

**FOR
INFORMATION**

FO/DIS/20/44

March 13, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action:

The attached deletion from SM/20/43 (2/12/20) has been proposed by the authorities of Zimbabwe and agreed with staff in accordance with the policy on publication of papers:

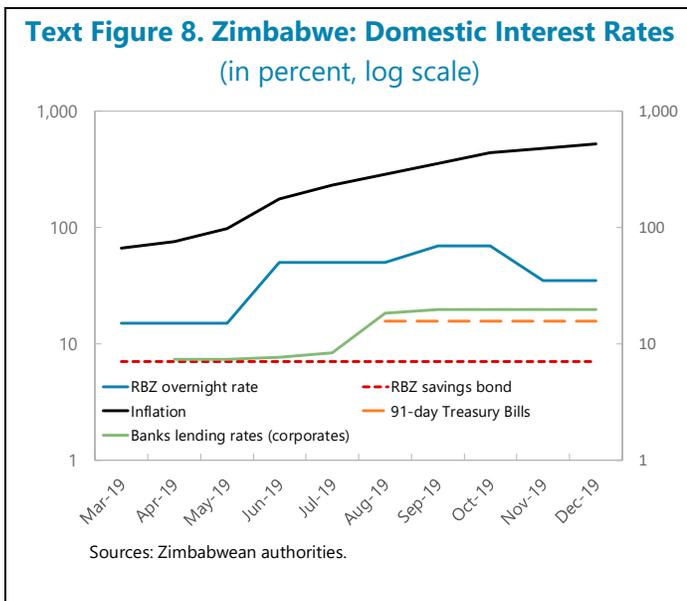
**Highly Market-Sensitive
Material**

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Questions:

Mr. Leon, AFR (ext. 36115)
Mr. Hobdari, AFR (ext. 36276)

9. Reserve money rose sharply in the second half of 2019 owing to the resumption of quasi-fiscal operations by the RBZ. While reserve money remained broadly stable during the first half of 2019, it nearly tripled during the second half of the year, estimated to have reached ZWL\$9 billion at year end compared to ZWL\$3.3 billion as of end-June. This reflects the resumption of quasi fiscal operations by the RBZ that were not sterilized, including: the discounting in July 2019 of a 0.8 percent of GDP USD Treasury Bill held by a domestic firm (~~Sakunda~~); provision of FX to fuel importers at below market rates to contain the increase of the retail fuel price (discontinued since October); and the introduction in September of an export incentive for gold purchases financed by reserve money expansion of about ZWL\$400 million/month. Reserve money has also been very volatile, as the new quantitative monetary targeting framework that the RBZ announced at the time of the currency reform has not been operationalized, effectively leaving the market without a credible nominal anchor. Domestic interest rates remain well below inflation (Text Figure 8).



10. Distortions in the FX market remain significant. After a brief period of relative stability around mid-2019, the parallel exchange rate depreciated sharply following the massive expansion of reserve money. At end-January 2020, the parallel exchange rate was around 25 ZWL\$/US\$, compared to 10-11 during July and 3.5 when the new currency was introduced in February. The parallel market premium has also increased and is now over 30 percent, from about 10 percent before the reserve money shock in mid-2019 (Text Figure 9). The higher premium reflects additional restrictions placed by RBZ, specifically on trading margins for authorized FX dealers, policy uncertainty, and a lack of publicly available statistics to guide market expectations.

