

**EXECUTIVE
BOARD
MEETING**

SM/20/43
Correction 2

March 25, 2020

To: Members of the Executive Board

From: The Secretary

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

Board Action: The attached corrections to SM/20/43 (2/12/20) have been provided by the staff:

Evident Ambiguity **Pages 1 and 59**

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



ZIMBABWE

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

February 12, 2020

KEY ISSUES

The Staff Report was prepared by a staff team of the IMF for the Executive Board's consideration on February 24, 2020. The staff report reflects discussions with the Zimbabwe authorities in September and December 2019 and is based on the information available as of February 12, 2020. It focuses on Zimbabwe's near- and medium-term challenges and policy priorities and was prepared before COVID-19 became a global pandemic that has resulted in unprecedented strains in global trade, commodity, and financial markets. It, therefore, does not reflect the implications of these developments and related policy priorities. The outbreak has greatly amplified uncertainty and downside risks around the outlook. Staff is closely monitoring the situation and will continue to work on assessing its impact and the related policy response in Zimbabwe and globally.

Context. Zimbabwe is experiencing an economic and humanitarian crisis. High fiscal deficits financed by RBZ money creation resulted in severe macroeconomic imbalances and market distortions. The government that came to office following the 2018 elections adopted an agenda focused on macro stabilization and reforms. This was supported by a Staff Monitored Program, adopted in May 2019, but is now off-track as policy implementation has been mixed: progress on fiscal reforms was overshadowed by costly missteps on monetary and FX market reforms. Climate shocks have crippled agriculture and electricity generation and magnified the social impacts of the fiscal retrenchment and currency reform, leaving more than half of the population food insecure. Protracted external arrears constrain access to external official support, while additional commercial borrowing has worsened the debt overhang and likely complicated discussions on debt resolution.

Outlook. With another poor harvest expected, growth in 2020 is projected at near zero, following a sharp contraction in 2019, with food shortages continuing. With no progress on clearing longstanding external arrears, the authorities face a difficult balance of pursuing tight monetary, to reduce very high inflation, and fiscal policies to address the macroeconomic imbalances and build confidence in the currency, while averting a crisis.

Risks. Pressures are mounting to increase spending on wages and for social protection to mitigate the impact of the weather shocks and high inflation. While the 2020 budget includes a significant increase in social spending, it is likely insufficient to meet the pressing needs. Absent a scaling up of donor support, the risks of a deep humanitarian



INTERNATIONAL MONETARY FUND



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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2020 Article IV Consultation with Zimbabwe

On February 24, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Zimbabwe. As the Board meeting and the policy discussions with the authorities on which the staff report is based occurred before the COVID-19 became a pandemic, the staff report does not reflect the implications of this development. While highly uncertain at this stage, it is clear that COVID-19 will adversely impact the economic outlook for Zimbabwe and require additional health-related spending and international support. COVID-19 will make it even harder to balance the policies needed to restore macroeconomic stability with those to address urgent social needs.

Zimbabwe is experiencing an economic and humanitarian crisis. Macroeconomic stability remains a challenge: the economy contracted sharply in 2019, amplified by climate shocks that have crippled agriculture and electricity generation; the newly introduced ZWL\$ has lost most of its value; inflation is very high; and international reserves are very low. The climate shocks have magnified the social impacts of the fiscal retrenchment, leaving more than half of the population food insecure. With another poor harvest expected, growth in 2020 is projected at near zero, with food shortages continuing.

The government that came to office following the 2018 elections adopted an agenda focused on macro stabilization and reforms. This was supported by a Staff Monitored Program from the IMF, adopted in May 2019, but is now off-track as policy implementation has been mixed. Notable reforms include a significant fiscal consolidation that has helped reduce the monetary financing of the deficit, the introduction of the new domestic currency in February 2019, the creation of an interbank FX market, and the restructuring of the command

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.