					
GDP deflator	12.4	18.3	10.8	12.2	12.5
Cost of living index	14.6	19.6	16.3	9.2	14.2

Central government finance	1982/83	1983/84	1984/85	1985/86	1986/87 Est. outturn
	(In millions of Zimbabwe dollars)				
Total revenue and grants	1,815.8	2,037.3	2,318.1	2,623.4	3,006.0
Total revenue	1,763.1	1,943.6	2,131.8	2,516.3	2,926.0
Tax revenue	(1,579.5)	(1,743.5)	(1,902.1)	(2,246.0)	(2,593.0)
Nontax revenue	(183.6)	(200.1)	(229.7)	(270.3)	(333.0)
Grants	52.7	93.8	186.3	107.1	80.0
Total expenditure and net lending	2,246.4	2,618.4	2,841.5	3,306.7	3,915.8
Current	1,820.0	2,223.4	2,438.1	2,912.8	3,464.8
Capital	191.9	208.7	203.1	224.0	254.0
Net lending	234.5	186.5	200.2	169.9	197.0
Overall deficit (-)	-430.6	-581.0	-523.4	-683.3	-909.8
Financing	430.6	581.0	523.4	683.3	909.8
External (net)	50.4	50.8	489.2	210.9	131.6
Domestic (net)	380.2	530.2	34.2	472.4	778.2
Deficit as percent of GDP	-7.6	-9.1	-7.1	-7.9	-9.5

ZIMBABWE - Basic Data (concluded)

Money and credit (end of period)	1982	1983	1984	1985	1986 Prov.
	(In millions of Zimbabwe dollars)				
Foreign assets (net)	-36.9	-367.7	-43.1	37.0	93.1
Domestic credit	1,934.0	2,224.5	2,177.0	2,411.5	2,722.9
Claims on Government (net)	(594.2)	(544.8)	(497.9)	(401.4)	(391.9)
Claims on private sector 4/	(1,339.8)	(1,679.7)	(1,679.1)	(2,010.1)	(2,331.0)
Money and quasi-money	1,692.8	1,692.5	1,962.9	2,275.8	2,390.2
Money	(771.0)	(740.4)	(871.9)	(972.4)	(1,062.3)
Quasi-money	(921.8)	(952.1)	(1,081.0)	(1,303.4)	(1,327.9)
Other items (net)	204.3	164.3	171.0	172.7	425.8
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	1,194	1,087	1,163	1,116	1,132
Imports, f.o.b.	-1,333	1,006	970	-908	-862
Trade balance	-139	81	193	209	270
Services and private tranfers (net)	-547	-553	-354	-355	-313
Current account balance	-686	-472	-161	-146	-43
Official transfers (net)	41	51	92	46	50
Capital account (net)	471	114	152	114	14
Government	118	23	67	46	34
Public enterprises	278	75	83	58	-26
Other	75	16	2	10	7
SDR allocation and net errors and omissions	119	14	12	59	1
Overall surplus or deficit (-)	-55	-293	95	81	23
Current account balance as percent of GDP	-11.1	-8.3	-3.1	-2.9	-0.9
Gross official foreign reserves (end of period)	203	179	159	201	177
In weeks of imports	7.9	9.0	8.1	12.5	11.1
External public debt					
Debt outstanding (end of period)	2,031	2,359	2,230	2,148	1,956
Debt service as percent of exports of goods and nonfactor services					
Excluding the Fund	20.4	25.5	26.0	26.9	24.8
Including the Fund	20.6	26.4	27.6	30.2	30.0

1/ Preliminary.
2/ GDP (factor cost) at 1980 prices.
3/ Based on average of high and low-income family indices.
4/ Including parastatals.

Zimbabwe - Social and Demographic Indicators

Area	Population	Density
390,600 Sq. Km.	8.63 million (1986) Rate of growth: 3.0	107.4 per sq. km. of agricultural land

Population characteristics (1985)

Life expectancy at birth	57
Infant mortality (percent)	8.0
Child death rate (percent)	8.0

Health (1980)

Population per physician	7,100
Population per nursing person	1,600

Income distribution

Percentage of national income	
highest 20 percent	...
lowest 20 percent	...

Distribution of land

Percentage area exploited by top 11 percent of farmers	...
Percentage area exploited by smallest 12 percent of farmers	...

Access to safe water (1980)

Percentage of population -	
urban	100.0
rural	10.0

Access to electricity

Percentage of population -	
total	...
rural	...

Nutrition

Calorie intake as percentage of requirements	...
Per capita protein intake (grams per day)	...

Education (1985)

Adult literacy rate percentage	...
Primary school enrollment percentage	...

Labor force (1985)

Total	2,172
Female (percentage)	39.2

Source: World Bank.

Zimbabwe: Medium-Term Balance of Payments, 1986-91

(In millions of SDRs)

	1986	1987	1988	1989	1990	1991
	Baseline Scenario: Maintenance of Current Policy Stance					
Current account balance	-43	-82	-20	-61	-80	-101
Exports	1,132	1,029	1,117	1,163	1,215	1,272
Imports	-863	-819	-856	-908	-973	-1,043
Services	-289	-279	-268	-303	-308	-316
Private transfers	-22	-14	-13	-13	-13	-13
Capital account balance	66	82	103	154	133	126
Official transfers	50	70	72	74	76	78
Direct investment	--	-13	-1	2	3	5
Portfolio investment	-32	-45	-45	-28	-28	-28
Medium- and long-term capital	59	62	69	96	70	58
Receipts	200	271	275	213	222	231
Of which: except. balance of payments assistance 1/	(--)	(35)	(57)	(23)	(--)	(--)
Payments	-141	-209	-207	-139	-147	-167
Short-term capital and errors and omissions	-12	7	8	10	12	13
Overall balance	23	--	83	93	53	25
Gross reserves (- increase)	-11	81	-24	-63	-36	-20
IMF	-50	-81	-58	-30	-17	-5
Gross reserves, in weeks of imports 2/	11.1	5.6	6.8	10.0	11.3	11.5
	Growth Scenario: With Policy Adjustment Measures					
Current account balance	-43	-82	-87	-136	-158	-183
Exports	1,132	1,029	1,140	1,211	1,291	1,380
Imports	-863	-819	-906	-1,009	-1,102	-1,204
Services	-289	-279	-307	-324	-334	-346
Private transfers	-22	-14	-13	-13	-13	-13
Capital account balance	66	82	222	223	195	215
Official transfers	50	70	73	77	81	88
Direct investment	--	-13	-1	5	9	14
Portfolio investment	-32	-45	-45	-28	-28	-28
Medium- and long-term capital	59	62	186	159	121	127
Receipts	200	271	392	298	272	300
Of which: except. balance of payments assistance	(--)	(35)	(166)	(51)	(--)	(--)
Payments	-141	-209	-207	-139	-147	-167
Short-term capital and errors and omissions	-12	7	8	10	12	13
Overall balance	23	--	135	88	37	32
Gross reserves (- increase)	-11	81	-77	-58	-19	-27
IMF	-50	-81	-58	-30	-17	-5
Gross reserves, in weeks of imports 2/	11.1	5.6	9.4	11.4	11.4	11.6

Source: Staff projections.

1/ Commercial bank loans which had been or were in the process of being contracted by the Government in June 1987.

2/ Assumes no change in short-term borrowing by the Reserve Bank or in the stock of external securities, which is not included in gross reserves from end-1986. The two scenarios assume that the authorities aim at a reserve target amounting to about 11 weeks of imports in the medium term, which was the average reserve level during the period 1984-86.

Zimbabwe: Debt Service Payments, 1982-87 1/

	1982	1983	1984	1985	1986	1987 2/
	(In millions of SDRs)					
Central Government	105.3	167.9	166.8	183.4	148.7	207.6
Interest	54.8	86.6	47.8	63.6	57.8	55.0
Amortization	50.5	81.3	119.0	119.8	90.9	152.6
Parastatals	93.4	76.0	83.1	117.5	141.7	146.8
Interest	39.2	35.5	33.1	54.3	40.3	55.0
Amortization	54.2	40.5	50.0	63.2	101.4	91.8
Central bank	20.7	34.9	62.4	47.5	70.7	96.6
Interest	20.7	34.9	52.8	26.2	20.8	15.9
Of which: charges	(2.4)	(10.8)	(21.6)	(21.2)	(17.8)	(12.0)
Amortization	--	--	9.6	21.3	49.9	80.7
Of which: repurchases	(--)	(--)	(--)	(20.8)	(49.4)	(80.7)
Private sector	55.4	48.8	49.5	27.8	23.4	12.5
Interest	4.4	27.1	17.3	11.5	8.3	3.7
Amortization	51.0	21.7	32.2	16.3	15.1	8.8
Total	274.8	327.6	361.8	376.2	384.5	463.4
Interest	119.1	184.1	151.0	155.6	127.2	129.5
Amortization	155.7	143.5	210.8	220.6	257.3	333.9
Total, excluding Fund	272.4	316.8	340.2	334.2	317.3	370.7
Interest	116.7	173.3	129.4	134.4	109.4	117.5
Amortization	155.7	143.5	210.8	199.8	207.9	253.2
	(In percent of exports of goods and services)					
Total, including Fund	20.6	26.4	27.6	30.2	30.0	39.6
Interest	8.9	14.8	11.5	12.5	9.9	11.1
Amortization	11.7	11.6	16.1	17.7	20.1	28.5
Total, excluding Fund	20.4	25.5	26.0	26.9	24.8	31.7
Interest	8.8	14.0	9.9	10.8	8.5	10.0
Amortization	11.7	11.6	16.1	16.1	16.2	21.6
	(In millions of SDRs)					
Memorandum item:						
Exports of goods and nonfactor services	1,332.9	1,241.7	1,310.3	1,244.2	1,280.1	1,171.3

Source: Reserve Bank of Zimbabwe.

1/ Including short-term debt service payments of the Central Government and parastatals.
2/ Projection.