SU/20/30

February 25, 2020

The Acting Chair's Summing Up
Zimbabwe—2019 Article IV Consultation
Executive Board Meeting 20/20
February 24, 2020

Executive Directors agreed with the thrust of the staff appraisal. They noted with concern that Zimbabwe is facing an economic and humanitarian crisis exacerbated by policy missteps and climate-related shocks. These would require difficult policy choices from the authorities and support from the international community. Directors urged the authorities to make a concerted effort to ensure economic and social stability through the adoption of coordinated fiscal, monetary and foreign exchange policies, alongside with efforts to address food insecurity and serious governance challenges. They emphasized the importance of reengagement with the international community to support efforts to achieve economic sustainability and address the humanitarian crisis.

Notwithstanding efforts in 2019 to tighten the fiscal stance and contain quasi-fiscal operations by the central bank, Directors noted that pervasive deficits remain and could be exacerbated by the need to respond to the humanitarian crisis. Directors called for non-essential spending cuts, including decisive reforms to agricultural support programs, to allow for social spending needs. They underscored the importance of public financial management and enhanced domestic revenue mobilization efforts.

Directors stressed that eliminating deficit monetization would not only be crucial for fiscal sustainability, but it would also serve as a precondition for the stabilization of hyper-inflation and the preservation of the external value of the currency.

Directors noted that Zimbabwe remains in debt distress, with large external arrears to official creditors, and encouraged the authorities to give impetus to reengagement efforts and debt management and transparency. In particular, they cautioned against continued recourse to collateralized external borrowing on commercial terms as this may potentially complicate any future arrears clearance operation.

Directors underscored the need to establish credibility in the new currency. They encouraged the authorities to press forward with the establishment of a functional foreign exchange market and to remove distortions that could lead to rent-seeking behavior in the economy. Directors agreed that given low reserves and hyper-inflation, limited credibility, and a lack of access to traditional forms of external financing, a monetary targeting regime is appropriate to conduct monetary policy. Enhancing central bank independence and transparency, including by timely publication of monetary statistics, would be important.

Directors welcomed the progress on financial innovation, supervision and inclusiveness indicators. They noted, however, the need for continued vigilance to ensure financial stability. They encouraged the authorities to conduct asset quality reviews of the banking sector, develop a new framework for managing weak banks, and increase the effectiveness of the AML/CFT framework, including by effectively implementing FAFT standards.

Directors stressed the need to address governance and corruption challenges, entrenched vested interests, and enforcement of the rule of law to improve the business climate and support private-sector-led inclusive growth. Such efforts would be instrumental to advance reengagement efforts with the international community and mobilize the needed support. They noted with regret that the Staff-Monitored Program was off-track and underscored the importance of continued engagement between the Fund and the authorities, including through technical assistance, policy advice and other innovative ways, to help immediately stabilize the economy and address the humanitarian crisis.

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