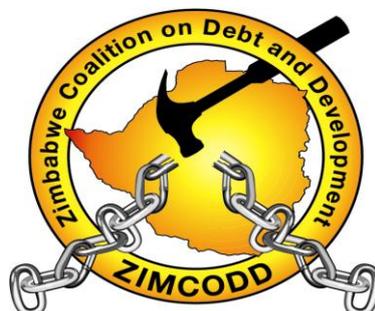


ZIMBABWE COALITION ON DEBT AND DEVELOPMENT



Investing in People for Social and Economic Justice

ZIMCODD Reflections on the 2017 National Budget with special focus on Debt Management

1. Background

ZIMCODD notes that in the 2017 national budget statement presented by the Minister of Finance and Economic Development on 8 December 2016, debt management was given the attention it deserves. It is indicated that as at 31 October 2016, Zimbabwe's public debt stood at US\$11.2 billion or 79% of gross domestic product (GDP), of which US\$7.5 billion, 53% of GDP, is external debt. Of the US\$7.5 billion external debt, US\$5.2 billion is in arrears, and this has resulted in deterioration of relations with major creditors, thereby inhibiting access to finance. Domestic debt stood at US\$3.7 billion, representing 26% of GDP. It is critical to note that the increase in domestic debt, after 2013, was partly as a result of Government's assumption of Reserve Bank debt, which ZIMCODD had recommended against¹. The budget statement shows how Zimbabwe managed to settle the debt arrears with the International Monetary Fund and the subsequent lifting of the "remedial measures" on the country. The re-engagement process agreed at Lima in 2015, will continue in 2017 and the budget proposes to

¹ <http://www.zimcodd.org/zimcodd-press-statement-rbz-debt-assumption-bill2>

support the settling of debts with the remaining creditors. However, the process will entail adoption of some structural reforms that are likely to affect the social and economic lives of citizens as they have done since the 1990s.

The 2017 budget reemphasised the country's commitment with the reengagement process with its creditors. ZIMCODD calls on the government should ensure that the country does not plunge into further borrowing that will continue to be a burden to the ordinary citizens. Rather, the process should be focused on assisting the country to improve its public resources management systems that allow for full and beneficial utilisation of domestic resources to finance social and economic development of the local people. The public debt weighs heavily on the Zimbabwe's social and economic development needs and will continue to negatively impact on its ability to significantly bring down the levels of poverty among its citizens.

On 20 October 2016, Zimbabwe cleared its arrears with the IMF, after paying US\$107.9 million having been in arrears since 2001. It used its allocation of special drawing rights (SDRs) allocated to all IMF member states as part of a global financial rescue package². As a direct outcome of the country's full settlement of all of its overdue financial obligations to the Poverty Reduction and Growth Trust (PRGT), the IMF removed the "remedial measures put on Zimbabwe due to overdue arrears. ZIMCODD wishes to reiterate its position regarding debt management systems in Zimbabwe as the development (lifting of "remedial measures") will not immediately change the social and economic lives of the citizens for the better. Thus the 2017 budget proposals should not be hinged much on the developments surrounding the renewed relations with the IMF.

2. Implications of the Settlement of IMF Arrears to the 2017 Budget

- Following the clearance of the arrears to the Fund, Zimbabwe will now have access to the \$91,2 million which has been in an escrow account since September 2009 pending the clearance of the PRGT obligations³. The question is whether the 2017 budget will benefit from this amount or not.

²<https://www.newsday.co.zw/2016/10/22/zim-clears-imf-arrears/>, Accessed 25 October 2016.

³The escrow account is an account where money that is due to countries that owe the IMF is held, until they settle their obligation as Zimbabwe has done (according to <https://www.thestandard.co.zw/2016/10/23/imf-payment-joke-says-bit/>, Accessed 27 October 2016).

- The settling of overdue obligations to the IMF does not automatically provide Zimbabwe with access to new loan facilities. Zimbabwe still needs clear arrears to other IFFs including the Africa Development Bank (AfDB), the World Bank (WB), and the European Investment Bank (EIB). The country should also embark on further fiscal structural adjustment reforms⁴ according to the creditors. Such conditions will not be bearable to the ordinary citizens in Zimbabwe.
- Zimbabwe does not have the institutional and financial capacity to settle its debts with the remaining multilateral and bilateral creditors at the moment although the budget proposes to settle the debts with the remaining creditors by early 2017. It had targeted to settle \$1,8 billion to three creditors-IMF, WB and AfDB by end of 2016, but there are no prospects of it fulfilling that. The AfDB is still owed about \$610 million, the WB \$1.16 billion⁵ and the EIB, US\$212 million⁶ as well as other bilateral creditors. The proposed structural adjustment reforms are likely to further negatively affect the citizens' social and economic lives. ZIMCODD holds that, the debts with the various creditors have to be confirmed first through a deliberate audit by the government to ascertain their size and legitimacy. Therefore a more sustainable and broader debt management plan still needs to be developed.

3. Conclusion

It is clear that although Zimbabwe has shown its commitment to the reengagement process with its creditors through the 2017 budget, its capacity challenges will always hamper progress. Furthermore, the conditions imposed by the IMF for the country will affect the social and economic lives of the people. Therefore, while the 2017 national budget shows government's plans to settle the debt arrears with the remaining creditors in early 2017, capacity constraints will affect that commitment. This will further affect the implementation of the IPRSP program (2016-2018) as the country will not be able to access any concessional development finance and investment flows budgeted for in the 2017 budget.

4. ZIMCODD Recommendations on Debt Management

- Call for an Official Public Debt Audit to ascertain the size and legitimacy of the debts

⁴ Ibid

⁵ <http://www.imf.org/external/country/zwe/zimbabwefaq.htm>, Accessed 24 October 2016.

⁶ 2017 National Budget Statement

- Improvement in the country's public resources management systems to reduce loss of potential resources through IFIs.
- Unconditional reengagement arrangements with creditors that will not infringe on people's social and economic development.
- Transformation of Lending Policies for Responsible and Legitimate Lending and Borrowing
- Zimbabwe to consider assistance that is meant to strengthen domestic resources mobilisation strategies.