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August 20, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zimbabwe - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Zimbabwe, which has been tentatively scheduled for discussion on Wednesday, September 18, 1985. A draft decision appears on page 22.

Mr. Bornemann (ext. 6962) or Mr. C. V. Callender (ext. 8750) are 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 1985 Article IV Consultation

Prepared by the Staff Representatives for the 1985 Article IV Consultation with Zimbabwe

Approved by A.D. Ouattara and S. Kanesa-Thasan

August 19, 1985

I. Introduction

A staff mission consisting of Messrs. E.L. Bornemann (head-AFR), C.V. Callender (AFR), E.S. Kreis (FAD), D.T.S. Ballali (AFR), L.A. Cardemil (ETR), and Mrs. B.J. Monsma (secretary-EXR) visited Harare during the period May 29-June 15, 1985 to conduct the 1985 Article IV consultation discussions. The Zimbabwean representatives included the Minister of Finance, Dr. Chidzero; the Governor of the Reserve Bank, Dr. Moyana; the Secretary of the Ministry of Finance, Economic Planning and Development, Mr. Mushayakarara; and other senior officials of government ministries and agencies.

On March 23, 1983 the Executive Board approved an 18-month stand-by arrangement with Zimbabwe, in an amount of SDR 300 million, equivalent to 200 percent of Zimbabwe's quota at the time of approval. Zimbabwe purchased SDR 175 million under the arrangement but could not purchase the remainder because of substantial deviations from the program's fiscal targets and because of the intensification of exchange restrictions on current payments. The stand-by arrangement expired in September 1984.

Zimbabwe became a member of the Fund on September 29, 1980 and avails itself of the transitional arrangements under Article XIV. Summaries of Zimbabwe's relations with the Fund and the World Bank Group are attached.

II. Background

1. Developments in 1980-83

After a period of rapid growth in 1980-81 following the achievement of independence, the performance of the Zimbabwean economy deteriorated during 1982-83. GDP in real terms increased by 12 percent annually in 1980-81, but declined by nearly 2 percent a year in 1982-83. During 1982-83, production in the manufacturing, agricultural, and distribution sectors declined by 3 percent, 5 percent, and 8 percent, respectively.

The inflation rate, measured by the consumer price index (the average of the higher- and lower-income groups), rose from 7 percent in 1980 to 20 percent in 1983. The overall balance of payments changed from a small surplus of SDR 15 million in 1980 to a large deficit of SDR 287 million in 1983 (Chart 1 and Table 1).

A number of factors contributed to the deterioration of the economy. First, consecutive droughts reduced food grain production for each of the 1982/83 and 1983/84 growing seasons to less than half of the 2.0 million tons produced in 1980/81 and necessitated emergency grain imports of about SDR 29 million. The poor grain harvests, together with the depletion of livestock, severely affected the rural areas, which sustain nearly 80 percent of the nation's population, and required the Government to introduce drought relief measures. Second, the recession in the world economy adversely affected Zimbabwe's exports, particularly in the mining and manufacturing sectors. Third, the decline in gross domestic investment as a proportion of GDP from 28 percent in 1981 to 22 percent in 1983, together with the emigration of skilled personnel, had a constraining effect on economic activity and hampered improvement in labor productivity.

The deterioration also reflected the authorities' expansionary fiscal and monetary policies as well as delay in adjusting the exchange rate. Public sector activities expanded rapidly during 1980/81-1983/84. The central government deficit and the deficit of the limited public sector rose from 8 percent of GDP in 1980/81 (including grants) to 11 percent and 12 percent, respectively, in 1983/84. 1/ Over the same period, central government expenditure plus net lending increased from 36 percent to 49 percent of GDP, while revenue plus grants rose from 28 percent to 38 percent, after the implementation of a number of revenue measures. The rapid expansion in expenditure reflected mainly the considerable increase in the wage bill arising from the introduction of a system of minimum wages and increased outlays on defense, social services, transfers to parastatals, and interest.

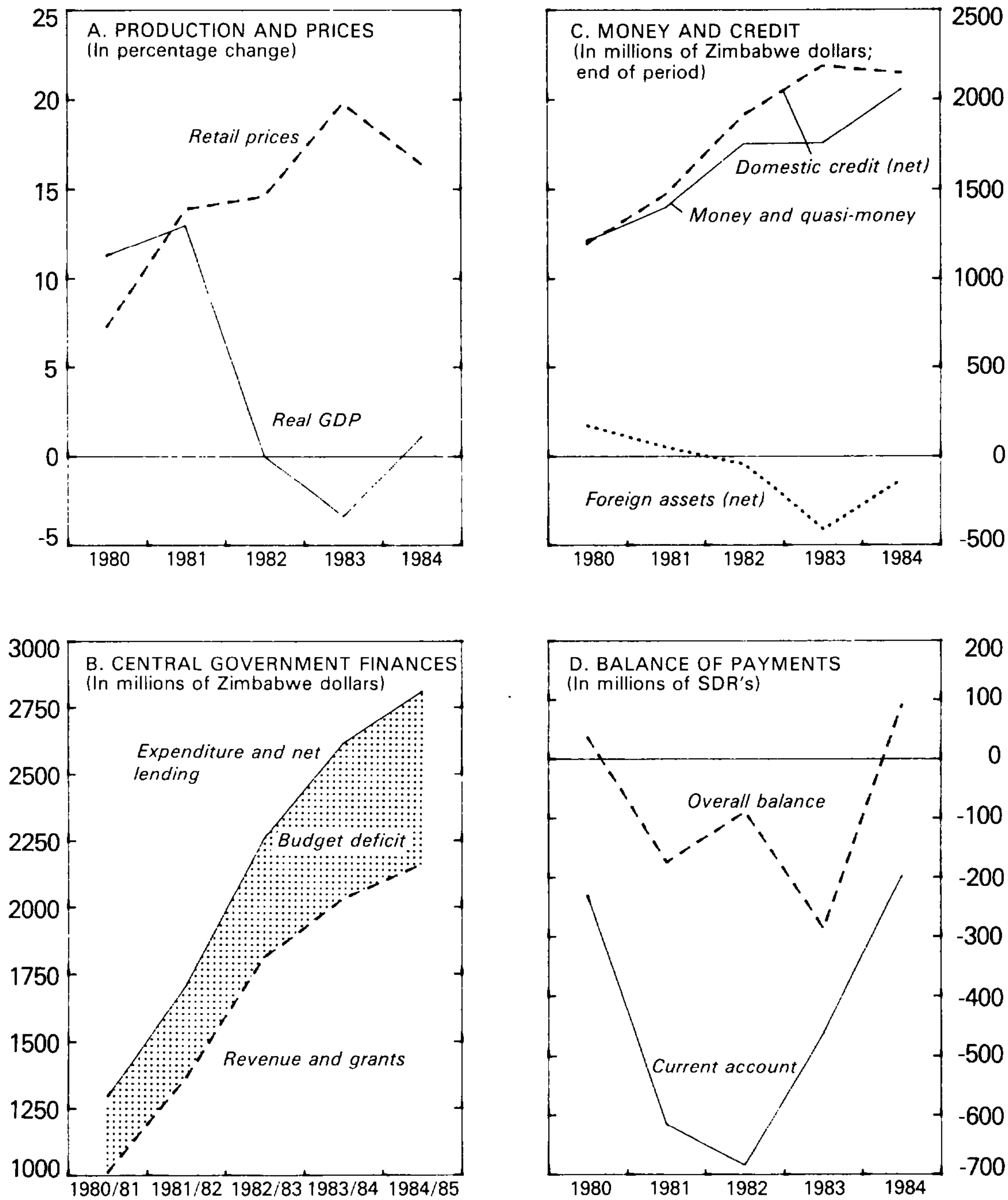
As part of the financial program supported by the stand-by arrangement approved in March 1983, the Government took several measures to correct the domestic and external imbalances in the economy. In December 1982 and January 1983, the Zimbabwe dollar was devalued by a cumulative total of 25 percent in local currency terms. During 1982-83, a policy of wage restraint was implemented, and there were substantial increases in administered consumer prices for food and fertilizer and in tariffs on rail transportation and electricity. However, these measures were not sufficient to reduce demand to appropriate levels. Despite increases in administered consumer prices, the major parastatals incurred substantial losses which required government transfers and which, in turn, aggravated

1/ The limited public sector includes the Central Government and the public enterprises which require government subsidies.

CHART 1

ZIMBABWE

SELECTED ECONOMIC INDICATORS



Source: Data provided by the Zimbabwe authorities.

Table 1. Zimbabwe: Balance of Payments, 1981-85

(In millions of SDRs)

	1981	1982	1983	Prel. 1984	Proj. 1985
Current account	-616	-685	-462	-198	-160
Trade balance, f.o.b.	-71	-139	81	192	239
Exports	(1,229)	(1,194)	(1,087)	(1,163)	(1,209)
Imports	(-1,300)	(-1,333)	(-1,006)	(-971)	(-970)
Nonfactor services	-343	-234	-255	-209	-223
Freight and insurance	(-137)	(-143)	(-170)	(-141)	(-150)
Other transportation	(-26)	(32)	(19)	(23)	(22)
Travel	(-106)	(-70)	(-44)	(-41)	(-40)
Other	(-74)	(-53)	(-60)	(-50)	(-55)
Investment income	-102	-188	-191	-119	-131
Interest	(-44)	(-100)	(-134)	(-139)	(-150)
Other	(-58)	(-88)	(-57)	(20)	(19)
Private transfers	-100	-124	-96	-63	-45
Capital account	349	523	180	237	115
Official transfers	75	57	57	92	45
Medium- and long-term	79	333	299	93	70
Government	(19)	(65)	(178)	(63))	
Public enterprises	(69)	(215)	(93)	(39))	(70)
Private sector	(-9)	(53)	(28)	(-9)	(--)
Short-term capital	194	133	-176	52	--
Government	(100)	(61)	(-152)	(6)	(...)
Public enterprises	(84)	(51)	(-22)	(48)	(...)
Private sector	(4)	(21)	(-2)	(-2)	(...)
Other 1/	92	73	-5	51	--
Overall balance	-175	-89	-287	90	-45
Financing	175	89	287	-90	45
Gross reserves (increase -)	-11	28	24	20	-10
IMF	37	--	154	70	-21
Sale of securities 2/	--	--	--	43	66
Other short-term liabilities	149	61	109	-223	10
Memorandum items:					
Average exchange rate (SDR per Zimbabwe dollar)	1.2312	1.1961	0.9256	0.7841	...
Net foreign assets (year end)	44.2	-44.9	-331.4	-198.1 3/	-177.1 3/
Current account deficit as percent of GDP	11.3	11.1	8.4	3.8	3.4

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

1/ Includes errors and omissions and SDR allocations in 1981.
2/ Sale of foreign securities acquired by the central bank from domestic residents.
3/ Excluding the unsold foreign securities acquired by the central bank.

the Government's budgetary position. As a result, the Government's deficit increased, and the rate of inflation accelerated. On the external front, the real effective exchange rate was not sustained, thereby reducing the international competitiveness of Zimbabwe's exports. This, together with the cumulative deterioration in the terms of trade, exacerbated the difficult balance of payments situation. Consequently, in the face of increasing balance of payments pressures and sharply reduced net foreign assets, in March 1984 the Government intensified exchange restrictions on current payments and further tightened import allocations. In addition, in February 1984, the Government submitted to Parliament supplementary expenditure estimates which resulted in substantial deviations from the program's targets. Following these developments, no further purchases could be made under the arrangement. 1/

2. Developments in 1984

The Zimbabwean economy began to recover during the second half of 1984, reflecting partly the end of the drought and the improved performance of exports in response to the recovery in the world economy. Real GDP grew by 1 percent in 1984, due mainly to increases in output in the agricultural and mining sectors. Agricultural output, reflecting mainly higher production of maize, cotton, and tobacco, rose by nearly 13 percent, while mineral production increased by 4 percent. On the other hand, output in both the manufacturing and distribution sectors, constrained partly by lower foreign exchange allocations during the first half of the year, fell by 5 percent. The rate of inflation, as measured by the average of the higher- and lower-income consumer price indices, declined from 20 percent in 1983 to 16 percent in 1984. At the same time, investment as a proportion of GDP continued to decline to 21 percent in 1984, reflecting reduced domestic savings and a lower level of capital inflows. The consumption/GDP ratio, which had averaged 86 percent in 1980-81, rose to 91 percent in 1983.

The budgetary situation improved in 1984/85 when the central government deficit as a percentage of GDP fell from 10.9 percent in 1983/84 to 9.9 percent in 1984/85. Government revenue and grants increased by 11 percent due mainly to the sharp increase in foreign grants, and were Z$99 million higher than the original estimates, while total expenditure and net lending increased by 10 percent, exceeding the original budget estimate by Z$70 million (Table 2). The improved revenue performance reflected the economic recovery, improved tax collections, and new tax measures, such as an increase in gasoline taxes, a holiday tax, and a drought relief surcharge on income tax. The bulk of the increase in expenditure went to defense, social services (mainly education and health), transfers to parastatals, and the rapidly growing interest bill. As a

1/ A detailed discussion of these developments is contained in SM/84/198 (8/15/1984).

Table 2. Zimbabwe: Summary of Operations of the Limited Public Sector, 1/ 1980/81-1984/85

	1980/81	1981/82	1982/83	1983/84 Prel. actual	1984/85 Budget estimate	1984/85 Estimated outturn
	(In millions of Zimbabwe dollars)					
Central government revenue and grants	1,012.3	1,367.9	1,815.8	2,032.6	2,163.3	2,261.9
Total revenue	950.6	1,333.7	1,763.1	1,943.6	2,100.0	2,114.9
Tax revenue	777.7	1,207.6	1,579.5	1,743.5	1,860.8	1,894.0
Nontax revenue	172.9	126.2	183.6	200.1	239.8	220.1
Grants 2/	61.7	34.2	52.7	89.0	63.3	147.0
Central government expenditure and net lending	1,298.1	1,707.6	2,262.5	2,618.2	2,810.7	2,878.9
Current expenditure	1,142.4	1,435.5	1,808.9	2,232.7	2,323.3	2,454.0
Capital expenditure	107.3	158.2	218.3	208.0	241.1	200.0
Net lending	48.5	113.8	235.3	177.5 3/	246.3	224.9
Central government deficit	-285.8	-339.7	-446.7	-585.6	-647.4	-617.0
Plus parastatal losses	-74.1	-148.5	-278.7	-261.4	...	-300.4
Less government transfers to parastatals	66.9	83.8	102.5	198.5	...	277.5
Limited nonfinancial public sector deficit	-293.0	-404.4	-622.9	-648.5	...	-639.9
	(As percent of GDP)					
Memorandum items:						
Total revenue and grants	27.8	31.6	37.5	37.7	34.8	36.3
Total revenue	26.2	30.8	36.4	36.1	33.8	33.9
Tax revenue	21.4	27.9	32.6	32.4	29.9	30.4
Nontax revenue	4.8	2.9	3.8	3.7	3.9	3.5
Grants	1.6	0.8	1.1	1.6	1.0	2.4
Total expenditure and net lending	35.7	39.5	46.7	48.6	45.2	46.2
Current	31.4	33.2	37.3	41.4	37.3	39.4
Capital and net lending	4.3	6.3	9.4	7.2	7.9	6.8
Central government deficit	-7.9	-7.9	-9.2	-10.9	-10.4	-9.9
Parastatal losses	-2.1	-3.4	-5.8	-4.8	...	-4.8
Central govt. transfers to parastatals	1.9	1.9	2.1	3.7	...	4.4
Limited nonfinancial public sector deficit	-8.1	-9.3	-12.9	-12.0	...	-10.2

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 estimates for development grants include only the expected transfers to the Consolidated Revenue Fund and not the actual amount of grants receipts entered in the National Development Fund. The outturn figures include all grants received, although only a part of them may have been spent during the fiscal year.
3/ Excludes IMF quota subscription.

result, the central government deficit increased from Z$586 million in 1983/84 to an estimated Z$617 million in 1984/85. Despite the continuing large losses of the major parastatals, particularly the agricultural marketing boards, the railways, the airlines, and the steel company, the limited public sector deficit fell slightly from Z$649 million in 1983/84 (12 percent of GDP) to an estimated Z$640 million in 1984/85 (10.2 percent of GDP). The decline in the limited public sector deficit reflected a catchup in transfers to the parastatals, particularly to the Zimbabwe Iron and Steel Company (ZISCO), which experienced production problems and required a larger amount of subsidy.

The large deficit of the Central Government deficit did not lead to an expansion in domestic bank credit, as the Government utilized the blocked funds of nonresidents which were converted into government securities and increased its borrowing from nonbank institutional lenders, thereby reducing its outstanding net indebtedness to the banking system by about Z$225 million in the second half of 1984. As credit to the private sector (including parastatals) remained unchanged from the end-December 1983 level, total domestic credit declined by 2 percent in 1984. On the other hand, broad money rose by 17 percent, reflecting the sharp increase in net foreign assets arising mainly from the Government's acquisition of foreign securities held by residents (Table 3). 1/

Developments in the external sector during 1984 were strongly affected by the significant intensification of exchange restrictions and a further tightening of import allocations. As the pressures on the balance of payments intensified, in March 1984 the Government suspended transfers of dividends, profits, rents, income remittances from blocked funds, and income of nonresident equity holdings. 2/ In addition, the Reserve Bank acquired, in return for payments in local currency, external securities held by nominee companies on behalf of residents and former residents of Zimbabwe.

The new exchange restrictions contributed to a reduction in the deficit on services and private transfers of about SDR 150 million, which, together with an increase in the trade surplus, led to a sharp reduction in the current account deficit. Exports increased by 7 percent in 1984, mainly on account of higher manufacturing exports which benefitted from the depreciation of the Zimbabwe dollar during the second half of the year, and the foreign exchange allocations from the Export Revolving Fund, which had been established in 1983 with the aid of a World Bank export promotion loan to provide foreign exchange for imported inputs for manufacturing exports. On the other hand, reflecting the reduction in other

1/ This acquisition of foreign securities is not related to the conversion of blocked funds into government securities.

2/ For a detailed description of these restrictions, see SM/85/234, Section VI.

Table 3. Zimbabwe: Monetary Survey, December 1982-April 1985

(In millions of Zimbabwe dollars)

	1982	1983				1984				1985	
	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.	March	April
Foreign assets (net)	-44.3	-105.1	-257.4	-319.9	-412.3	-376.2	-464.5	-288.2	-138.9	-129.0	-137.9
Reserve Bank	-51.9	-116.1	-257.0	-338.4	-413.5	-364.8	-449.3	-266.3	-118.0	-96.7	-107.4
Deposit money banks	7.6	11.0	-0.4	18.5	1.2	-11.4	-15.2	-21.9	-20.9	-32.3	-30.5
Domestic credit (net)	1,914.8	1,893.6	2,029.3	2,115.3	2,188.7	2,134.1	2,288.1	2,303.4	2,145.9	1,959.3	1,970.1
Claims on Government (net)	557.9	518.7	487.1	439.1	507.1	547.8	691.4	564.6	466.8	441.1	431.1
Claims on public enterprises	466.0	469.2	565.0	721.5	750.8	618.7	561.3	672.3	634.6	534.8	504.9
Claims on private sector	890.9	905.7	977.2	954.7	930.8	967.6	1,035.4	1,044.5	1,044.5	983.4	1,034.1
Money (M_1)	804.4	743.9	765.4	759.3	769.9	719.6	801.1	888.4	945.6	811.6	832.8
Currency	237.5	236.7	224.3	226.2	227.4	222.5	239.3	259.7	258.8	250.3	249.0
Demand deposits	566.9	507.2	541.1	533.1	542.5	497.1	561.8	628.7	686.8	561.3	583.8
Quasi-money	948.8	972.9	982.9	991.3	989.7	1,068.0	1,071.7	1,211.4	1,109.6	1,124.3	1,081.5
Money plus quasi-money(M_2)	1,753.2	1,716.8	1,748.3	1,750.6	1,757.6	1,787.6	1,872.8	2,099.8	2,055.2	1,935.9	1,914.3
Other items (net)	117.3	71.7	23.6	44.8	18.8	-26.7	-49.2	-84.6	-48.2	-105.6	-82.1

Sources: Reserve Bank of Zimbabwe; Quarterly Economic and Statistical Bulletins, 1983 and 1984; and data provided by the Zimbabwean authorities.

import allocations, total imports continued to fall in both nominal and real terms. Medium- and long- term capital inflows, which had fallen substantially in 1983, continued to decline in 1984; however, this decline was more than compensated for by short-term borrowing by the public sector. As a result of these developments, there was a shift in the overall balance of payments from a deficit of SDR 290 million in 1983 to a surplus of SDR 90 million in 1984 (Table 1).

The Zimbabwe dollar was periodically depreciated during 1984 against the trade-weighted basket adopted in December 1982. During 1984, the real effective exchange rate depreciated by about 4.3 percent, partially reversing the 10.5 percent appreciation that occurred in 1983 after the last step devaluation early in that year. During 1985, the policy of gradual depreciation has been continued, and, as of end-May of this year, the real effective exchange rate depreciated further by an estimated 5 percent (Chart 2).

III. Report on the Discussions

Despite the economic recovery and the achievement of a balance of payments surplus in 1984, the immediate- and medium-term economic outlook for Zimbabwe remains difficult. Import allocations, which have been halved in SDR terms since 1982 and have become a major constraint to the expansion of productive economic activity, will continue to be tight and will constrain future economic growth. Moreover, in the staff's view, the large public sector deficits will not be sustainable and are likely to generate domestic inflation and further pressures on the balance of payments. Therefore, the consultation discussions focused on the prospects and policies for 1985 and the medium term, particularly in the areas of output and employment, pricing and income policies, fiscal and monetary and credit policies, and the external sector, with a view to eliminating the existing imbalances and setting the stage for sustainable growth.

1. Production prospects and policies

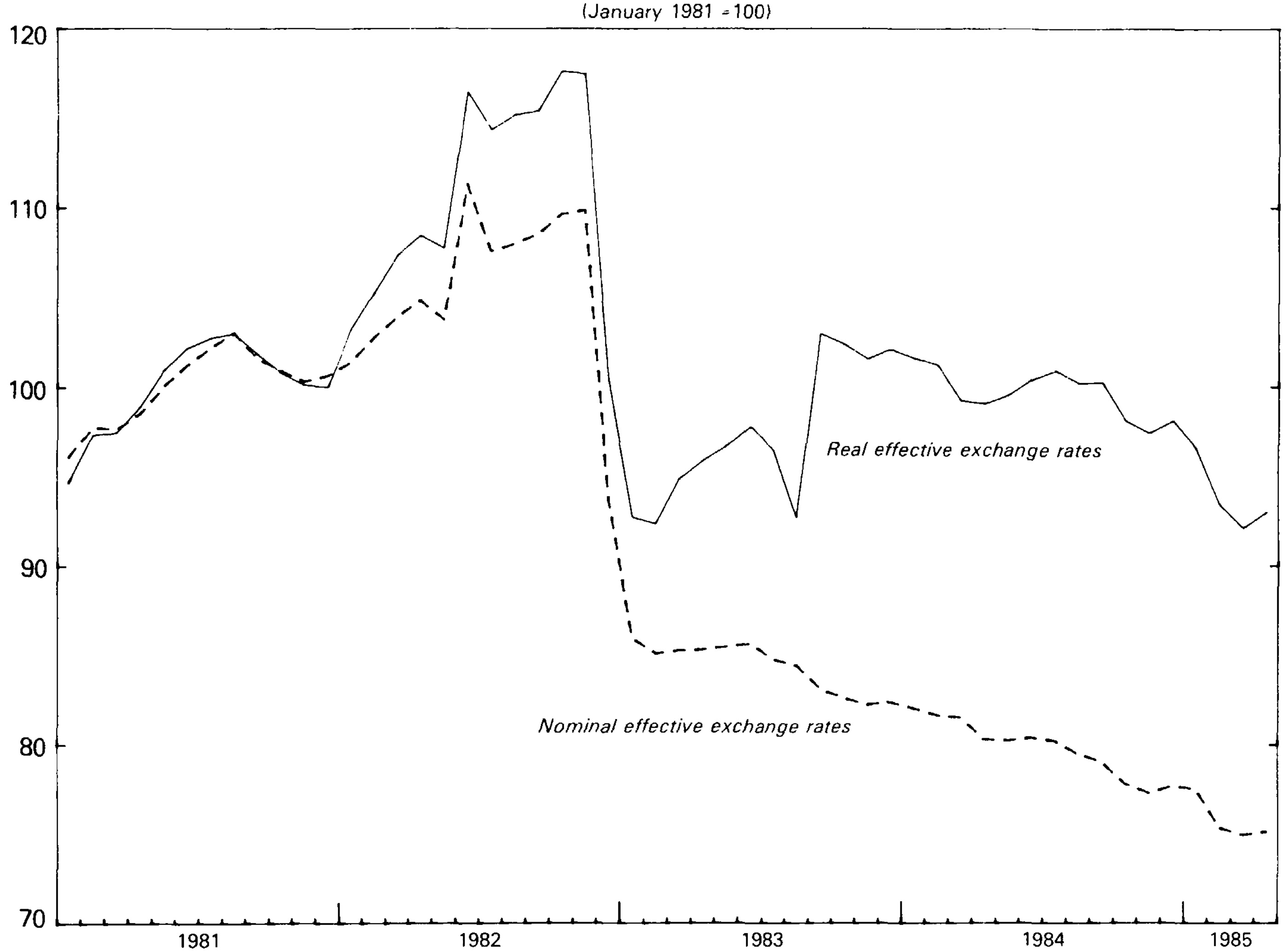
The Zimbabwean representatives said that the preliminary indications are that the economic recovery, which began in 1984, will strengthen in 1985. Real GDP was forecast to grow by 5 percent as a result of higher output in the agricultural, manufacturing, and mining sectors. The drought was broken in the 1984/85 growing season, yielding a bumper crop of maize of nearly double the domestic requirements for 1985. Purchases of maize by the Grain Marketing Board (GMB) were estimated at about 2 million tons, compared with an estimated domestic demand of one million tons and purchases by the GMB of less than one million tons during the previous year. Large increases in other food grains--sorghum and wheat--were also forecast; oil seed production--cotton, sunflowers, and groundnuts--were expected to increase by about 20 percent, and output of tobacco and coffee were expected to continue to expand.

CHART 2

ZIMBABWE

REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, JAN. 1981-APR. 85

(January 1981 = 100)



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

The Zimbabwean representatives said that while improved weather conditions were a major reason for the recovery in the agricultural sector, other contributing factors were a 29 percent increase in the price of maize to Z$180 per ton (announced before the planting season) and the provision of better credit facilities and a large supply of fertilizers to small-scale and commercial farmers. For the 1985/86 crop year, producer price increases for the major agricultural crops with the exception of maize and tobacco had already been announced; they ranged between 14 percent for wheat and groundnuts to 21 percent for soyabeans. Changes in producer prices would be used to achieve a careful balance among agricultural crops. Because of the difficulty in finding profitable markets for large amounts of surplus maize, incentives for maize production would need to be constrained in order to avoid overproduction, while higher production of cotton, soyabeans, and groundnuts would be encouraged. Beef production had been adversely affected by the drought and the lower effective prices to farmers who had increased their offtake of cattle in response to the drought conditions. Moreover, the outbreak of foot-and-mouth disease had prevented exports to the EEC market in 1984 and 1985. Alternative export markets for beef had been found, but prices were much lower than in the EEC markets. However, the disease had been brought under control, and exports to the EEC were expected to be resumed soon.

The Zimbabwean representatives said that although growth in the industrial sector had been constrained by the shortage of foreign exchange to purchase imported inputs of raw materials and spare parts, they expected a resurgence in activity over the medium term. The recent firming of mineral prices had enabled most companies to improve their profitability, repay their outstanding indebtedness, and begin installation of new plants and machinery. The Export Revolving Fund had helped to ease the foreign exchange constraint for the industrial sector while the depreciation of the Zimbabwe dollar had helped to improve that sector's competitiveness in international markets. Capacity utilization, which is currently about 60 percent, was expected to increase in response to the resurgence in domestic demand for manufactured goods and the expansion in external demand following the economic recovery in the industrial countries. The prospects for gold and coal appeared to be reasonably bright, but developments in iron and steel would depend on improvements in the operations of ZISCO and in the quality of its products. The possibility of developing industrial minerals, particularly ukanite, was currently being assessed. In addition to mining by-products, the Zimbabwean representatives felt there was scope for continuing expansion of light manufactures (e.g., textiles, furniture, footwear, and food products), heavy manufactures (e.g., machinery and railway equipment), and other intermediate and capital goods. Export markets for these products were being developed through promotional activities such as trade fairs, and the establishment of institutional arrangements for marketing and distributing a small quantity of exports from several companies was under consideration. World Bank assistance was being sought in establishing such arrangements.

The Zimbabwean authorities said that a new Five-Year Development Plan (1985/86-1989/90) was being formulated to follow the Transitional National Development Plan (1982/83-1984/85). The Plan was to come into effect on July 1, 1985, but was not expected to be published until early 1986. In the meantime, a capital expenditure budget for 1985/86 would be prepared and submitted for the first year of the new Plan. With respect to the National Transitional Plan, the Zimbabwean representatives said that the growth and employment targets were not achieved while expenditure on social services--education and health--had exceeded the target. The main reasons for the divergence between targets and achievements were the persistent drought, the world economic recession, and certain commitments to expand social facilities for the majority of the population.

2. Employment, wages, and pricing policies

The Zimbabwean representatives said that the Government had continued its efforts to increase employment and reduce the disparities in income. Although the land resettlement scheme had not reached the proportions originally anticipated, it was felt that it had been relatively successful, both in terms of employment creation and increased productivity. However, the drought and increasing mechanization in the agricultural sector had reduced employment opportunities in that sector. Also, despite the requirement that companies obtain prior approval before laying off workers, the introduction of the minimum wage had led to some retrenchment of employment in the private sector. The Zimbabwean representatives said that they expected employment in the private sector to increase with the growth of commercial and small-scale farming and with the expansion of the industrial sector. At the same time, because of budgetary constraints, employment in the public sector would be frozen. The problem of urban unemployment was increasing but had not yet become serious. They said that efforts were being made to provide training in technical and vocational skills in order to relieve the shortages caused by the departure of skilled personnel shortly after independence.

After implementing a policy of wage restraint for the past three years, in May 1985 the Government announced wage increases of up to 15 percent for lower-paid workers. The Zimbabwean representatives argued that in view of the decline in real incomes in recent years and the need to boost morale and provide incentives for production, it had been necessary to arrest the decline in real incomes. Moreover, the increase was implemented after consultation with representatives of business and labor unions, and it was felt that the economy could absorb it without much difficulty or major adverse effect on prices. The staff representatives observed that these wage increases could exacerbate an already difficult budgetary situation and impair the competitiveness of Zimbabwe's exports in international markets.

The staff representatives commented that the existing system of extensive price controls had introduced distortions in the economy and had been partly responsible for the increasing operating losses of the parastatals and the deterioration in the budgetary situation. The Zimbabwean representatives agreed that delays in approving requests for price increases had adversely affected operations of some private sector industries as well as certain parastatal enterprises. They said that while the Government did not intend to eliminate controls, some aspects of the price control mechanism would be streamlined and efforts made to operate it more efficiently. They intended to reduce delays in approving requests for price increases as well as the scope of price controls; decision-making would be decentralized in order to reduce the number of goods and requests for price increases requiring Cabinet approval. The existing system already provided for markups or percentage margins after taking into consideration total costs. Prices on a wide range of consumer goods had already been raised in January, and decisions on price increases for several other products had already been taken but would only be announced after the 1985/86 budget. Action to adjust tariffs for Air Zimbabwe and the national railways would also be taken shortly. They added that the consumer price index (the average for low- and high-income groups) had declined at an annual rate of 10 percent in the first quarter of 1985 but could be expected to increase during the second half of the year, reflecting the factors noted above. They stressed, however, that because of the far-reaching economic and political impact of some prices on the entire economy, for example, mealie meal, fertilizers, and transportation tariffs, the Government would have to proceed cautiously in adjusting prices.

3. Fiscal policy

At the time of the consultation discussions, the 1985/86 budget was still under preparation, and no quantitative information on the budget was made available to the staff. However, the Zimbabwean representatives indicated that they were concerned about the large deficits of the Central Government and the limited public sector and would be making serious efforts to contain and eventually reduce them. They were aware that too large a proportion of the country's resources had been devoted to education and health services, and that there was a need to achieve some savings on the recurrent budget and to reduce the debt service burden. However, there were a number of constraints, namely, the scarcity of foreign exchange, which impeded government plans to speed up economic development; transport bottlenecks; and disruption of export shipments, which reduced foreign exchange earnings and, at the same time, necessitated larger expenditure on defense to protect Zimbabwe's vital links to the sea. With respect to revenue, they intended to give careful consideration to the recommendations of the special tax commission established last year to study the existing tax system and devise ways of improving it.

The staff representatives said that in the absence of specific information on likely expenditure developments and the important area of subsidies and parastatal pricing policies, they were unable to make detailed comments on the 1985/86 budget. However, on the basis of unchanged policies, it was likely that both the central government deficit and the limited public sector deficit would be considerably larger than in 1984/85, given the decisions that had already been taken concerning wage increases, the large losses of the parastatals that had already occurred and must be covered, and the unavoidable increase in interest costs. Such developments were causes for serious concern. Moreover, while the financing of the 1984/85 deficit had not posed any major problems as a consequence of the use of blocked funds of foreign residents, the generally slack economy, and the lack of strong credit demand from the private sector, it was clear that these conditions would not be repeated in the coming years. Therefore, there was an urgent need to reduce the deficit as much as possible in order to reduce the pressure on domestic resources and to leave sufficient funds for the private sector. Without such a shift in policies, it would not be possible to achieve the growth targets of the new Five-Year Development Plan. In attempting to reduce the deficit, because of the existing high tax burden, greater emphasis should be placed on controlling expenditure than on increasing taxes. In this context, the reduction in subsidies to parastatals should be given high priority. Therefore, greater efforts should be made to monitor and control closely the financial performance of each loss-making enterprise on a continuing basis.

Following the general elections on July 1-2, 1985, the Minister of Finance, Economic Planning, and Development presented his budget proposals to Parliament on July 30, 1985. The proposals call for an increase of 16 percent in total expenditure to Z$3,348 million (47 percent of GDP), with current expenditure rising by 14 percent to Z$2,804 million, mainly on account of the recently announced increases in wages and salaries and higher outlays for defense. The budget provision for transfers to parastatals remain about unchanged at Z$310 million, but an overhang of Z$99 million will be carried over to the next fiscal year. Capital expenditure and net lending are to rise by nearly 30 percent to Z$544 million. Total revenues are to rise by 14 percent to Z$2,410 million, including Z$43 million from new tax measures. Foreign grants are expected to be Z$130 milion, thus giving a total for revenue and grants of Z$2,540 million. The resulting overall central government deficit would thus increase by 30 percent to Z$808 million (11 percent of GDP). This deficit is to be covered by net external borrowing of Z$180 million, net domestic borrowing of Z$236 million, and the remainder (Z$392 million) by foreign and domestic borrowing to be arranged during the course of the fiscal year.

4. Monetary and credit policies

The monetary authorities have kept the expansion of credit and broad money within reasonable limits despite the large budget deficits which have been incurred. In part, this has been facilitated by the use of nonresident blocked accounts held with the banking system. However, the staff representatives said that the situation was likely to be more difficult in 1985/86, due to the large prospective deficit and the higher credit requirements of the private sector stemming from the economic recovery and much larger agricultural crops. Unless the public sector deficit was successfully contained in 1985/86, the monetary authorities would face the difficult choice between restrictive policies that could crowd out credit to the productive sector, and accommodative policies that could lead to higher inflation and greater balance of payments pressures. In reply, the Zimbabwean representatives said that they intended to provide adequate credit to facilitate economic recovery without generating additional inflationary and balance of payments pressures. They were currently trying to estimate the increased credit demands from the Agricultural Marketing Authority (AMA) arising from the projected higher maize output. The extent of the AMA's financing requirements depended on how much of the current crop was exported. The quantitative credit targets would be determined after the presentation of the 1985/86 budget.

The staff representatives suggested that with the gradual tightening of liquidity in the banking system, it would be desirable to let interest rates rise to reflect the tighter liquidity situation. This would permit deposit rates of interest to become positive gradually in real terms, and facilitate the mobilization of a larger amount of private savings, which would be essential if the growth objectives of the Plan were to be met. The Zimbabwean authorities explained that although the Reserve Bank could influence interest rates by changes in the bank rate, or by changes in the liquid assets ratio of the deposit money banks, interest rates were basically market-determined. Deposit rates, after declining about the middle of 1984 by one percentage point for shorter maturities and two percentage points for longer maturities, had remained relatively stable thereafter, while lending rates had remained at about the same levels throughout 1984. However, as the liquidity situation tightened, it was expected that interest rates would increase. Real deposit interest rates had been negative in 1984 but had become positive in 1985 as the rate of inflation declined. In the case of the Post Office Savings Bank (POSB), because interest earnings were tax free, the effective deposit rate was particularly high for those in the upper income brackets. This had caused some shift in savings from the building societies to the POSB, but the flow had recently subsided.

The Zimbabwean authorities said that by focusing almost exclusively on savings in the financial institutions, the importance of the role of insurance companies and pension funds in mobilizing savings could be overlooked. The volume of savings mobilized by those institutions was larger than the amount held with the deposit money banks. The authorities were currently considering ways to utilize these funds for capital investments, such as the financing of irrigation projects and improvements in the railway. In addition, steps were being taken to fill some gaps in the financial structure. The newly created Zimbabwe Development Bank (ZDB) would aid in mobilizing savings and channeling them into investment in long-term development projects. The Government was about to establish the Small Enterprise Development Corporation (SEDCO) to extend loans to small-scale industrial and commercial enterprises for the purchase of capital equipment and for the provision of working capital.

5. External policies

After a sharp decline during 1982-83, the value of exports, measured in foreign currency terms, registered a modest recovery during 1984, mostly as a result of an increase in industrial export commodities. Nevertheless, the nominal value of exports reached in 1984 was still about the same as that of 1980. Despite the modest recovery in export performance in 1984, the balance of payments outlook for 1985 suggests that the foreign exchange situation is likely to remain tight. Exports are expected to increase moderately, reflecting higher agricultural exports and some recovery in the major mining exports, but as nominal imports are not expected to increase because of the tight foreign exchange situation, the current account deficit as a proportion of GDP is expected to fall from 3.8 percent in 1984 to 3.4 percent in 1985. On the other hand, due mainly to the growing external debt service burden and the low levels of gross capital inflows, the capital account is expected to deteriorate sharply.

The Zimbabwean representatives said that their policy of gradual depreciation of the exchange rate had been initiated to protect their markets in South Africa and in neighboring countries, in the face of the depreciation of the South African rand, the Malawi kwacha, and the Botswana pula. Zimbabwe's exports had benefited from this policy, and they considered that the present effective exchange rate of the Zimbabwe dollar was appropriate. They argued that the competitiveness of Zimbabwe's exports was a function of several factors, including the present structure of the manufacturing sector, the landlocked nature of the country, and the difficulty of access to the sea. For historical reasons, the manufacturing sector was not geared to exports, but to import substitution, and measures were needed to change its structure to make it more export-oriented. In addition to the depreciation of the Zimbabwe dollar, other promotional measures were being adopted to make the industry more export-oriented. The Zimbabwean representatives said that, given the balance of payments surplus during 1984 and the more comfortable reserve position following the acquisition of external securities last year, import allocations would be increased in the second half of 1985, and that a partial reversal of the exchange restrictions introduced last year was to be implemented starting January 1, 1986. The new regulations, announced by the Minister of Finance last April, would allow the suspended dividends and profits, declared from April 1984 through December 1985, to be released through a 4 percent six-year government bond procedure, 1/ and would restore the pre-April 1984 regulation on remittances of current dividends and profits.

The staff representatives observed that the moderate depreciation of the real effective exchange rate during the second half of 1984 and the first half of 1985 (about 10 percent), the reversal of some of the exchange restrictions announced to take effect in 1986, and the higher import allocation for the second half of 1985 constituted positive developments. However, the economy was still far from achieving a sustainable balance of payments position, and, in the absence of additional strong adjustment measures, Zimbabwe's external position was likely to deteriorate during 1986 and beyond. Moreover, the present exchange rate was sustainable only because it was protected by the existence of extensive controls, particularly on imports. The present tight import allocation system, as reflected in the volume of processed foreign exchange requests for imports, and the still inadequate external competitiveness, constituted constraints on the expansion of exports and the growth of the economy over the medium term. Therefore, in order to improve the international competitiveness of Zimbabwe's traditional exports and enhance the climate for emergent exports, the process of gradual depreciation of the exchange rate should be accelerated, in part to offset the cost pressures arising from the recent wage increase, and to achieve a further significant real depreciation. Moreover, because Zimbabwe's economic prospects and export growth were so closely linked, it would be desirable to open up the economy, including the adoption of policies to attract private foreign investment, and to reallocate resources toward the export sector, particularly the industrial sector. Therefore, in addition to a depreciation of the real effective exchange rate, policies to improve resource allocation through the reduction of price controls and the gradual relaxation of the existing import and foreign exchange allocation system needed to be pursued.

6. The medium-term outlook

Despite Zimbabwe's diversified economy, broad resource base, and relatively developed financial and infrastructural facilities, its medium-term economic and financial outlook remains difficult. The foreign exchange constraint is likely to persist, thereby constraining economic growth, and the debt service burden is expected to increase.

Given present policies, and with a continuation of tight import allocations, exports and economic growth will be seriously constrained over the medium term. Moreover, with low levels of capital inflows and rising debt service payments in the years immediately ahead, it might be

1/ Capital is released in six annual installments, and 4 percent interest is earned on the declining capital.

difficult to maintain even the existing depressed level of real imports. In the circumstances, real GDP might not expand beyond 1986. In order to sustain a minimum growth rate in the economy of about 2-3 percent, which would still be somewhat below the growth rate of the population, a real import growth of at least a similar magnitude would be required. With this level of imports and assuming normal agricultural seasons, real exports could be expected to grow at an annual rate of about 2 percent. This export growth, however, would still underutilize Zimbabwe's export potential.

Assuming real import and export growth of about 2-3 percent and given a continuing increase in net factor payments, the current account deficit would increase rapidly. Moreover, given the present unfavorable outlook for normal capital inflows, a financing gap would emerge in 1986 and would persist thereafter (Table 4). The debt service burden, including repurchases to the Fund, is expected to continue at the existing high levels, reaching a peak of 32 percent of exports of goods and services in 1987 (Table 5). In the circumstances, the projected gap would have to be closed by additional exceptional concessional external assistance and a higher-than-projected level of export earnings. If the gap cannot be closed in this manner, the growth of imports will have to be curtailed, with a corresponding adverse impact on economic growth.

In discussing the difficult medium-term outlook, the staff representatives emphasized that in order to achieve a sustained rate of economic growth, a well-coordinated policy program would be necessary to reduce the gap between domestic demand and available resources to a level consistent with Zimbabwe's medium-term balance of payments prospects. It would be necessary to take action to stimulate production, particularly of exports, to increase savings and investment, and to remove the structural impediments to economic growth. The Zimbabwean authorities replied that these issues were being addressed in the new Plan which was expected to be approved by the end of the year. Although they were not yet in a position to indicate the policy choices and investment targets of the new Plan, they had recognized the need to reverse the declining investment/GDP ratio that had occurred in recent years and would strengthen their efforts to mobilize a larger proportion of domestic savings and to attract a larger amount of external resources, both concessional aid and direct foreign investment. They also recognized the need to provide more foreign exchange to increase capacity utilization in the industrial sector, and they hoped that their recent proposals for joint ventures would dispel some of the present reluctance on the part of foreigners to invest in Zimbabwe. They agreed with the staff representatives that it was necessary to give greater emphasis to investment in the commodity producing sectors than on infrastructure and social services. However, donors seemed to be more interested in financing infrastructure, while at the same time being critical of greater government involvement in the productive sectors.

Table 4. Zimbabwe: Medium-Term Balance of Payments Projections, 1985-90

(In millions of SDRs)

	1985	1986	1987	1988	1989	1990
Current account	-160	-260	-325	-370	-415	-470
Trade balance, f.o.b.	239	250	240	230	225	215
Exports	(1,209)	(1,320)	(1,390)	(1,455)	(1,535)	(1,620)
Imports	(-970)	(-1,070)	(-1,150)	(-1,225)	(-1,310)	(-1,405)
Nonfactor services	-223	-240	-260	-275	-300	-320
Investment income	-131	-220	-250	-260	-275	-300
Of which: interest payments	(-161)	(-188)	(-211)	(-215)	(-224)	(-252)
Private transfers	-45	-50	-55	-65	-65	-65
Capital account	115	195	240	270	295	335
Official transfers	45	45	55	60	65	75
Medium- and long-term capital	70	120	140	160	180	200
Public sector	(70)	(120)	(130)	(150)	(165)	(180)
Private sector	(--)	(--)	(10)	(10)	(15)	(20)
Short-term capital	--	30	40	50	50	60
Overall balance	-45	-65	-85	-100	-120	-135
Gross reserves (increase -)	-10	-10	-10	-12	-15	-15
Sale of securities	66	24	20	--	--	--
IMF	-21	-49	-80	-58	-30	-17
Other	10	--	--	--	--	--
Financing gap	--	100	155	170	165	167
Memorandum items:						
External debt (year end)						
Total outstanding	2,555	2,755	3,010	3,330	3,695	4,105
Of which: gap-fill	(--)	(100)	(255)	(417)	(560)	(698)
External debt/GDP	53.4	54.3	55.1	56.9	58.7	60.6
Of which: gap-fill	(--)	(2.0)	(4.7)	(7.1)	(8.9)	(10.3)
Trade (in percent)						
Export growth						
Volume	5.0	6.0	2.0	2.0	2.0	2.0
Prices 1/	-1.0	3.0	3.0	3.0	3.5	3.5
Import growth						
Volume	-2.0	6.0	3.0	2.0	2.0	2.0
Prices 1/	2.0	4.0	4.5	4.5	5.0	5.0

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

1/ In SDR terms.

Table 5. Zimbabwe: Debt Service Payments Projections, 1985-90

(In millions of SDRs)

	1985	1986	1987	1988	1989	1990
On existing debt commitments						
Central Government	156.4	164.2	180.4	152.3	114.4	91.2
Interest	(69.8)	(71.8)	(62.2)	(40.0)	(30.7)	(24.7)
Amortization	(86.6)	(92.4)	(118.2)	(112.3)	(83.7)	(66.5)
Government-guaranteed	151.5	157.1	171.5	155.8	110.6	99.0
Interest	(67.3)	(75.4)	(82.3)	(74.5)	(55.0)	(51.3)
Amortization	(84.2)	(81.7)	(89.2)	(81.3)	(55.6)	(47.7)
IMF	41.8	68.6	95.0	65.7	33.5	18.4
Charges	(20.9)	(19.2)	(14.3)	(7.6)	(3.5)	(1.0)
Repurchases	(20.9)	(49.4)	(80.7)	(58.1)	(30.0)	(17.4)
On new debt commitments 1/ 2/	2.8	21.2	55.8	115.1	199.3	296.4
Interest	2.8	21.2	52.5	92.6	134.7	175.1
Amortization	--	--	3.3	22.5	64.6	121.3
Total debt service	352.5	411.1	502.7	488.9	457.8	505.0
Interest	160.8	187.6	211.3	214.7	223.9	252.1
Amortization	191.7	223.5	291.4	274.2	233.9	252.9
Memorandum items:						
Exports of goods and services	1,375	1,490	1,565	1,640	1,730	1,830
Debt service ratio	25.6	27.6	32.1	29.8	26.5	27.6
Of which: IMF	(3.0)	(4.6)	(6.1)	(4.0)	(1.9)	(1.0)

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

1/ Including gap-fill amounts.

2/ Terms of new debt are assumed as follows: (a) concessional debt: 3 percent interest, 8 years' grace, and 20 years' maturity; (b) commercial debt: 11 percent interest in 1985-86 and 10 percent in 1987-90, 8 years' maturity, including 2 years' grace.

On external debt management, the Zimbabwean representatives said that in future their policy will be to avoid as much as possible contracting external debt on commercial terms and on short maturities. They intended to ensure that the terms and conditions of external loans include at least a five-year grace period and a 15-year maturity. The staff representatives said that they supported the authorities' external debt management policy. They also emphasized that the early completion and approval of the new Five-Year Development Plan was essential, as this would facilitate the convening at the earliest opportunity of a donors' conference with the possible assistance of the World Bank. Such a conference could generate greater investor interest in the Zimbabwean economy and result in quick disbursing aid on concessional terms from the international community.

IV. Staff Appraisal

After a period of rapid growth following the achievement of independence, Zimbabwe's economic and financial performance deteriorated during 1982-83, mainly as a result of a prolonged drought, the weakness in the world market for Zimbabwe's mining exports, expansionary monetary and fiscal policies, and inappropriate external policies. Although the authorities took measures during late 1982 and 1983 to correct these imbalances, these measures proved to be insufficient to arrest the deterioration in the economy, with the result that the budgetary deficit increased, the balance of payments came under increasing pressure, and the rate of inflation accelerated. With the improvement in weather conditions, the economy should perform better in 1985, but unless measures are taken to ease the foreign exchange constraint and to remove the structural impediments to growth, the recovery may well be short-lived, and Zimbabwe will not be able to realize its economic potential. To achieve sustainable economic growth, the authorities would need to implement a combination of demand-restraining measures and supply incentives, including actions to stimulate production, particularly of exports, to increase savings and investment, and to obtain external resources on concessional terms as well as direct investment.

The Government's budget has continued to grow in relation to the rest of the economy and has been generating increasingly larger deficits. Current expenditure has been expanding rapidly, with the bulk of the increase going to defense, social services, transfers to parastatals, and interest on government debt. The financing of the deficit in 1984/85 did not pose any major problems because of the use of blocked funds of foreign residents, the generally slack economy, and the associated weak demand for credit from the private sector. However, these circumstances will not recur in the future. Therefore, there is an urgent need to reduce the deficit in order to reduce the pressure on domestic resources and leave sufficient funds for expansion in the private sector. The staff believes that because of the existing high tax burden, the major adjustment should be on current expenditure, particularly on social services and on transfers to parastatals.

The staff notes with regret that the budget for 1985/86 presented to Parliament on July 30, 1985 provides for a substantial increase in total expenditures and in the overall central government deficit from Z$640 million to Z$808 million in 1984/85. The large financing requirements are likely to put further pressures on domestic prices and the balance of payments, and will adversely affect the prospects for a continued economic recovery.

In recent years, the monetary authorities have pursued relatively cautious monetary and credit policies. However, pressures for a considerable expansion in credit seem to be building up, and the authorities will need to follow a prudent course, providing adequate credit to facilitate the economic recovery without generating additional inflationary and balance of payments pressures. As demand for credit increases, there would be a gradual tightening in the liquidity of the banking system. The authorities should continue to allow interest rates to be market-determined and should let interest rates rise to reflect this tighter liquidity situation. This would permit deposit rates of interest to remain positive in real terms and would facilitate the mobilization of domestic savings.

The Government's incomes and pricing policies were based on two broad criteria: achieving a more equitable distribution of income through increases in minimum wages and in expenditures on social services and administering the existing price control system in such a manner as to mitigate increases in the cost of living. Although in principle the system is supposed to ensure the profitability of enterprises, in practice, there have been long delays in granting approvals for price and tariff increases, with the result that parastatal losses have been growing and constitute an ever-increasing burden on the budget. Moreover, it is likely that the minimum wage increases have constrained employment in the private sector and impaired the international competitiveness of some of Zimbabwe's industrial exports. The staff urges the authorities to resume their policy of wage restraint and to relax the price control system to allow for more frequent and timely price and tariff increases.

The moderate real depreciation of the Zimbabwe dollar in recent months and the Export Revolving Fund established with World Bank support have contributed to the expansion of Zimbabwe's industrial exports. However, the staff believes that the present system of tight import allocations reflect the still inadequate external competitiveness and constitute constraints on the expansion of exports and the growth of the economy in the medium term. In order to enhance the international competitiveness of Zimbabwe's exports, particularly industrial exports, the authorities should accelerate the gradual depreciation of the exchange rate. In addition, the authorities should strengthen their efforts to attract a larger amount of concessional aid and direct foreign investment. In this connection, the early publication of the new Plan and the convening of a donors' conference with the assistance of the World Bank could facilitate the quest for external aid. In view of the rapidly rising debt service burden, the staff supports the authorities' stated policy of external debt management to avoid contracting external loans on commercial terms and on short maturities.

Zimbabwe retains restrictions on payments and transfers for current international transactions. In March 1984 some of these exchange restrictions were intensified. However, in April 1985 the Minister of Finance announced the lifting of some of these restrictions to take effect on January 1, 1986, and higher import allocations for the second half of 1985. The staff welcomes these steps and encourages the authorities to adopt appropriate financial and exchange rate policies that would facilitate the elimination of the remaining restrictions on current international transactions. In the meantime, approval for the exchange restrictions is not being proposed.

The Zimbabwean authorities have agreed that the next Article IV consultation be held on the standard 12-month cycle.

V. Proposed Decision

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

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. 5329 (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/85/234. The Fund encourages the authorities to take measures that will permit the elimination of these restrictions as soon as possible.

Zimbabwe: Selected Economic and Financial Indicators, 1981-85 1/

	1981	1982	1983	1984	1985
		Actual		Prel.	Proj.
	(Annual percent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	15.7	-0.6	-3.4	1.1	5.0
GDP deflator	11.1	13.8	14.1	10.6	18.0
Consumer prices	13.9	14.6	19.4	16.3	13.0
External sector					
Exports, f.o.b. (millions SDRs)	1,229	1,194	1,087	1,163	1,229
Imports, c.i.f. (millions SDRs)	-1,437	-1,476	-1,176	-1,112	-1,110
Non-oil imports, c.i.f. (millions of SDRs)	-1,204	-1,291	-991	-932	-930
Export volume	-4.8	2.9	3.6	1.3	5.0
Import volume	23.5	7.7	-16.2	5.0	-2.0
Terms of trade (deterioration -)	11.1	-2.6	-3.8	1.4	-1.0
Nominal trade-weighted effective exchange rate, end of period (depreciation -)	3.8	-13.8	-6.2	5.9	...
Real trade-weighted effective exchange rate, end of period (depreciation -)	8.8	-6.4	9.0	4.0	...
Central government budget 1/					
Revenue and grants	50.0	35.1	32.7	11.9	13.0
Total expenditure and net lending	23.7	31.5	32.5	15.7	10.0
Money and credit					
Domestic credit 2/	26.6	25.9	15.6	-2.4	...
Government 2/	-3.1	14.8	-2.9	-2.3	...
Money and quasi-money (M2)	15.2	14.8	--	16.9	...
Velocity (GDP relative to M2)	3.1	25.3	3.4	3.1	...
Interest rate (annual rate, one-year time deposit or alternative rate)	12.00	10.50	14.20	...	...
	(In percent of GDP)				
Central government budget deficit 1/					
Excluding grants	-9.5	-8.7	-10.3	-12.5	-12.3
Including grants	-7.9	-7.9	-9.2	-10.9	-9.9
Domestic bank financing	3.8	-0.3	2.2	3.8	-4.0
Foreign financing	0.9	5.1	1.0	0.9	8.0
Limited public sector deficit 1/					
Excluding grants	-9.8	-10.1	-14.0	-13.7	-12.6
Including grants	-8.1	-9.3	-12.9	-12.0	-10.2
Gross domestic investment	25.1	23.5	15.2	...	...
External account deficit					
Including official transfers	9.9	10.2	7.3	2.0	...
Excluding official transfers	11.3	11.1	8.4	3.8	3.4
External debt	24.3	29.6	37.2	42.5	...
Inclusive of use of Fund credit	25.0	30.2	40.6	47.4	53.4
Debt service ratio 3/4/	8.8	14.7	20.5	24.6	25.6
	(In millions of SDRs, unless otherwise specified)				
Overall balance of payments	-175	-89	-287	90	-45
Gross official reserves (months of imports, c.i.f.)	1.9	1.6	1.8	1.7	1.8

1/ In the case of the public finances the data refer to fiscal years ending June. For 1984/85 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.

4/ Debt service ratios presented in earlier staff reports did not include payments due on short-term debt that has been consolidated in 1983 into medium-term debt.

ZIMBABWE - Fund Relations
(At July 31, 1985)

(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: 191

	Millions of SDRs	Percent of quota
b. Total Fund holdings of Zimbabwe dollars	436.13	228.33
c. Fund credit	245.16	128.35
Credit tranches	88.61	46.39
Enlarged access resources	100.45	52.59
Compensatory financing facility (exports)	56.10	29.37
Buffer stock financing facility	--	--
d. Reserve tranche	-- 1/	--

III. Current Arrangement and Special Facilities

	Date of arrangement	Duration (months)	Total amount	Utiliza- tion	Undrawn balance
a. 1983 stand-by arrangement	March 1983	18	300.0	175.0	125.0
b. 1981 stand-by arrangement	April 1981	12	37.5	37.5	--

1/ Actual amount is SDR 30,922.

ZIMBABWE - Fund Relations (continued)

	Date of arrangement	Total amount
c. Special facilities		
Compensatory financing (exports)	March 1983	56.1
Buffer stock financing	January 1984	2.1

	Amount	Percent of allocation
IV. SDR Department		
a. Net cumulative allocation	10.20	100.00
b. Holdings	3.28	32.17
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 March 31, 1985 was Z$1 = US$0.6505.

VIII. Last Article IV Consultation

The last Article IV consultation was conducted in 1984 (EBS/84/198 and SM/84/208), and the following decision was adopted on September 12, 1984:

1. The Fund takes this decision relating to Zimbabwe's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article IV consultation with Zimbabwe and in the light of the 1984 Article IV consultation with Zimbabwe, conducted under Decision No. 5329-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

ZIMBABWE - Fund Relations (concluded)

2. The restrictions on the making of payments and transfers for current international transactions are maintained by Zimbabwe in accordance with Article XIV except that the exchange restrictions arising from the temporary suspension in March 1984 of remittances of certain incomes (as described in SM/84/208) are subject to approval under Article VIII, Section 2(a). 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 consultation.

IX. Adequacy of Statistics

The provision of statistics by Zimbabwe is generally satisfactory. The Bureau of Statistics has assisted Zimbabwe in the organization of its balance of payments and monetary statistics.

ZIMBABWE - Relations with the World Bank Group

Before 1965 the Bank made five loans totaling US$130.3 million to the then Rhodesia. Two loans were made directly to the Government for agriculture (US$5.6 million) and power (US$28 million), and two other loans totaling US$87.7 million were made to the Central African Power Corporation (CAPCO). One loan (US$9 million) was also made to the then Rhodesia Railways. As a guarantor of each of the loans, the United Kingdom serviced them after 1964. The loans for agriculture and railways have been repaid, and CAPCO resumed servicing its two loans after the lifting of sanctions on December 21, 1979.

In early 1981 the Bank and the IDA approved a loan of US$50 million and a credit of US$15 million under the Manufacturing Rehabilitation Imports Program. Both the loan and credit were used to finance priority import requirements of raw materials, spare parts, and other items needed to promote fuller capacity utilization in the manufacturing sector. The Bank also approved a loan of US$42 million to finance technical assistance and import requirements of spare parts, track maintenance equipment, and tools for the National Railways of Zimbabwe (NRZ) and equipment for the Central Mechanical Equipment Department. The IFC also approved an investment of US$38 million for a thermal power station.

In 1982 the World Bank Group approved a small farm credit project (US$30.4 million), a project (US$1.2 million) to finance economic and engineering studies of petroleum fuels supply options available to Zimbabwe, and a project (US$105 million) for power development at Hwange.

In 1983 an export promotion project (US$70.6 million), a forestry project (US$7.3 million), an agricultural extension and research project (US$13.1 million), a highway development and maintenance project (US$26.4 million), and a project on training and technical assistance for the railways (US$40 million) were approved.

At the beginning of 1984 the IFC approved capital participation of US$2.3 million for a finance house to replenish hire-purchase funds for machinery and equipment. In June, the Bank approved an urban housing project (US$43 million).

The World Bank Group also has several projects that are now under consideration (assistance to small-scale enterprises, enlarged export promotion, irrigation, family health, and water supply).

Zimbabwe: Financial Relations with the World Bank Group (concluded)

A. IBRD/IDA operations (as of April 30, 1985)

	(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, 1985)

	Commitment	Disbursed
Total	40.0	13.3

Sources: IBRD and IFC.

1/ Does not include two fully disbursed loans to CAPCO totalling 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 and 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. Real sector data

Official national accounts data are available with a one-year lag, but are subject to revisions as new data become available. The data for the past four years have recently been revised and should be published in the Quarterly Digest of Statistics shortly.

Two cost-of-living indices, one for the high-income group and the other for the low-income group, constructed on the basis of price quotations for the main cities, are published monthly. To collect data on wages and employment, the Central Statistical Office conducts employment surveys annually for the agricultural sector and monthly for other sectors. Data on wages and employment are published quarterly in the Quarterly Digest and are being reviewed for publication in IFS.

2. Fiscal and monetary data

The available central government statistics include actual data through the 1983/84 fiscal year, and budget estimates for 1984/85. Data on money and banking are generally available with a reporting lag of about three months, and from the monetary data the financing of the central government budget can be derived. There is scope for improvement in the reporting of the monetary data, particularly those dealing with transactions with the Fund, and the authorities indicated to the last mission that they would seek technical assistance from the Fund in resolving some of these issues and in improving the coverage of the monetary data.

3. External sector data

The authorities provided the mission with actual data on balance of payments through 1983 and provisional estimates for 1984. A technical assistance mission from the Bureau of Statistics has recently submitted a report on balance of payments coverage and recommendations for its improvement. The last Article IV consultation mission noted that improvements have been made in compiling government debt.

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

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

Status of IFS Data

		Latest Data in August 1985 IFS
Real Sector	- National Accounts	1982
	- Prices (consumer)	May 1985
	- Production (manufacturing)	September 1984
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	1982
Monetary Accounts	- Monetary Authorities	April 1985
	- Deposit Money Banks	March 1985
	- Other Financial Institutions	March 1985
External Sector	- Merchandise Trade: Value	December 1984
	Unit value	December 1984
	- Balance of Payments	Q4 1984
	- International Reserves	June 1985
	- Exchange Rates	June 1985

ZIMBABWE - Basic Data

Area, population, and GDP per capita

Area	390,000 square kilometers
Population: Total (1984 est.)	8.3 million
Growth rate	3 percent
GDP per capital (1984 est.)	SDR 746

	1980	1981	1982	1983 Prel.	1984 Proj.
GDP (at current prices)					
Total (millions of Zimbabwe dollars)	3,206	3,995	4,910	5,705	6,189
Agriculture (percent of total)	14	16	16	14	15
Mining (percent of total)	9	6	5	5	5
Manufacturing (percent of total)	25	25	23	23	22
Annual real rate of growth (percent)	11.0	15.3	-4.2	-3.2	1.6
Investment as percent of GDP (at current market prices)	22	28	26	22	19
Prices (in percent change)					
GDP deflator	13.4	8.1	12.8	16.4	15.0
Cost of living index	7.3	13.9	14.6	19.4	22.3

Central government finance (July/June)	1980/81	1981/82	1982/83	1983/84	1984/85 Budget
		(In millions of Zimbabwe dollars)			
Total revenue and grants	1,012.3	1,367.9	1,815.8	2,032.6	2,163.3
Total revenue	950.6	1,333.7	1,763.1	1,943.6	2,100.0
Tax revenue	(777.7)	(1,207.6)	(1,579.5)	(1,743.5)	1,860.0
Nontax revenue	(172.9)	(126.2)	(183.6)	(200.1)	240.0
Grants	61.7	34.2	52.7	89.0	63.3
Total expenditure and net lending	1,298.1	1,707.6	2,262.5	2,618.2	2,810.7
Current	1,142.4	1,435.5	1,808.9	2,232.7	2,323.3
Capital	107.3	158.2	218.3	208.0	241.1
Net lending	48.5	113.8	235.3	177.5	246.3

ZIMBABWE - Basic Data (continued)

	1980/81	1981/82	1982/83	1983/84	1984/85 Budget
	(In millions of Zimbabwe dollars)				
Overall deficit (-)	-285.8	-339.7	-446.7	-585.6	-647.4
Financing	285.8	339.7	446.7	585.6	647.4
External (net)	31.7	220.4	49.9	50.8	447.1
Domestic (net)	254.1	119.3	396.8	534.8	200.3
Deficit as percent of GDP	-7.9	-7.9	-9.2	-10.9	-10.4
Money and credit (end of period)	1980	1981	1982	1983	1984
Foreign assets (net)	177.9	40.3	-36.9	-367.7	-318.0
Domestic credit	1,198.0	1,520.7	1,934.0	2,224.5	2,173.6
Claims on Government (net)	(370.9)	(332.9)	(594.2)	(544.8)	(497.9)
Claims on private sector	(827.1)	(1,187.8)	(1,339.8)	(1,679.7)	(1,675.7)
Money and quasi-money	1,214.3	1,399.3	1,692.8	1,692.5	1,950.2
Money	(632.8)	(678.7)	(771.0)	(740.4)	(573.5)
Quasi-money	(581.5)	(720.6)	(921.8)	(952.1)	(1,076.7)
Other items (net)	161.6	161.7	204.3	164.3	-94.6
	1980	1981	1982	1983	1984 Prov.
Balance of payments	(In millions of SDRs)				
Exports, f.o.b.	1,111	1,229	1,190	1,092	1,139
Imports, f.o.b.	-1,029	-1,300	-1,333	1,005	897
Trade balance	82	-71	-143	87	242
Services and private transfers (net)	-314	-545	-551	-553	-394
Current account balance	-232	-616	-694	-466	-152
Official transfers (net)	44	55	58	57	56
Capital account (net)	-2	276	475	113	140
Government	-26	108	126	26	...
Public enterprises	-3	152	275	71	...
Other	27	16	73	16	...
SDR allocation and net errors and omissions	180	116	83	21	34
Monetization of gold	46	19	-7	...	...
Overall surplus or deficit (-)	36	-151	-86	-275	78

ZIMBABWE - Basic Data (concluded)

	1980	1981	1982	1983	1984 Prov.
Current account balance as percent of GDP	-5.8	-12.1	-13.4	-10.5	-3.6
Gross official foreign reserves (end of period)	219.3	230.7	203.1	178.8	153.0
In weeks of imports, c.i.f.	10	8	7	9	8
External public debt					
Debt outstanding including undisbursed (end of period)	601	1,449	1,851	2,235	2,535
Debt service as percent of exports of goods and services					
Excluding the Fund	3.8	8.1	10.8	16.6	21.4
Including the Fund	3.8	8.2	10.9	17.4	23.7

IMF data

Date of membership: September 29, 1980
Quota: SDR 191 million

Intervention currency and the rate: U.S. dollar; Z$1 = US$0.6447 (at end of April 1985)

SDR/Local currency equivalent: Z$1 = SDR 0.6504 (at end of April 1985)

	April 30, 1985 (In millions of SDRs)	April 30, 1985 (In percent of quota)
Total outstanding purchases	249.84	130.8
Under tranche policies	193.74	101.4
Ordinary	(93.29)	(48.8)
Supplementary	(--)	(--)
Enlarged access	(100.45)	(52.6)
Compensatory financing	56.10	29.4
Buffer stock financing	--	--
Total Fund currency holdings	440.81	230.79
Net cumulative SDR allocation	10.20	100.00
Holdings of SDRs	2.04	19.98
Trust Fund loans outstanding	--	--