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August 14, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zimbabwe - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 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 23.

Mr. Artus (ext. 7676) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for the
1986 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 Eduard Brau

August 13, 1986

I. Introduction

The 1986 Article IV consultation discussions with Zimbabwe were held in Harare during the period May 28-June 11, 1986. The Zimbabwean representatives included the Minister of Finance, Dr. B.T. Chidzero; the Governor of the Reserve Bank of Zimbabwe, Dr. K.J. Moyana; the Permanent Secretary of the Ministry of Finance, Economic Planning and Development, Mr. E. Mushayakarara; and other senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Messrs. J.R. Artus (head), C.V. Callender, D.T.S. Ballali (all AFR), Mr. L. Hansen (ETR), Mr. C. Schiller (FAD), and Miss M. Duane (secretary-AFR). A World Bank staff member (Mr. Grawe) was also in Harare during the mission's stay and was in close contact with the mission.

The last stand-by arrangement with Zimbabwe (for 18 months and SDR 300 million, or 200 percent of quota) was approved by the Executive Board 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 the intensification of exchange restrictions on current payments. The stand-by arrangement expired in September 1984.

The last Article IV consultation discussions were held May 29-June 15, 1985, and the staff report (SM/85/238) was considered by the Executive Board on September 18, 1985. During the Board discussion, Directors emphasized the need for measures to stimulate production and exports. In particular, they urged the authorities to reduce the deficit of the public sector in order to relieve the pressure on domestic resources and avoid crowding out private activities. In addition, they felt that the liberalization of the price control system and more frequent price and tariff adjustments for parastatals would not only provide a more efficient allocation of resources but also reduce the losses incurred by the parastatals and thus the burden on the budget. They welcomed the adoption by the Government of a more flexible exchange rate policy and the lifting of some of the exchange restrictions. At the same time, they urged the authorities to implement appropriate financial and exchange rate policies that would permit the elimination of the remaining restrictions on current international transactions.

The World Bank has been expanding its activities in Zimbabwe. It has recently established a resident mission and is currently engaged in projects in the manufacturing, agricultural, and transport sectors. In addition, the Zimbabwean authorities have been negotiating with the World Bank for a second export promotion loan, which would amount to US$125 million and would be disbursed over a two-year period.

Zimbabwe continues to avail itself of the transitional arrangements of Article XIV. Summaries of Zimbabwe's relations with the Fund and the World Bank are presented in Appendices I and II, respectively; information on statistical issues is provided in Appendix III; and a summary of basic data is contained in Appendix IV.

II. Recent Economic Developments and Policies, 1980-85

During the period 1980-85, Zimbabwe was successful in reducing many of the socioeconomic problems inherited from the pre-independence period, especially the unequal access to social services such as health and education, but its overall economic performance has been disappointing. After a rapid recovery in 1980-81 following the achievement of independence and the return of normal security conditions, the economy failed to take off. From 1982 to 1985, the average annual rate of growth of GDP in real terms was only 0.8 percent, with a sharp decline in 1982-83 as a result of the drought, followed by a recovery in 1984-85 with the return of normal rainfall. The average annual rate of inflation from 1981 to 1985 (measured by the average of the consumer price indices for the higher- and lower-income groups) was in excess of 15 percent; exports stagnated; and imports were severely restrained, especially in 1983-85, when the authorities had to curb the rapid rise in foreign debt (Table 1 and Chart 1).

Several exogenous factors contributed to this disappointing economic performance. The 1982-83 drought gave rise to emergency grain imports, which put additional pressure on the balance of payments, as well as drought relief measures, which worsened the budget. In addition, the recession in the world economy in 1982 adversely affected Zimbabwe's exports, while the post-independence emigration of skilled personnel had a constraining effect on investment and economic activity.

The adverse effects of these factors were exacerbated by inadequate policies, particularly with respect to the budget and the exchange rate. During fiscal years 1981/82-1983/84 (July-June) public sector activities expanded markedly, with the deficits of the Central

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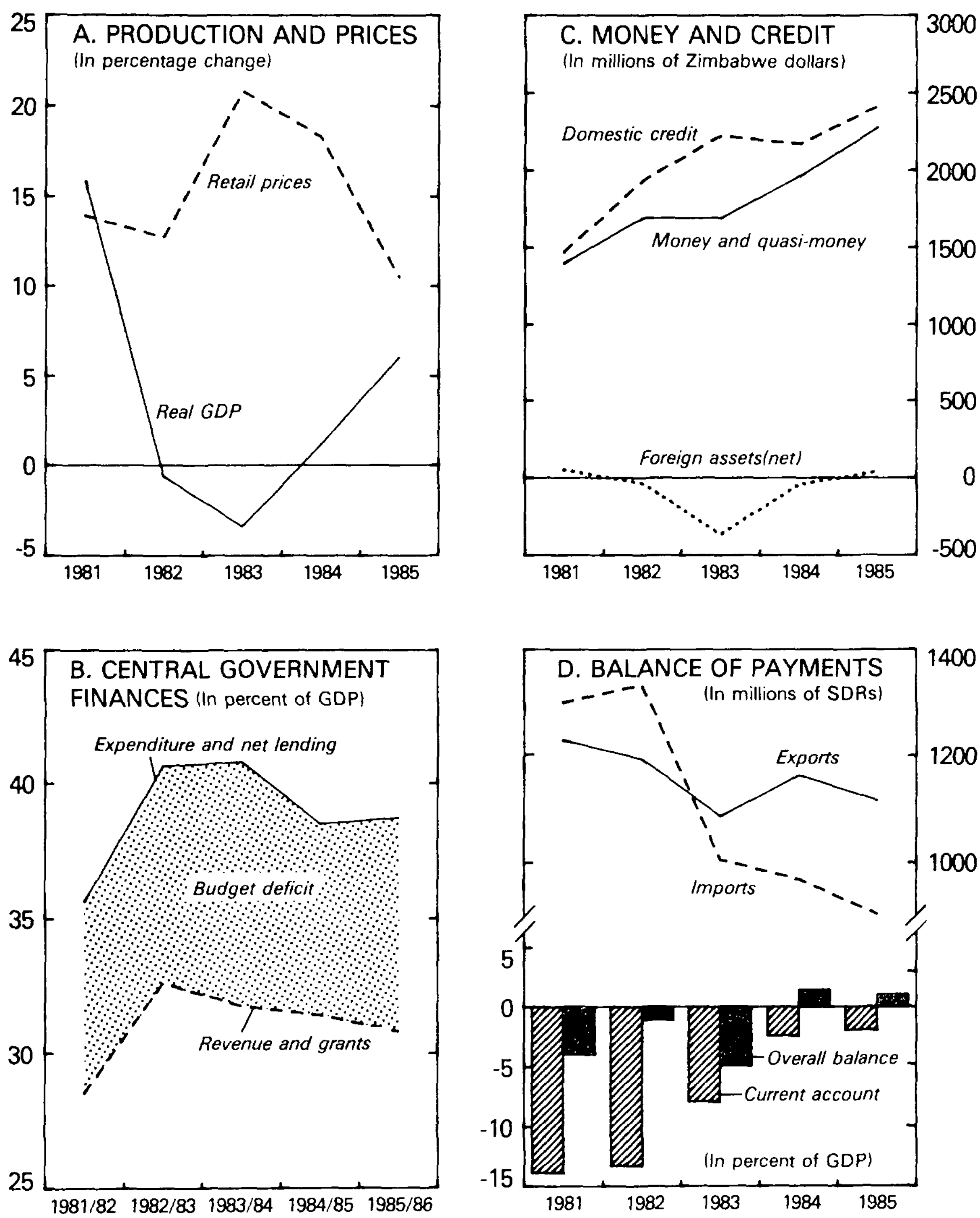
SELECTED ECONOMIC INDICATORS, 1981-85



Source: Data provided by the Zimbabwe authorities.

Table 1. Zimbabwe: Selected Economic and Financial Indicators, 1982-86 1/

	1982	1983	1984	1985	1986
	Actual		Preliminary		Proj.
	(Annual percent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	-0.6	-3.4	1.1	6.0	3.0
GDP deflator	13.8	14.1	13.0	11.6	10.3
Consumer prices	12.7	20.8	18.3	10.5	12.0
External sector					
Exports, f.o.b. (millions of SDRs)	1,194	1,087	1,163	1,116	1,135
Imports, c.i.f. (millions of SDRs)	-1,461	-1,161	-1,081	-996	-975
Export volume	2.9	3.6	-1.3	5.0	4.0
Import volume	7.7	-16.2	-0.4	-6.3	2.0
Terms of trade (deterioration -)	-2.5	-3.8	15.7	-2.2	6.0
Nominal trade-weighted effective exchange rate, end of period (depreciation -)	-6.8	-12.1	-5.8	-9.1	...
Real trade-weighted effective exchange rate, end of period (depreciation -)	-1.4	1.9	-5.6	-8.8	...
Central government budget 1/					
Revenue and grants	35.1	32.7	11.9	14.2	12.6
Total expenditure and net lending	31.5	32.5	15.4	8.9	15.5
Money and credit					
Domestic credit 2/	25.9	15.0	2.1	10.8	...
Government 2/	14.8	-8.3	-8.6	-19.4	...
Money and quasi-money (M2)	14.8	--	16.0	15.9	...
Velocity (GDP relative to M2)	-13.1	16.2	-2.6	-0.6	...
Interest rate (annual rate, one-year time deposit or alternative rate)	10.50	14.20	10.50	10.25	...
	(In percent of GDP)				
Central government budget deficit 1/					
Excluding grants	-7.8	-9.0	-10.4	-9.7	-9.7
Including grants	-7.1	-8.0	-9.1	-7.1	-7.9
Domestic bank financing	-0.3	1.9	3.2	-3.7	-1.4
Foreign financing	4.6	0.9	0.8	6.6	2.5
Limited public sector deficit 1/					
Excluding grants	-8.9	-12.1	-11.1	-9.9	-10.4
Including grants	-8.2	-11.2	-9.7	-7.4	-8.6
Gross domestic investment	23.5	15.2	...	...	...
External account deficit					
Including official transfers	10.5	7.6	1.4	2.1	1.7
Excluding official transfers	11.1	8.5	3.1	3.2	2.8
External debt	39.3	42.0	42.4	42.8	46.6
Inclusive of use of Fund credit	40.0	45.6	48.0	48.2	51.1
Debt service ratio 3/	20.6	26.4	27.6	27.6	31.4
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-55	-293	95	81	-30
Gross official reserves (months of imports)	1.8	2.1	2.0	2.6	3.1

Source: Data provided by Zimbabwean authorities and staff projections.

1/ In the case of the public finances, the data refer to fiscal years ended June of the year indicated. For 1985/86 the data represent the estimated fiscal outturn.
2/ Absolute increase as a percentage of money and quasi-money at the beginning of the period.
3/ Includes Fund.

Government and the limited public sector (including grants) 1/ rising by approximately 2 percentage points of GDP to about 10 percent of GDP. During this period, total expenditure of the Central Government rose from 36 percent to 41 percent of GDP, while revenue and grants rose from 29 percent to 32 percent of GDP. The steep increase in total expenditure can largely be explained by developments in current outlays, including a rapid increase in outlays on wages, expenditure for education and other social services, security, transfers to parastatals, and interest payments. The accompanying expansionary monetary policies and the overvaluation of the exchange rate compounded the problem and exerted strong pressure on the balance of payments, inducing the Government to intensify exchange restrictions and reduce import allocations.

In 1984/85 the fiscal situation improved markedly, as both the central government and the limited public sector deficits fell by 2 percentage points to about 7 percent of GDP. Despite steep increases in interest payments and subsidies, the growth in total expenditure was held to 9 percent, while revenue and grants increased by 14 percent, mainly owing to larger foreign grants, improved tax collection, and some discretionary tax measures. In contrast to the previous year, no general wage increase was granted, outlays on goods and services were kept constant in nominal terms, and transfer payments declined, owing to the tapering off in demobilization grants and drought relief expenditures. In financing the deficit, the Government utilized the blocked funds of nonresidents and increased its borrowing from nonbank sources. As credit to the nongovernment sector remained unchanged, total domestic credit fell by 2 percent in 1984. However, broad money expanded by 16 percent, as a result of the sharp increase in net foreign assets.

The Zimbabwean authorities adopted a somewhat more flexible exchange rate policy in 1984, with a view to improving the competitiveness of Zimbabwe's exports, particularly mining and manufacturing exports. Consequently, the real effective exchange rate of the Zimbabwe dollar, which had appreciated by 10 percent during 1983, depreciated by 5 percent during 1984 (Chart 2). The external current account deficit fell from 8.5 percent of GDP in 1983 to 3.1 percent in 1984; however, this was largely because of the imposition of new restrictions on payments of dividends and profits and a further compression of imports, which are controlled through a comprehensive system of foreign exchange allocations.

Despite the 1984-85 economic recovery, the budgetary situation worsened once more in fiscal year 1985/86. Preliminary data indicate an

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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.

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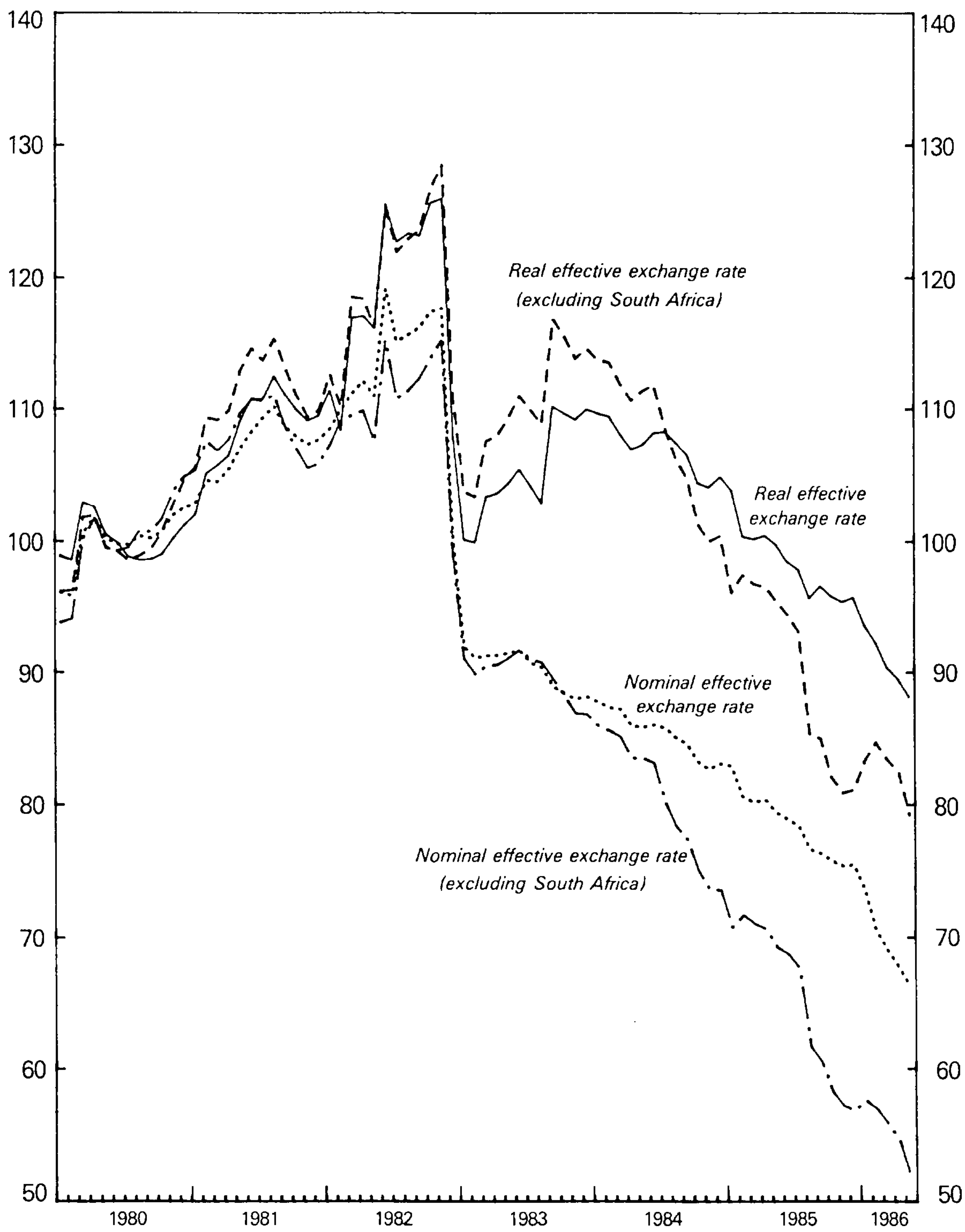
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1980-86

(1980 = 100)



Source: IMF, International Financial Statistics; and Fund staff estimates.

overall budgetary deficit for the Central Government of Z$672 million (7.9 percent of GDP), 1/ significantly below the deficit of Z$808 million (9.6 percent of GDP) anticipated in the original budget, but above the Z$524 million (7.1 percent of GDP) outturn in 1984/85. Revenue and grants increased by less than 13 percent, somewhat below the growth in GDP, while total expenditure rose by nearly 16 percent (Table 2). Most of the increase in expenditure occurred in current expenditure, which rose by nearly 18 percent, compared with the original budget estimate of 15 percent. The additional expenditure was provided through supplementary budgets introduced in Parliament during the second half of the fiscal year, mostly for defense outlays and grants to private schools. Expenditure on wages rose by 23 percent, reflecting the general wage increases ranging from 0 to 15 percent introduced at the beginning of the fiscal year, the annual merit increase, and the continuing expansion in the number of civil servants. On the other hand, capital outlays, including net lending, stagnated owing to shortages of building materials and transportation problems. Even though the operating losses of the parastatals which require government support declined somewhat relative to GDP, the widening of the deficit of the Central Government led to a widening of the overall deficit of the limited public sector by 1.2 percent of GDP.

The rate of monetary expansion reached 16 percent in 1985, reflecting both an increase in net foreign assets and an expansion in domestic credit (Table 3). The issue of special bonds to nonresidents and the heavy reliance by the Government on borrowing from the Post Office Savings Bank (POSB), the insurance companies, and pension funds to finance the deficit contributed to a significant reduction in the banking system's net claims on Government. Credit to the private sector proper grew by only 7 percent, but credit to public enterprises rose by nearly 40 percent, largely because of the need of the Agricultural Marketing Authority (AMA) to finance a rising amount of maize stocks.

During 1985, the Zimbabwean authorities maintained their policy of allowing the real effective rate of the Zimbabwe dollar to depreciate gradually. The depreciation during this period amounted to about 9 percent (Chart 2). Nevertheless, this amount of adjustment was still insufficient to improve the external position, especially given the worsening fiscal position. The value of exports declined by about 4 percent in SDR terms in 1985 (Table 4). 2/ The volume increased by about 5 percent, largely because of the boost in agricultural exports

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1/ The deficit of Z$672 million includes an estimated amount of Z$99 million in grants received but not transferred to the budget and not spent. If only the amount of grants registered in the budget is included, the overall deficit is Z$771 million, equivalent to 9.1 percent of GDP.

2/ The decline may be overstated, because the large positive "errors and omissions" item in the balance of payments may reflect undervaluation of exports, particularly manufactured exports.

Table 2. Zimbabwe: Summary of Operations of the Limited Public Sector, 1981/82-1985/86 1/

	1981/82	1982/83	1983/84	1984/85 Prel. actual	1985/86 Budget estimate	1985/86 Est. outturn
	(In millions of Zimbabwe dollars)					
Central government revenue and grants	1,367.9	1,815.8	2,032.6	2,320.4	2,540.4	2,613.2
Total revenue	1,333.7	1,763.1	1,543.6	2,131.7	2,410.0	2,460.0
Tax revenue	1,207.6	1,579.5	1,743.5	1,902.1	2,151.5	2,194.0
Nontax revenue	126.2	183.6	200.1	229.6	258.5	266.0
Grants 2/	34.2	52.7	89.0	188.7	130.4	153.2
Of which: registered in the budget	(5.4)	(24.2)	(56.9)	(81.0)	(130.4)	(54.0)
Central government expenditure and net lending	1,707.6	2,262.5	2,612.0	2,844.7	3,348.2	3,285.0
Current expenditure	1,435.5	1,808.9	2,216.6	2,440.3	2,804.0	2,870.3
Capital expenditure	158.2	218.3	219.7	203.1	344.3	228.8
Net lending	113.8	235.3	175.7	201.3	199.9	185.9
Central government deficit	-339.7	-446.7	-579.4	-524.3	-807.8	-671.8
Plus parastatal losses	-148.2	-278.7	-239.6	-307.2	...	-344.2
Less government transfers to parastatals	93.8	102.5	200.5	285.9	288.0	288.0
Limited nonfinancial public sector deficit	-394.1	-622.9	-618.5	-545.6	...	-728.0
	(In percent of GDP)					
Memorandum items:						
Total revenue and grants	28.6	32.6	31.8	31.4	29.9	30.8
Total revenue	27.8	31.7	30.4	28.8	28.4	29.0
Tax revenue	25.1	28.4	27.2	25.7	25.4	25.9
Nontax revenue	2.6	3.3	3.1	3.1	3.0	3.1
Grants	0.7	1.0	1.4	2.6	1.5	1.8
Total expenditure and net lending	35.5	40.7	40.8	38.5	39.5	38.7
Current	29.8	32.5	34.6	33.0	33.1	33.8
Capital and net lending	5.7	8.2	6.2	5.5	6.4	4.9
Central government deficit	-7.1	-8.0	-9.1	-7.1	-9.6	-7.9
Parastatal losses	-3.1	-5.0	-3.7	-4.2	...	-4.1
Central government transfers to parastatals	2.0	1.8	3.1	3.9	3.4	3.4
Limited nonfinancial public sector deficit	-8.2	-11.2	-9.7	-7.4	...	-8.6
Central government deficit (including grants registered in the budget)	-7.7	-8.5	-9.6	-8.6	-9.6	-9.1

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.

2/ Budget estimate for development grants includes only the expected transfers to the Consolidated Revenue Fund from the National Development Fund. The outturn figures comprise all grants received, including grants received by the National Fund for Rehabilitation and Reconstruction (in the earlier years) and by the National Development Fund, although only a part of them may have been spent during the fiscal year.

Table 3. Zimbabwe: Monetary Survey, 1982-86

(In millions of Zimbabwe dollars)

	1982	1983	1984				1985				1986
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March
Foreign assets (net)	-36.9	-367.7	-330.9	-368.6	-141.3	-43.1	-10.7	3.4	67.9	37.0	102.5
Reserve Bank	-44.5	-368.9	-319.5	-353.5	-119.4	-22.2	21.6	26.8	100.3	87.1	126.8
Deposit money banks	7.6	1.2	-11.4	-15.1	-21.9	-20.9	-32.3	-23.4	-32.4	-50.1	-24.3
Domestic credit (net)	1,934.0	2,224.5	2,182.8	2,263.4	2,36.6	2,177.0	1,998.8	2,109.0	2,265.3	2,411.5	2,282.9
Claims on Government (net)	594.2	544.8	578.5	729.5	597.9	497.9	480.5	455.2	301.0	401.4	334.2
Claims on public enterprise	423.2	593.9	573.4	484.9	628.0	632.3	524.2	516.3	756.0	888.1	790.0
Claims on private sector	916.6	1,085.8	1,030.9	1,049.0	1,110.7	1,046.8	994.1	1,137.5	1,148.3	1,122.0	1,158.7
Money (M_1)	771.0	740.4	671.0	750.2	863.4	871.9	768.7	847.0	926.6	972.4	903.3
Currency	237.5	227.4	222.5	239.3	259.7	258.8	250.3	262.2	297.5	321.1	330.4
Demand deposits	533.5	513.0	448.5	510.9	603.7	623.1	518.4	584.8	629.1	651.3	572.9
Quasi-money	921.8	952.1	1,026.0	1,041.6	1,172.6	1,081.0	1,103.9	1,133.5	1,243.0	1,303.4	1,220.5
Money plus quasi-money (M_2)	1,692.8	1,692.5	1,697.0	1,791.8	2,036.0	1,962.9	1,872.6	1,980.5	2,169.6	2,275.8	2,123.8
Other items (net)	204.3	164.3	154.9	103.0	159.3	171.0	115.5	131.9	163.6	172.7	261.6

Source: Data provided by the Zimbabwe authorities.

Table 4. Zimbabwe: Balance of Payments, 1981-86

(In millions of SDRs)

	1981	1982	1983	1984	Prel. 1985	Proj. 1986
Current account	-616	-686	-472	-166	-154	-120
Trade balance, f.o.b.	-71	-139	81	193	210	235
Exports	(1,229)	(1,194)	(1,087)	(1,163)	(1,116)	(1,135)
Imports	(-1,300)	(-1,333)	(-1,006)	(-970)	(-906)	(-900)
Nonfactor services	-343	-229	-236	-161	-168	-145
Freight and insurance	(-137)	(-128)	(-155)	(-111)	(-90)	(-75)
Other transportation	(-26)	(17)	(4)	(7)	(-3)	(--)
Travel	(-106)	(-60)	(-44)	(-34)	(-26)	(-20)
Other	(-74)	(-58)	(-42)	(-24)	(-49)	(-50)
Investment income	-102	-195	-211	-136	-137	-175
Interest	(-44)	(-100)	(-169)	(-139)	(-144)	(-160)
Other	(-58)	(-95)	(-41)	(3)	(7)	(-15)
Private transfers	-100	-123	-106	-62	-59	-35
Capital account	349	512	165	236	141	90
Official transfers	75	41	51	94	54	45
Medium- and long-term	79	337	148	104	57	25
Government and portfolio	(19)	(57)	(33) 1/	(63)	(64)	(40)
Public enterprises	(69)	(227)	(97)	(40)	(2)	(-5)
Private sector	(-9)	(53)	(18)	(1)	(-9)	(-10)
Short-term capital	194	134	-34	38	30	20
Government	(100)	(61)	(-10) 1/	(4)	(-22)	(20)
Public enterprises	(84)	(51)	(-22)	(19)	(49)	(--)
Private sector	(10)	(22)	(-2)	(15)	(3)	(--)
Other 2/	92	119	14	25	94	--
Overall balance	-175	-55	-293	95	81	-30
Exceptional financing	--	--	--	--	--	-100
Financing	175	55	293	-95	-81	-70
Gross reserves (increase -)	-11	-16	-1	-21	-66	-40
IMF	37	--	150	62	-21	-45
Sale of securities 3/	--	--	--	43	45	--
Other short-term liabilities	149	71	144	-179	-39	15
Memorandum items :						
Average exchange rate (SDR per Zimbabwe dollar)	1.2312	1.1961	0.9256	0.7841	0.6110	0.4730
Current account deficit as percent of GDP	11.3	11.1	8.5	3.1	3.2	2.8

Sources: Reserve Bank of Zimbabwe; Ministry of Finance; and staff estimates.

1/ Excludes a refinancing operation under which SDR 142.5 million in short-term debt was converted into medium-term loans.
2/ Includes errors and omissions and SDR allocations in 1981.
3/ Sale of foreign securities acquired by the central bank from domestic residents.

resulting from the return of normal rainfall, but most of the goods were sold at lower prices, especially asbestos, copper, tobacco, and sugar. On the basis of preliminary disaggregated trade data, there appears to have been a broad-based reduction in the volume of manufactured exports, with large declines for textiles, clothing, leather products, chemicals, and metal products. The decline in exports led to a further tightening of the import constraint, and the value of imports fell by about 7 percent in SDR terms, reflecting a significant fall in volume. Despite the reduction in imports, the external current account deficit remained above SDR 150 million, equivalent to about 3 percent of GDP. As net capital inflows (including errors and omissions) were lower than in the previous year, the overall balance of payments surplus of SDR 81 million was somewhat smaller than in 1984.

Despite efforts to curb the increase in foreign debt during the past three years, Zimbabwe's external debt reached SDR 2.2 billion (about 48 percent of GDP) at end-1985. In that year, debt service payments were equivalent to 27.6 percent of exports of goods and services.

III. Report on the Discussions

The Zimbabwean representatives were concerned about the prospects for the economy in 1986. Growth in real GDP was forecast at only 3 percent in 1986, compared with the 6 percent achieved in 1985. Despite adequate rainfall, growth in agricultural output is expected to be lower, as only production of tobacco, cotton, and wheat is forecast to show any significant increase. It is anticipated that manufacturing output will continue to expand, but at a slower pace than in the previous two years. With the exception of silver, iron ore, and chrome, no marked increases are anticipated in mineral production. Output in the other sectors is not expected to show any major expansion. Moreover, the rate of inflation had increased somewhat in the first half of the year to about 12 percent on a year-to-year basis, due partly to the recent net increase in domestic prices of petroleum products.

Prospects for the balance of payments in 1986 were also a source of concern. Although export volume is envisaged to increase by about 4 percent, owing mainly to higher sales of tobacco, cotton, and gold, the value of exports in SDR terms is expected to rise by less than 2 percent because of weaker prices for Zimbabwe's major exports, particularly for mining exports. Capital repayments in 1986 should be higher than in the previous year, as should repayments of dividends because of the relaxation, in April 1985, of restrictions introduced in March 1984, and increased profitability of foreign corporations. Consequently, the foreign exchange constraint is expected to tighten, and the value of imports in SDR terms is expected to be kept at the low level observed in 1984.

Against this background of weak economic growth in the early 1980s and worrisome prospects for 1986, the consultation discussions focused on the need for major policy changes, particularly with regard to development planning, wages and prices, demand management, and the external sector.

1. Development planning and policies

The new Development Plan (1985/86-1989/90) provides the macro-economic framework for the development of the economy over the next five years. Within the five-year framework, annual plans will be issued which will incorporate any major changes in the external and domestic situation in a manner consistent with the available resources. The plan aims at a 5.1 percent average rate of growth over the period, with lower growth rates in the earlier years and higher growth rates in later years. Total investment (including stocks) at 1985 prices is projected to grow by an average of more than 5 percent annually to Z$8,658 million over the five-year period, of which 46 percent is expected to be under-taken by the private sector and the remaining 54 percent by the public sector, including the parastatals. Domestic savings are expected to finance 67 percent of total investment, about the same as in the three years preceding the plan.

With respect to the availability of savings for financing the planned level of investment, the Zimbabwean representatives indicated that they expected the insurance companies and pension funds to play a major role in providing investible funds. They expected such funds to continue to grow at the rate of about 23 percent attained in the recent past. They envisaged that foreign capital would also play an important role through concessional aid, as well as foreign investment in joint ventures in the public or private sector. An investment register estab-lishing new guidelines for foreign investment in Zimbabwe was currently being prepared, while the Commission of Inquiry into Taxation was expected to propose incentives for investment.

Commenting on the investment and savings targets, the staff repre-sentatives suggested that, in order to achieve the targeted growth rate in real GDP, it would be necessary to have a higher level of investment than targeted in the plan. Even after making allowance for some improvement in the efficiency of investment, preliminary calculations indicated that the amount of investment required to achieve the average rate of economic growth may well be 20-30 percent higher than that indicated in the plan. Therefore, there was an urgent need to improve considerably the savings performance of the Government and the para-statals, so as to contribute to the financing of the required invest-ment. More precisely, the staff representatives indicated that dis-savings by the Government would have to be reduced by half in 1986/87 and eliminated in 1987/88. In the last two years of the plan, the Government would have to generate positive savings equivalent to

3 1/2 percent of GDP. Most of the major parastatals would have to attain a breakeven position by 1987/88 and generate significant positive earnings by 1990.

The staff representatives emphasized that the investment requirements of the industrial sector were particularly large, since it was expected to generate an average rate of growth of 6.5 percent, but was handicapped by its dilapidated capital equipment. As this sector was largely in private hands, this implied a large increase in private investment that could be financed only if the overall deficit of the Government was reduced sharply in order to channel savings into the private sector. Moreover, they stressed that it was not enough to ensure that savings were available for private investment; steps must also be taken to provide a congenial climate as well as appropriate incentives to stimulate investment. In this context, the publication of the revised foreign investment guidelines delineating the areas for foreign investment, and the incentives for such investment, should help to attract foreign investment.

The Zimbabwean representatives acknowledged that the plan's estimate of required investment may be on the low side. However, they were more optimistic than the staff on future improvement in the efficiency of investment, so that they viewed the staff estimates of required investment as being on the high side. Therefore, while concurring with the staff's view that it was necessary to improve substantially the saving performance of the Government and the parastatals, they thought that the improvement could be somewhat more gradual than that envisaged by the staff.

Reviewing the development plan for specific sectors, the Zimbabwean representatives said that the Government's main objective for the agricultural sector was to achieve self-sufficiency in staple foodstuffs, particularly with respect to maize and wheat. With the easing of the drought, maize production had increased sharply in the last two years, and the 1986/87 crop is estimated to reach 2.5 million tons, compared with domestic consumption requirements of about 1.5 million tons. As the stocks held by the Grain Marketing Board (GMB) stood at 1.5 million tons at end-March 1986, which is about 12 months' consumption requirements, the new crop is likely to exacerbate GMB's current storage and financing problems. In view of the difficulty of finding export markets for maize at remunerative prices, the authorities have tried to discourage higher maize production by maintaining the producer price for maize at Z$180 per ton for the third consecutive year, implying a substantial reduction in real terms. In contrast, wheat production still falls short of domestic demand, despite the improvement in weather conditions and higher producer prices in the past two years, and the authorities plan to encourage higher production.

The Government's other objective for the agricultural sector was to increase production of the traditional export crops, tobacco and cotton, and, in accordance with the objective of export diversification, to encourage expansion of minor export crops such as tea, coffee, soybeans, and sunflower oil. Tobacco production was still tightly controlled through an administrative allocation system, and any planned increase will be closely related to developments in the world market. However, they envisaged a gradual increase in the production of leaf tobacco from the present level of 117,000 tons to 150,000 tons by 1990. Small-scale tobacco growers in commercial and resettlement areas will be encouraged to increase production, and extension services for tobacco growers will be expanded. Despite the recent weakness in the world cotton market, the Zimbabwean authorities felt that there was scope for increasing cotton production, especially by commercial farmers, both for export and for use in the local textile industry. They also expected beef producers to take advantage of the recent health certification of Zimbabwean beef for export to the EC up to a quota of 8,100 tons.

Turning to the industrial sector, the Zimbabwean authorities noted that, although the industrial sector had benefited from the depreciation of the Zimbabwe dollar and from the Export Revolving Fund (ERF), and most companies had improved their profitability, the shortage of foreign exchange remained a major constraint on investment and expansion of capacity. Consequently, industries such as textiles, clothing, chemicals, and metal products, which had shown some resurgence in the past two years, were encountering capacity constraints. They said that the Government's policy in the medium term will be based on an integrated development of the industrial and agricultural sectors. In addition to expansion of the textile, leather, and food processing industries, which produce both for the domestic market and for export, priority will be given to developing intermediate and capital goods industries to manufacture steel sheet plate, special steel products, and machine tools. Moreover, production of fertilizers made from coal and ethanol based on sugar will be encouraged with a view to saving foreign exchange currently spent on imports of fuels and chemicals. In the mining sector, emphasis will be placed on the expansion of coal, gold, lithium, copper, and nickel.

The Zimbabwean representatives felt that their policy of export promotion had played a major role in increasing manufacturing exports and said that the policy would be strengthened over the next few years. Aimed primarily at the diversification of export markets, export promotion had focused on new trade agreements, joint commissions for discussing trade problems, and trade fairs and missions. As a result, Zimbabwean producers had become more export-oriented and had made substantial improvements in the design and packaging of their products. The Zimbabwean representatives said that the second export promotion loan currently being negotiated with the World Bank should help to ease the foreign exchange constraint faced by the industrial sector, permit an increase in importation of industrial inputs, machinery, and spare parts, and an expansion in investment and industrial capacity.

2. Employment, wage, and pricing policies

The Zimbabwean representatives said that, while the Government had been successful in moderating the skewness of income distribution and the unequal access to social services that were characteristic of the pre-independence period, it had been less successful in expanding wage employment. Wage employment had declined over the past three years, with most of the decrease occurring in the productive sectors. This reflected the decline in economic activity generally, but also the drought and increased mechanization in the agricultural sector. The staff representatives commented that an additional reason was the imposition of administrative rigidities in labor and product markets. Restrictions on dismissals, combined with initial large increases in minimum wages, impeded the adjustment of firms to changing economic circumstances.

Reviewing the prospects for employment over the medium term, the Zimbabwean representatives said that they expected the revival in economic activity envisaged in the plan to generate additional employment in the private sector. At the same time, the Government intended to take positive action to help workers to develop the requisite skills through education and training. The educational system was being revamped to channel more students into vocational and technical training. Nonetheless, the newly created employment opportunities were not expected to be sufficient to absorb the prospective new entrants into the labor force, and the Government intended to encourage self-employment and to promote the development of cooperatives throughout the economy.

In May 1985, the Government granted wage increases of up to 15 percent for lower-paid workers. In June 1986, the Government announced further wage increases ranging between 3 percent for the highest-paid workers and 10 percent for the lowest-paid workers. The Zimbabwean authorities explained that the recent round of wage increases was necessary to compensate--at least in part--for the decline in real incomes that had occurred over the past five years, and to boost the morale and productivity of workers. The staff representatives observed that the recently announced wage increases were consistent with the Government's policy of wage restraint at the macroeconomic level. However, in establishing wage rates, there was a need for a mechanism that would allow greater differentiation in wages among sectors and firms. This could be done by moving toward a process of collective bargaining through which the varying circumstances of different firms would be given greater consideration in wage determination.

The staff representatives said that the existing system of pervasive price controls had introduced distortions in the economy and had contributed to the operating losses of the parastatals and to the increasing burden on the budget. In the past, delays in adjusting prices as well as cumbersome administrative procedures had resulted in a reduction in profit margins and had adversely affected investment. They said that steps should be taken to increase the number of commodities not requiring ministerial or administrative approval, to speed up the decision-making process, and to reduce the administrative delays for those requiring approval. In this context, it might be useful to establish a trigger mechanism which would allow automatic price increases to cover profit margins for some of the products not requiring ministerial or administrative approval.

The Zimbabwean representatives said that action was being taken to reduce the delays in adjusting prices, as evidenced by the recent significant increases in the consumer prices for maize meal, milk, and petroleum products. They emphasized that the Government's objective was to simplify the system of price controls and allow it to operate more flexibly. The first phase of the reform of the system had focused on administrative improvements, with emphasis on speeding the decision-making process by reducing the required documentation and limiting the time allowed to complete the various stages of the process. Delays arising from slow administrative procedures had been reduced by over 50 percent, on average. In the second phase, which was now under consideration, the list of commodities submitted for Cabinet approval would be reduced to include only products with linkages throughout the economy, such as fertilizer, steel, cement, and certain basic foodstuffs. Within the second group currently approved by the Minister of Trade and Commerce, it should be possible to further delegate approval to administrative officers within the Ministry for most items. Moreover, an effort would be made to enlarge the group not requiring prior approval.

3. Financial policies

At the time of the consultation discussions, the 1986/87 budget was under preparation, and no information on it could be made available to the staff. However, the Zimbabwean authorities said that they were aware of the need to reduce the budgetary deficit and had already set in motion in recent months measures to achieve this, the impact of which was becoming evident from the lower-than-budgeted preliminary outturn for 1985/86. They pointed out that they might have achieved a greater degree of success in 1985/86 but for the rise in expenditure on security to keep open Zimbabwe's transport routes. They stressed that, while expenditure on social services was still high, it had been decelerating recently. Moreover, the increase in transfers and subsidies had declined relative to GDP, and the wage bill as a proportion of GDP was equivalent to its 1981/82 level. In reply, the staff representatives pointed out that the overall deficit for 1985/86, though smaller than budgeted, was considerably higher than the outturn for 1984/85. Moreover, government dissavings had increased from 4.2 percent of GDP in 1984/85 to an estimated 4.8 percent of GDP in 1985/86.

In the absence of any quantitative information by the authorities on the 1986/87 budget and associated policy measures for that year, the staff prepared fiscal projections for 1986/87 and 1987/88, with the objective of reducing the budgetary deficit (including grants) from the estimated 7.9 percent of GDP in 1985/86 to 5.4 percent by 1987/88. These projections include a provision for a substantial cut in the backlog of subsidies to parastatals. The staff representatives argued that such a reduction in the deficit was necessary if private investment were to be expanded, so as to achieve the growth rates indicated in the plan. In this context, the current requirement that most institutional investors invest at least 60 percent of their assets in prescribed securities (mainly government securities and shares in parastatals) needed to be reviewed, in order to accommodate the needs of the private sector.

The staff representatives said that these fiscal objectives were achievable, provided the Government took action to reduce the growth in expenditure and introduce new revenue-raising measures, while at the same time intensifying its efforts to improve tax collection and recover tax arrears. Efforts to control the growth in expenditure should include limiting the increase in the wage bill, curtailing expenditure on goods and services, and significantly reducing transfers to parastatals.

In reply, the Zimbabwean representatives said that they had intended to reduce the budget deficit to 6.2 percent of GDP by 1990, at a slower rate than that proposed by the staff. They recognized that expenditure on social services had absorbed a large proportion of total resources, but argued that there was a need for such expenditure in the initial post-independence environment. However, they expected such expenditure to peak shortly, and its growth to decelerate thereafter. With respect to revenue, they indicated that the Cabinet was considering the report of the Commission on Taxation before proposing specific measures.

With respect to the parastatals, the staff representatives said that measures should be implemented immediately to improve their performance and reduce their excessive reliance on budgetary transfers. These measures should include pricing adjustments, investment in rehabilitation and restructuring, and improved management, and should result in a decline in the combined losses of the parastatals and in the limited public sector deficit. The staff representatives indicated that the Agricultural Marketing Authoritity (AMA) currently accounted for over 60 percent of the aggregate deficit of the parastatals. Most of the problems arose from the marketing of maize by the Grain Marketing Board (GMB), and the marketing of milk by the Dairy Marketing Board (DMB). For both products, the Government will have to continue to reduce gradually real producer prices and increase real consumer prices. These pricing adjustments should be combined with efforts to reduce overhead costs and, in the case of the DMB, to diversify milk products.

The other major recipient of subsidies was the Zimbabwe Iron and Steel Company (ZISCO). The World Bank's technical assessment indicated that while ZISCO's operations were economic, an extensive program of marketing reorientation, management training, and plant rehabilitation and restructuring will be required both to maintain economic viability and reduce financial losses. These measures, together with the continuation of a flexible exchange rate policy, should enable ZISCO to reduce its losses significantly by 1987/88. The staff representatives also suggested that the National Oil Company (NOCZIM) presented an excellent opportunity to generate surplus revenue with minimal inflationary or adjustment pressures if world market prices for oil products remained weak.

The Zimbabwean representatives agreed that measures should be implemented to improve the financial operations of the parastatals. In that context, a commission on parastatal organizations had been established to ensure, inter alia, more efficient management of the parastatals. Already, loans to the parastatals and requests for foreign exchange were being carefully scrutinized, as well as their employment policies and the travel authorizations for their staff. The Zimbabwean authorities agreed to consider carefully the observations and proposals of the staff and to implement them where possible.

The staff representatives said that, if the Zimbabwean authorities are to contain inflation and relieve the pressure on the balance of payments, they would also have to reduce further the rate of monetary growth. So far, demand for credit from the private sector (an average of 7 percent over the last three years--Table 3) had been low, reflecting the generally slow pace of economic activity and the stagnation in investment, but the resurgence of private economic activity envisaged in the plan was likely to require an expansion of credit to the private sector. Therefore, credit to the parastatals would have to be curbed, while credit to the Government should not be allowed to increase significantly. In this context, it was crucial that interest rates, which are currently negative in real terms, should be allowed to move upwards.

In reply, the Zimbabwean representatives explained that interest rates in Zimbabwe reflected a mixture of market-determined and administered rates; the money market rates, such as those charged on certificates of deposit, were market determined, while commercial banks' overdraft rates were at the discretion of the banks, and the deposit rates of the POSB were administered. They conceded, however, that the administered rates may indirectly influence market rates.

4. External sector

The Zimbabwean representatives said that the economy had experienced severe balance of payments pressures in the last few years and that their policy options were limited by the heavy burden of service payments inherited at independence. They explained that after the initial devaluation of 20 percent (25 percent in local currency terms) in December 1982 and early January 1983, the basic exchange rate policy of the authorities had been to ensure that the real effective exchange rate of the Zimbabwe dollar did not rise. However, in view of the weak international market for Zimbabwe's major mining and manufacturing exports, the authorities had shifted to a more aggressive exchange rate policy in 1985 and early 1986. The resulting improvement in the balance of payments and in the foreign exchange position of the Reserve Bank enabled the authorities to restore dividend remittability and reduce short-term indebtedness.

The staff representatives replied that, in spite of the depreciation of the real exchange rate and the partial reversal of exchange restrictions, export performance remained disappointing and imports were still curbed through extensive quantitative restrictions. Therefore, there was a need to continue the policy of depreciation of the real effective exchange rate and to liberalize the trade and exchange system in order to reduce the distortions in the economy, promote a more efficient allocation of foreign exchange, and induce a higher rate of investment and growth, with a view to achieving balance of payments viability over the medium term.

In reviewing the medium-term outlook, the staff presented two scenarios of balance of payments developments in the five-year period 1986-90 (see Table 5). The first scenario is based on the assumption that there is no further depreciation of the real effective exchange rate from the present level, that the budget deficit is reduced by only 1 percentage point of GDP a year over the projection period, and that there is no change in the current policy of import restrictions. These projections also assume normal rainfall in Zimbabwe and reasonable growth and stability in the international community. On the basis of these assumptions, it is estimated that the volume of exports could grow at about 3 percent a year, considerably lower than the 7 percent assumed in the development plan, and, given the large amount of debt service payments falling due during the period and the unfavorable outlook for gross capital inflows, the foreign exchange constraint would remain very tight. The volume of imports could perhaps expand by only 2 percent a year in the early part of the period to sustain a real rate of growth of GDP of about 3 percent, which would be in line with population growth. However, this would be possible only through a drawdown of reserves from about 2 1/2 months of imports at the end of 1985 to about two weeks at the end of 1988. The decline in the debt service burden after 1987 would permit a buildup of reserves in the latter part of the period to a level equivalent, in terms of imports, to that which existed at the end of 1985. Because of the import constraint, the current account deficit would decline significantly over the period, from about 3 percent of GDP to 0.5 percent of GDP by 1990. Similarly, external debt in relation to GDP would decline from the present level of above 48 percent to less than 42 percent by 1990, and the debt service ratio would, after peaking at nearly 36 percent in 1987, decline to slightly more than 20 percent by 1990.

Table 5. Zimbabwe: Medium-Term Scenarios, 1985-90

(In millions of SDRs)

	Prel.	Without Further Policy Measures					With Suggested Policy Measures				
	1985	1986	1987	1988	1989	1990	1986	1987	1988	1989	1990
Balance of payments											
Exports	1,116	1,135	1,220	1,325	1,435	1,555	1,135	1,255	1,400	1,565	1,745
Imports	-906	-850	-900	-965	-1,050	-1,145	-900	-1,010	-1,145	-1,285	-1,425
Current account	-154	-65	-85	-65	-50	-40	-120	-185	-220	-220	-200
As percent of GDP	(-3.2)	(-1.5)	(-1.8)	(-1.3)	(-1.0)	(-0.7)	(-2.8)	(-4.3)	(-4.5)	(-4.2)	(-3.5)
Capital account (net)	141	90	50	100	160	190	90	115	180	295	305
Exceptional financing	--	--	--	--	--	--	-100	-155	-55	--	--
Gross external reserves	201	185	75	50	125	260	235	235	190	235	325
In months of imports	(2.6)	(2.6)	(1.0)	(0.6)	(1.4)	(2.7)	(3.1)	(2.8)	(2.0)	(2.2)	(2.7)
Debt profile											
External debt outstanding	2,149	2,115	2,100	2,140	2,230	2,340	2,220	2,400	2,550	2,745	2,925
As percent of GDP	(48.2)	(48.7)	(45.3)	(42.7)	(42.1)	(41.6)	(51.1)	(54.8)	(52.9)	(52.6)	(51.9)
Debt service	342	345	400	390	335	325	350	415	425	395	410
Of which: to IMF	(40)	(45)	(80)	(60)	(30)	(15)	(45)	(80)	(60)	(30)	(15)
Interest payments	153	155	160	155	145	140	160	175	190	190	185
Amortization payments	189	190	240	235	190	185	190	240	235	205	225
Debt service ratio (percent of exports of goods and nonfactor services)	(27.6)	(31.0)	(35.6)	(30.7)	(23.3)	(20.1)	(31.4)	(36.0)	(31.4)	(24.6)	(22.6)
Memorandum items:						(Change in percent)					
Real GDP	6.0	3.0	3.0	3.0	3.0	3.0	3.0	5.0	5.0	5.0	5.0
Export unit values 1/	-8.6	-2.2	4.3	5.3	5.3	5.3	-2.2	4.3	5.3	5.3	5.3
Import unit values 1/	-0.3	-7.8	3.8	4.8	4.8	4.8	-7.8	3.8	4.8	4.8	4.8
Export volume	5.0	4.0	3.0	3.0	3.0	3.0	4.0	6.0	6.0	6.0	6.0
Import volume	-6.3	2.0	2.0	2.0	4.0	4.0	8.0	8.0	8.0	7.0	6.0
GDP-deflator	10.0	12.0	9.0	7.0	5.0	5.0	12.0	9.0	7.0	5.0	5.0

Source: Information provided by the Zimbabwean authorities; and staff estimates.
1/ In SDR terms.

In the second scenario, it is assumed that the import constraint is significantly eased. This is made possible by the authorities implementing policies such as a reduction in the budget deficit equivalent to two percentage points of GDP during fiscal years 1986/87-1987/88 and further reductions thereafter; a significant liberalization of the import system, that is, an extension of the open general licensing system to all raw materials, intermediate inputs, and capital goods not produced in Zimbabwe; and a further depreciation of the real effective exchange rate of about 15 percent over the next two years and maintenance of the rate thereafter. Such policies would be conducive to an economic climate that would attract new foreign investment, as well as provide a strong case for additional foreign aid and for exceptional balance of payments assistance by international organizations. If the latter could become available in the second half of 1986, it could result in a significant increase in import volume for that year. Although this would not lead to higher real rates of growth for GDP and exports in 1986 than those indicated in the first scenario, it would set the stage for real rates of growth of about 5 percent a year for GDP and 6 percent a year for exports over the period 1987-90, and external reserves could be maintained at a comfortable level over the period (not falling below two months of imports). It is assumed that, following the sharp rundown of imports over the past three years, the elasticity of imports to GDP would be significantly higher than unity, and also higher than the export volume growth, particularly in the beginning of the period. Because of this, the current account deficit in relation to GDP would be somewhat higher (3.5-4.0 percent) than the 3 percent recorded in the past two years, and external debt in relation to GDP would rise somewhat from the present level, reaching a peak of 55 percent in 1987, before declining to about 52 percent by 1990. The debt service ratio would, on the other hand, fall off dramatically after reaching a peak of 36 percent in 1987, to about 22 percent by 1990.

In reviewing these two scenarios with the Zimbabwean authorities, the staff representatives stressed that the attainment of a high rate of growth required an acceleration in the rate of investment, which is incompatible with substantial dissavings by the Government. In addition, it required the easing of the import constraint, which would be facilitated by the partial import liberalization. The partial liberalization would reduce some of the distortions and inefficiencies inherent in the current system of import allocations. It would also constitute an important step toward a subsequently more comprehensive liberalization that could address the issue of reducing protection in the domestic market without endangering potentially efficient domestic industries. They stressed that, while import liberalization and the associated flexible exchange rate policy could make a major contribution to increased profitability and larger investment, additional measures, such as greater flexibility in the administration of price controls and incentives for both domestic and foreign investment, will be needed.

The Zimbabwean representatives replied that, because of the slow rate of growth and the continuing balance of payments pressures implied by the first scenario, it should not be considered a feasible option. They pointed out that the second scenario was closer to the targets indicated in the development plan. They cautioned, however, that the policies and pace of adjustment implied in the second scenario would severely tax the implementation machinery of the Government and perhaps strain the sociopolitical fabric of the country.

IV. Staff Appraisal

The economic situation in Zimbabwe remains a major source of concern. The economic recovery has already begun to slow down; investment in the productive sectors has not expanded significantly despite some increase in capacity utilization and profitability; unemployment has risen; debt service payments have increased markedly and have been absorbing a sharply higher proportion of current receipts; and the value of exports in terms of SDRs has continued to stagnate.

The publication of the Five-Year Development Plan, 1986-90, establishing the broad macroeconomic framework with targets and associated policies for the medium term, is a positive development. However, in order to have a greater impact and facilitate donor involvement, the authorities would need to speed up the identification and preparation of projects, publish the foreign investment guidelines, and accelerate the work of the commissions on parastatals and on the taxation system. Even more importantly, there is an urgent need to make major policy decisions in the financial and external policy areas if the plan is not to be divorced from reality from the start.

The budgetary situation, in particular, calls for major corrective measures. The deficits of both the Central Government and the limited public sector have risen sharply, with government dissavings increasing from less than 1 percent of GDP in 1982/83 (4.2 percent of GDP in 1984/85) to an estimated 4.8 percent in 1985/86. Larger outlays on security and social services, on wages and salaries, and on interest payments were the principal factors responsible for the deterioration of the budgetary situation. So far, the financing of the deficit has not had significant monetary implications because the Government has been able to use the blocked funds of nonresidents and the resources of the nonbank sector for this purpose. Nevertheless, the simultaneous use of substantial economic resources to expand government services and to cover parastatals' operating deficits pre-empted resources that might otherwise have been available for financing an increase in the capital stock. The staff estimates that, in order to make it possible to finance the increase in public, and especially private, sector investment envisaged in the plan, the Central Government would need to eliminate its dissavings and curtail its overall deficit to about 5 percent of GDP by 1987/88. In subsequent years, the Central Government would need to generate significant positive savings. In addition, measures should be taken to move most major parastatals to a breakeven position by 1987/88 and into significant surpluses by 1990.

The staff urges the authorities to take appropriate action through a combination of revenue-raising and expenditure control measures to reduce the Central Government's budgetary deficit and, through price increases and improvements in efficiency, to reduce the operating deficits of the parastatal enterprises.

The monetary authorities will need to curb monetary growth in order to achieve a decline in the rate of inflation. At the same time, the rapid rise in investment envisaged by the plan would require a major change in the composition of credit to the economy, away from the parastatals and in favor of the private sector, with no significant increase in credit to the Central Government. In addition, interest rates, which are currently negative in real terms, should be allowed to rise to reflect any tightening in the liquidity and financial situation.

The Government's use of price and income policies to achieve a more equitable distribution of income has had some success. In particular, increases in minimum wages have benefited many low-income urban and agricultural workers. However, delays in adjusting prices as well as cumbersome administrative procedures have resulted in a reduction in profit margins for many private firms, and, in the case of a number of parastatals, in increasing losses, and have adversely affected investment. Thus, steps should be taken to introduce more flexibility into the price control system by increasing the number of commodities not subject to ministerial or administrative approval and by reducing the administrative delays for the others. At the same time, it may be necessary to raise prices or tariffs of the products or services of a number of parastatals in addition to improving their management, in order to achieve an improvement in their financial operations. With respect to wages, there is need for a more flexible mechanism for establishing wage rates which would reflect greater differentiation among sectors and firms. This could be accomplished by moving toward a process of collective bargaining.

The surpluses recorded in the overall balance of payments during 1984-85 are not reassuring, since they were achieved mainly through a compression of imports by the use of quantitative restrictions, and the outlook for the balance of payments in 1986 and beyond is worrisome. The poor export performance and the resulting tight balance of payments situation remain a major constraint on investment and growth, and, unless there are significant policy changes, this constraint is likely to become even more severe in the coming years. The authorities have allowed the real effective exchange rate of the Zimbabwe dollar to depreciate gradually over the past two years. This policy should now be accelerated and accompanied by a liberalization of imports. Reduction of the budget deficit is also of primary importance in this context. In addition, the authorities should intensify their efforts to provide an economic climate that would attract new foreign investment and strengthen their case for additional foreign aid and for exceptional balance of payments assistance by international organizations.

Zimbabwe retains restrictions on payments and transfers for current international transactions in accordance with Article XIV, except that the 20 percent fee on sales of foreign exchange for purposes of holiday travel introduced in July 1984 constitutes a multiple currency practice subject to Fund approval under Article VIII. The staff does not propose the approval of this multiple currency practice. In January 1986, some of the restrictions were partially lifted. The staff welcomes these steps and urges the authorities to adopt measures that would facilitate the elimination of the remaining restrictions.

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

V. 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, 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 of Exchange Rate Policies").

2. As described in SM/86/--, 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 - Relations with the Fund
(At June 30, 1986)

(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

I. General Department

a. Quota: SDR 191 million

	Millions of SDRs	Percent of Quota
b. Total Fund holdings of Zimbabwe dollars	422.10	221.00
c. Fund credit	231.10	121.00
Credit tranches	74.55	39.03
Enlarged access resources	100.45	52.6
Compensatory financing facility (exports)	56.10	29.4
Buffer stock financing facility	--	--
d. Reserve tranche	--1/	--

III. Stand-By Arrangements and Special Facilities

	Date of Arrangement	Duration (Months)	Total Amount	Utiliza-tion	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 30,923.

ZIMBABWE - Relations with the Fund (concluded)

		Amount (SDR millions)	Percent of allocation
IV.	SDR Department		
	a. Net cumulative allocation	10.20	100.00
	b. Holdings	4.20	4.80
V.	Trust Fund Loans		
	a. Disbursed	--	
	Outstanding	--	
	b. SFF Subsidy Account payments	--	
VI.	Overdue Obligations to the Fund	None	

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, 1986 was Z$1 = US$0.5791.

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

The last Article IV consultation was conducted in 1985 (SM/85/238 and SM/85/234), and the following decision was adopted on September 18, 1985:

1. The Fund takes this decision relating to Zimbabwe's exchange measures subject to Article VIII, Section 2(a), in concluding the 1985 Article XIV consultation with Zimbabwe and in the light of the 1985 Article IV consultation with Zimbabwe conducted under Decision No. 5392-(77/63), adopted April 29, 1977 ("Surveillance over Exchange Rate Policies").

2. Zimbabwe retains restrictions on the making of payments and transfers for current international transactions as described in SM/83/234. 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 FY 1981, Zimbabwe has received eight 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 spares 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 have been 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 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 May 31, 1986)

	(In millions of U.S. dollars)			
	Commitment		Disbursed	
	IBRD	IDA	IBRD	IDA
Agriculture	13.1	37.7	1.5	12.7
Industry	120.6	15.0	108.9	15.0
Of which: program lending	(120.6)	(15.0)	(108.9)	(15.0)
Energy 1/	105.0	1.2	22.9	0.9
Transport	108.4	--	25.6	--
of which: program lending	(42.0)	(--)	(24.7)	(--)
Urban	43.0	--	--	--
Total	390.1	53.9	158.9	28.6
Of which: has been repaid	(--)	(--)	(--)	(--)

B. IFC investments (as of March 31, 1986)

	Commitment	Disbursed
Total	40.0	13.3

Sources: IBRD, and IFC

1/ *Does not include two fully disbursed loans to CAPCO totaling* US$87.7 million, of which US$85.3 million has been repaid.

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 1985 Government Finance Statistics Yearbook included data through 1983 for the budgetary Central Government and through 1982 for local governments, but no institutional tables. The mission was informed that the response to the latest GFS questionnaire would be sent soon to the Bureau of Statistics.

b. Monetary accounts

As requested by the authorities at the 1985 Annual Meetings, a technical assistance mission visited Zimbabwe during the period May 12-May 23, 1986. The compilation procedures underlying the production of the monetary survey data were reviewed, and sectorization discrepancies relating to the treatment of foreign sector aggregates and nonfinancial public enterprises' accounts were identified. It was agreed to revise the IFS reporting system to include a reclassification of these accounts. A staff change and a revision of the reporting system for financial institutions have resulted in delays in reporting data to the Fund. It is expected that the currentness of IFS reporting will be improved and that the present reporting lag of nine months will soon be considerably reduced.

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 June 1986 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 timely basis, although the currentness of the trade data could be improved.

ZIMBABWE - Basic Data (continued)

Central government finance (cont'd)	1981/82	1982/83	1983/84	1984/85	1985/86 Budget
	(In millions of Zimbabwe dollars)				
Overall deficit (-)	-339.7	-446.7	-579.4	-524.3	-807.8
Financing	339.7	446.7	579.4	524.3	807.8
External (net)	220.4	49.9	50.8	489.2	209.7
Domestic (net)	119.3	396.8	528.6	35.1	598.1
Deficit as percent of GDP	-7.1	-8.1	-9.1	-7.1	-9.6
Money and credit (end of period)	1981	1982	1983	1984	1985 Prov.
Foreign assets (net)	40.3	-36.9	-367.7	-43.1	37.0
Domestic credit	1,520.7	1,934.0	2,224.5	2,177.0	2,411.5
Claims on Government (net)	(332.9)	(594.2)	(544.8)	(497.9)	(401.4)
Claims on private sector	(1,187.8)	(1,339.8)	(1,679.7)	(1,679.1)	(2,010.1)
Money and quasi-money	1,399.3	1,692.8	1,692.5	1,962.9	2,275.8
Money	(678.7)	(771.0)	(740.4)	(871.9)	(972.4)
Quasi-money	(720.6)	(921.8)	(952.1)	(1,081.0)	(1,303.4)
Other items (net)	161.7	204.3	164.3	171.0	172.7
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	1,229	1,194	1,087	1,163	1,116
Imports, f.o.b.	-1,300	-1,333	1,006	970	-906
Trade balance	-71	-139	81	193	210
Services and private transfers (net)	-545	-547	-553	-359	-364
Current account balance	-616	-686	-472	-166	-154
Official transfers (net)	75	41	51	94	54
Capital account (net)	274	471	114	142	87
Government	119	118	23	67	42
Public enterprises	153	278	75	59	51
Other	2	75	16	16	-6
SDR allocation and net errors and omissions	92	119	14	25	94
Overall surplus or deficit (-)	-175	-55	-293	95	81
Current account balance as percent of GDP	-11.3	-11.1	-8.5	-3.1	-3.2

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ZIMBABWE - Statistical Issues (concluded)

		Status of IFS Data	Latest Data in June 1986 IFS
Real Sector	-	National Accounts	1983
	-	Consumer Prices	March 1986
	-	Production	August 1985
	-	Employment	n.a.
	-	Earnings	n.a.
Government Finance	-	Deficit/Surplus	1983
	-	Financing	1983
	-	Debt	1982
Monetary Accounts	-	Monetary Authorities	July 1985
	-	Deposit Money Banks	Q2 1985
	-	Other Financial Institutions	Q1 1985
Interest Rates	-	Discount Rate	Q1 1985
	-	Bank Deposit Rate	Q1 1985
	-	Bond Yield	Q1 1985
External Sector	-	Merchandise Trade: Values	December 1984
		Prices	December 1984
	-	Balance of Payments	Q4 1984
	-	International Reserves	April 1986
	-	Exchange Rates	April 1986

ZIMBABWE - Basic Data

Area, population, and GDP per capita

Area	390,000 square kilometers
Population: Total (1985 est.)	8.5 million
Growth rate	3 percent
GDP per capita (1985 est.)	SDR 519

	1981	1982	1983	1984	1985
GDP (at current prices)					
Total (millions of Zimbabwe dollars)	4,433	5,149	5,981	6,822	7,954
Agriculture (percent of total)	15	13	10	12	13
Mining (percent of total)	6	4	5	5	5
Manufacturing (percent of total)	23	22	23	23	23
Annual real rate of growth (percent)	15.7	-0.6	-3.4	1.1	6.0
Investment as percent of GDP (at current market prices)	23	21	13	15	16
Prices (in percent change)					
GDP deflator	11.1	13.8	14.1	13.0	11.6
Cost of living index	13.9	12.7	20.8	18.3	10.5

Central government finance	1981/82	1982/83	1983/84	1984/85	1985/86 Budget
	(In millions of Zimbabwe dollars)				
Total revenue and grants	1,367.9	1,815.8	2,032.6	2,320.4	2,540.4
Total revenue	1,333.7	1,763.1	1,943.6	2,131.7	2,410.0
Tax revenue	(1,207.6)	(1,579.5)	(1,743.5)	(1,902.1)	(2,151.5)
Nontax revenue	(126.2)	(183.6)	(200.1)	(229.6)	(258.5)
Grants	34.2	52.7	89.0	188.7	130.4
Total expenditure and net lending	1,707.6	2,262,5	2,612.0	2,844.7	3,348.2
Current	1,435.5	1,808.9	2,216.6	2,440.3	2,804.0
Capital	158.2	218.3	219.7	203.1	344.3
Net lending	113.8	235.3	175.7	201.3	199.9

ZIMBABWE - Basic Data (continued)

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ZIMBABWE - Basic Data (concluded)

	1981	1982	1983	1984	1985 Prov.
	(In millions of SDRs)				
Gross official foreign reserves (end of period)	231	203	179	159	201
In months of imports	2.1	1.8	2.1	2.0	2.6
External public debt					
Debt outstanding (end of period)	1,399	2,031	2,359	2,230	2,149
Debt service as percent of exports of goods and nonfactor services					
Excluding the Fund	8.8	20.4	25.5	26.0	24.3
Including the Fund	8.8	20.6	26.4	27.6	27.6