

**EXECUTIVE
BOARD
MEETING**

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Supplement 2

February 12, 2020

To: Members of the Executive Board

From: The Secretary

Subject: **Zimbabwe—Staff Report for the 2019 Article IV Consultation—
Informational Annex**

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Questions:	Mr. Leon, AFR (ext. 36115) Mr. Hobdari, AFR (ext. 36276)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—African Development Bank, European Investment Bank, Food and Agriculture Organization, United Nations Development Programme, World Food Programme, World Trade Organization

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the document will be published.**



ZIMBABWE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

February 12, 2020

Prepared By

The IMF's African Department
(in collaboration with other Departments)

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FUND RELATIONS

(As of December 31, 2019)

I. Membership Status: Joined: September 29, 1980; Article VIII

II. General Resources Account:	SDR Million	%Quota
<u>Quota</u>	706.80	100.00
<u>IMF's Holdings of Currency (Holdings Rate)</u>	706.47	99.95
<u>Reserve Tranche Position</u>	0.33	0.05

III. SDR Department:	SDR Million	%Allocation
<u>Net cumulative allocation</u>	338.58	100.00
<u>Holdings</u>	2.35	0.69

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	Aug 02, 1999	Oct 01, 2000	141.36	24.74
Stand-By	Jun 01, 1998	Jun 30, 1999	130.65	39.20
EFF	Sep 11, 1992	Sep 10, 1995	114.60	86.90

VI. Overdue Obligations and Projected Payments to Fund ^{1/}

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>
Principal					
Charges/Interest	<u>2.52</u>	<u>2.49</u>	<u>2.49</u>	<u>2.49</u>	<u>2.49</u>
Total	<u>2.52</u>	<u>2.49</u>	<u>2.49</u>	<u>2.49</u>	<u>2.49</u>

^{1/} When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Implementation of Catastrophe Containment and Relief (CCR): Not Applicable

Lifting of Remedial Measures following clearance of arrears to the PRGT:

On October 20, 2016, Zimbabwe fully settled its overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT) using its SDR holdings. Zimbabwe had been in continuous arrears to the PRGT since February 2001. As of the day of repayment, Zimbabwe's arrears to the PRGT amounted to SDR 78.3 million, which comprised overdue PRGT principal of SDR 61.7 million, and total interest obligations of SDR 16.6 million (covering overdue interest and interest accrued

through October 20, 2016 on overdue principal and interest amounts). The repayment of SDR 78.3 million has been applied towards the PRGT's Reserve Account.

Effective November 14, 2016, the Executive Board of the International Monetary Fund (IMF) approved the removal of the remedial measures applied to Zimbabwe. These measures had been in place because of Zimbabwe's overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT). These remedial measures related to: (i) the declaration of noncooperation with the IMF (see Press Release No. 02/28); (ii) the suspension of technical assistance (which had already been partially lifted, see Press Release No. 09/152 and Press Release No. 12/405); and (iii) the removal of Zimbabwe from the list of PRGT-eligible countries (see Press Release No. 01/40).

Zimbabwe is now current on all its financial obligations to the IMF. Its eligibility to the PRGT has also been restored.

Exchange Arrangement

On February 20, 2019, Zimbabwe introduced a new domestic currency—named the Real Time Gross Settlement (RTGS) dollar—and adopted a de jure floating exchange rate arrangement, previously a “no separate legal tender” arrangement. The RBZ denominated legally, through Statutory Instrument (SI) 33 of 2019, the existing RTGS balances, bond notes and coins in circulation as RTGS dollars making them part of the multi-currency system in Zimbabwe. An inter-bank foreign exchange market was established to formalize the trading of RTGS dollar balances and bond notes with the United States Dollars and other currencies on a willing seller-willing buyer basis through banks and bureau de changes. This decision to establish a flexible exchange rate market was taken in consultation with Government and business taking into consideration the distortions in the market caused by multi-pricing. The RTGS dollar was renamed as the Zimbabwean dollar (ZWL\$) in June 2019. The de facto exchange rate arrangement was reclassified to floating from other managed, effective February 20, 2019.

Facing severe imbalance of payment and US dollar liquidity pressures, the authorities continue to maintain a series of measures to limit current and capital account transactions. These measures have given rise to several exchange restrictions and multiple currency practices (MCPs), inconsistent with Article VIII, Section 2(a) and Section 3, in particular:

- a. Under the official guidance issued by the Reserve Bank of Zimbabwe (RBZ), commercial banks are required to prioritize their foreign exchange (FX) sale to finance specific categories of international transactions which constitutes an exchange restriction as it limits the availability of FX for payments and transfers for current international transactions, in particular in the non-priority or low priority categories. Further, the prioritization also results in an MCP as it channels some of the non-priority or low-priority transactions to the bureau market which has an exchange rate of more than 2 percent in excess of that in the interbank market.
- b. The RBZ also allocates FX to finance certain necessity imports, and purchases repatriated FX proceeds that exporters are required to sell (surrender) to the RBZ, at the prior business date's

interbank rate. These allocation and purchase transactions at the prior business date's interbank rate constitute an MCP as this rate has recently deviated and may continue to deviate by more than 2 percent from the prevailing FX rate for other FX transactions taking place on the same date. The FX allocation here also gives rise to an exchange restriction as it limits the availability of FX for payments and transfers for other current international transactions not eligible to receive such allocation.

c. Zimbabwe has also a longstanding exchange restriction subject to IMF jurisdiction arising from unsettled balances under an inoperative bilateral payment agreement with Malaysia.

Article IV Consultations

Zimbabwe is on the standard 12-month consultation cycle. The Executive Board discussed the staff report for the 2017 Article IV consultation on July 5, 2017.

JOINT WORLD BANK—IMF WORK PROGRAM, 2020-21

Title	Products	Delivery Date
Bank work program in next 12 months	Technical Assistance <ul style="list-style-type: none"> • SOE Reform • Doing Business and Investment Policy • Mineral Sector Reform • Climate Change • Energy Sector • Transport Sector • Health and Nutrition Sector • Education Sector • Social Protection and Safety Nets • Land Policy and Administration • Transport Sector • Poverty Monitoring and Analysis 	Ongoing, all
IMF work program in next 12 months	Technical assistance <ul style="list-style-type: none"> • Establishing a money targeting framework • Public financial management • Revenue administration • Public debt management • Financial supervision and regulation • National account statistics 	Ongoing, all
Bank provides to Fund	<ul style="list-style-type: none"> • Updates on policy reform work: impact of drought and other climatic shocks, assessment of social assistance needs and ways to improve targeting of vulnerable groups, improving the business climate • Timing, scope, and conclusions of Bank's missions • Update on arrears clearance 	Ongoing, all
Fund provides to Bank	<ul style="list-style-type: none"> • Updates on medium-term macroeconomic framework • Updates on program discussions • Updates on policy reform work: PFM, tax and financial sector reforms • Timing, scope, and conclusions of missions 	Ongoing, all
Joint products in next 12 months	<ul style="list-style-type: none"> • DSA for 2021 Article IV 	Q1 2021

STATISTICAL ISSUES

As of December 31, 2019

I. Assessment of Data Adequacy for Surveillance
<p>General: Data provision has some shortcomings but is broadly adequate for surveillance. Despite the resource constraints, ZIMSTAT usually produces sufficient data to users and largely complies with international standards, but the reintroduction of the Zimbabwe dollar has caused some inevitable delays in the publication of national account statistics that the authorities, with external support, have an action plan to remedy.</p>
<p>National Accounts: ZIMSTAT has made progress in following the 2008 <i>System of National Accounts (SNA)</i> guidelines. The scope of national accounts statistics is being expanded, including through the compilation of quarterly national accounts. Staff resources remain insufficient to achieve these objectives.</p> <p>ZIMSTAT is under a heavy workload as it works, with the assistance of IMF TA, to redenominate and rebase its national accounts statistics. Redenominating national accounts from the US dollar back to the reintroduced Zimbabwe dollar, and rebasing to a more recent year will require extensive resources and additional data, particularly for 2019 outturns that will be essential as the first year of ZWL\$-based transaction data.</p> <p>Zimbabwe is also making important strides in improving the timeliness of its data, and is expanding its available data to include more real time indicators. Currently it is working on quarterly GDP statistics. In this regard, the Zimbabwe Revenue Authority has agreed to share tax data which is a basis for quarterly (and annual) national accounts compilation.</p> <p>The authorities are undertaking the Poverty, Income, Consumption and Expenditure Survey (PICES) 2017. The survey will provide data on income distribution, consumption level, private consumption, and living conditions of the population, CPI weights, production account of agriculture and poverty mapping.</p>
<p>Price Statistics: ZIMSTAT are generally of good quality and a recent IMF TA mission reaffirmed the methodology and sampling techniques, while nevertheless noting the challenges of developing price statistics in a multi-currency and high inflation environment. In 2019, ZIMSTAT rebased their CPI (Feb/2019 = 100) and reweighted the basket.</p>
<p>Government Finance Statistics: The Ministry of Finance and Economic Development (MoFED) collects data on revenue, expenditure, and financing for the budgetary central government (BCG). These are published on a monthly basis on its website in the consolidated financial statements and budget outturns, along with the Treasury quarterly Bulletin. The MoFD regularly reports annual Government Finance Statistics (GFS) consistent with the Government Finance Statistics Manual (GFSM) 2014 to the IMF's Statistics Department (STA). However, data dissemination is limited to transactions and does not include expenditure by Classification of Functions of Government (COFOG) or stock positions in financial assets and liabilities. While data for the BCG have improved, efforts are required to improve the timeliness, frequency, and coverage of GFS.</p>

Monetary and Financial Statistics (MFS): The RBZ began reporting MFS to the Fund using the Standardized Report Forms (SRFs) in late 2015. With technical assistance from STA, the data were approved for publication in *International Financial Statistics (IFS)* in May 2018. Consultations are ongoing with STA on classifications of certain line items, particularly the distinction between national currency and foreign currency denominated assets and liabilities following the end of the multi-currency regime. Zimbabwe does not currently compile data for Other Financial Corporations (OFCs), which are a significant part of the country's financial system.

The RBZ reports data on several indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).

Financial sector surveillance: Zimbabwe does not currently report Financial Soundness Indicators (FSIs) to the Fund for dissemination on the Fund's external website. The RBZ is advanced in the compilation of the FSIs but needs to finalize the action plan related to the submission of the FSI data and metadata to the IMF for external dissemination.

External Sector Statistics: The RBZ migrated from the *Balance of Payments Manual*, fourth edition, (*BPM4*) to the *Balance of Payments and International Investment Position*, sixth edition, (*BPM6*) in December 2016 and has since submitted only balance of payments data to STA in accordance to *BPM6*. The RBZ does not report International Investment Position (IIP), coordinated direct investment survey (CDIS) and coordinated portfolio investment survey data (CPIS) data to the IMF. The RBZ does not report quarterly external sector data (QEDS) to the World Bank debt database. In the data reported, there remain gaps particularly on the financial accounts, especially reinvested earnings and trade credit.

The RBZ is receiving technical assistance (TA) from the IMF and the UK's Department for International Development (DFID)'s Enhanced Data Dissemination Initiative 2 (EDDI-2), Project Module 1 aimed at strengthening compilation of external sector statistics (ESS). The most recent ESS TA assisted the authorities on approaches to increase the response rate to the quarterly Foreign Private Capital survey for direct investment data and in developing a preliminary database on IIP.

International Investment Position (IIP): The RBZ has made progress on the compilation of IIP with the assistance of the IMF under EEDI-2. There is however missing stock data on FDI and portfolio investments which will be obtained from the planned Foreign Private Sector Survey.

II. Data Standards and Quality

Zimbabwe participates in the Enhanced General Data Dissemination System (e-GDDS) from November 2002. The e-GDDS metadata on the IMF DSBB site were last updated in May 2013. No data ROSC is available.

III. Reporting to STA

Zimbabwe is reporting its MFS, external sector statistics (mainly BOP), and currency composition of foreign reserves to STA. However, Zimbabwe does not report national accounts and price statistics to STA for

dissemination in the *IFS* and the *BOP Statistics Yearbook*. Zimbabwe reports GFS data that are included in the GFS yearbook, but no sub-annual data are reported for dissemination in the IFS.

Table 1. Zimbabwe: Common Indicators Required for Surveillance

	Date of latest observation	Date received	Frequency of data ¹	Frequency of reporting ¹	Frequency of publication ¹
Exchange rates ²	Jan. 30, 2020	Jan. 31, 2020	D	D	D
International reserve assets and reserve liabilities of the monetary authorities ³	Dec. 2019	Jan. 2020	W	W	M
Reserve/base money	Nov. 2019	Jan. 2020	M	M	M
Broad money	Nov. 2019	Jan. 2020	M	M	M
Central bank balance sheet	Nov. 2019	Jan. 2020	M	M	M
Consolidated balance sheet of the banking system	Nov. 2019	Jan. 2020	M	M	NA
Interest rates ⁴	Dec. 2019	Jan. 2020	M	M	M
Consumer price index	Dec. 2019	Jan. 2020	M	M	M
Revenue, expenditure, balance and composition of financing ⁵ — General government ⁶	NA	NA	NA	NA	NA
Revenue, expenditure, balance and composition of financing ⁵ —Central government	Nov. 2019	Jan. 2020	M	M	M
Stocks of central government and central government-guaranteed debt ⁷	Sep. 2019	Dec. 2019	Q	I	A
External current account balance	Q3 2019	Dec. 2019	A	I	I
External capital and financial account	Q3 2019	Dec. 2019	Q	I	I
Exports and imports of goods	Q3 2019	Dec. 2019	M	I	I
GDP/GNP	2018	Jun. 2019	A	A	A
Gross external debt	Sep. 2019	Dec. 2019	A	I	I
International investment position ⁸	NA	NA	NA	NA	NA

¹ Daily (D); weekly (W); monthly (M); quarterly (Q); annually (A); irregular (I); and not available (NA).

² The Zimbabwe dollar is no longer traded against foreign currencies on the exchange market.

³ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

⁴ Both market-based and officially-determined, including discounts rates, money market rates, rates on treasury bills, notes and bonds.

⁵ Foreign, domestic bank, and domestic nonbank financing.

⁶ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁷ Including currency and maturity composition.

⁸ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

Note: This table reflects data submission as of January 31, 2020.