International Monetary Fund

Zimbabwe and the IMF

Zimbabwe: Staff-Monitored Program: Letter of Intent and Technical Memorandum of Understanding

Press Release: Zimbabwe—IMF Management Completes Second Review of Staff-Monitored Program, October 2, 2015

September 30, 2015

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Letter of Intent

September 30, 2015

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, DC 2043
United States

Dear Ms. Lagarde:

We thank the International Monetary Fund (IMF) for its continued support of our economic reform programme and valuable technical assistance. This support continues to play a pivotal role in our efforts towards normalizing relations with our creditors and eventually accessing Fund financial resources.

Our continued engagement under the Staff-Monitored Programme (SMP) remains critical for a more stable macroeconomic environment and fostering private sector-led growth. However, the macroeconomic environment remains difficult. Weak domestic demand, lower commodity prices, the appreciation of the dollar, insufficient external inflows and the recent drought have weighed on the economy.

The programme remains on track and the Government is committed to the reforms agreed in the context of the SMP. We have met four of the five end-June 2015 quantitative targets, despite the economic and financial difficulties. In particular we met the end-June primary balance target, while protecting social spending, and managed to improve our international reserve position. However, a recently contracted $200 million nonconcessional loan was not in line with our commitment under the program. The funds were used mainly to restructure existing obligations —including for key economic sectors— to prevent them from becoming non-performing, and to avoid accumulation of additional external arrears (Table 1).

We have made substantial progress in structural reforms. We have met all structural benchmarks for the second review (Table 2):

a) We submitted to Cabinet both the recommendations on reforms to the fiscal regime for the mining sector; and the strategy paper on reducing the wage bill.

b) We submitted to Parliament the amendments to the Reserve Bank and the Banking Acts.

c) We developed the operational framework for the Zimbabwe Asset Management Corporation (Pvt.) Limited (ZAMCO) which specifies an appropriate legal governance structure, including necessary powers; an asset valuation and transfer pricing strategy, and a feasible and sustainable funding strategy.

Moreover, we have already fulfilled two of the structural benchmarks for the third review:

a) We amended the Labour Act to introduce labour market flexibility; and

b) Following the approval by Cabinet of the draft principles for ZAMCO, we submitted the amendments to the Reserve Bank of Zimbabwe Act dealing with ZAMCO to Parliament.

Against this background, we would like you to approve completion of the second review under our 15-month SMP, and the modification of quantitative targets for 2015. The Government believes that the economic and financial policies set forth in our Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) of November 3, 2014, supplemented with the LOI of April 17, 2015 and this updated LOI are adequate to meet the objectives of the SMP, but stands ready to take additional measures.

Furthermore, we will consult with the IMF staff in advance of any revisions to the policies contained in the LOI and MEFP of November 3, 2014, the LOI of April 17, 2015 and this updated LOI, in accordance with the IMF's policies on such consultations, at the initiative of the Government or the IMF staff.

In line with our commitment to transparency in government operations, which we believe is essential for good governance, we consent to the publication of all SMP-related documents on the IMF's web site.

POLICIES FOR THE REMAINDER OF THE YEAR

1. The current economic situation is increasingly difficult, but we continue to focus on improving the country's growth prospects and capacity to repay:

- Growth has slowed down because of the poor 2014/15 agricultural season, low investment levels, scarce liquidity, and a drop in the international prices for our major exports. Risks remain tilted to the downside. The implementation of our economic blueprint has been delayed by the absence of financing for key infrastructure projects. Over the medium term, we expect that the ongoing efforts to improve the business environment and investor confidence will attract much needed capital and help spur private sector-led growth in a sustainable way.

- The external position remains precarious but international reserves have improved slightly along with the current account. The current account deficit has been mainly financed by short- and long-term loans to the private sector, which has remained current on its payments. External arrears have declined.

- Inflation remains in negative territory, reflecting the effects of the continued depreciation of the South African rand, weak domestic demand, and lower commodity prices.

- A shortfall in revenue collection has intensified fiscal pressures, and has made expenditure rationalization an urgent priority. We are committed to improving our fiscal position by strengthening revenue collection and rationalizing expenditures, including savings on employment costs. The objective is to improve our capacity to service debt, deliver better services and increase funding for critical social and infrastructure projects.

- We have intensified our efforts to mobilize international support for clearing our arrears with the International Financial Institutions (IFIs) as a first step towards normalizing relations with creditors. To this end, we have prepared a strategy paper which will be presented to creditors on the sidelines of this year's Annual Meetings of the IMF and World Bank in Lima, Peru.

- We have made significant progress in stabilizing the financial sector and boosting confidence. Going forward, we will ensure that the sector performs its key role of allocating scarce resources to productive uses.

- We will continue to implement our structural reform agenda to improve the business climate, boost productivity and competitiveness.

2. Over the medium term, we remain committed to implementing sound macro-economic and structural policies. The objectives are to: (a) maintain macro-economic stability, (b) fully harness Zimbabwe's growth potential, (c) tackle fiscal challenges, (d) further hone confidence in the financial sector, (e) improve the external position, and (f) set the stage for strong private sector-led growth.

A. Fiscal Policy

3. We are fully committed to achieving a balanced primary fiscal position but the revenue shortfalls make it difficult this year. Nevertheless, we intend to lower the primary deficit to below 0.5 percent of GDP and aim at a balance in 2016. The shortfall reflects the country's widespread economic difficulties, shrinking corporate profits and earnings, limited ability of companies to pay taxes on time, and an increasingly informal economic activity. In *The 2015 Mid-Year Fiscal Policy Review* we announced measures aimed at generating additional revenues by removing exemptions, raising tax rates, and extending the VAT to parts of the insurance sector. In line with the Cabinet's resolution, we are rationalizing the country's public service establishment in order to generate savings on employment costs. We are seeking cuts in lower priority current and capital spending, and postponing the implementation of new projects while safeguarding priority social spending.

4. We are taking actions to strengthen revenue collections. Specifically, we are enforcing tax payments by agreeing with clients on repayment schedules to eliminate their overdue tax obligations. We are strengthening revenue administration, in collaboration with our international partners. Moreover, we plan to implement the recommendations of the recently completed AFRITAC South technical assistance mission focusing on improving risk mitigation techniques in customs. Going forward, we plan to rationalize the tax expenditure regime. We also plan to review the design of our tax system with a view to making it more business friendly and to halt the recent slide in tax collection as a percentage of GDP. For this purpose, we intend to request Fund technical assistance.

5. Cabinet has agreed on the principles of the fiscal regime for the mining sector which aim at generating additional revenue without undermining investors' incentives. With the support of our international partners, we have started working on the specific proposals for mining taxation. We will seek Fund technical assistance to help prepare the mining taxation proposals. We developed a fiscal model for mining sector revenue monitoring and projections and, in collaboration with the mining companies, we are working towards implementing it. The amendments to the Mines and Minerals Act (MMA) , together with the new mining fiscal regime, will be submitted to Cabinet once stakeholder consultations have been completed.

6. We have made efforts to reduce our employment costs by tightening controls and starting to rationalize the civil service. We will keep the 2015 employment costs below budget projections. Cabinet is currently considering the report by the Civil Service Commission (CSC), containing proposals to streamline public sector employment. In line with the recently completed audit of the civil service, we have started to eliminate duplications and redundancies. We have set up a Wage Bill Management

Committee to make proposals to reduce the wage bill to the accepted level of 40 percent of expenditure over the next few years. Moreover, by end-2015 we expect to complete decentralization and modernization of the Salary Service Bureau, which would place a payroll assistant in every district, strengthening control over the wage bill and minimizing irregularities. We remain committed to reducing domestic arrears and improving service delivery.

7. We have made progress in amending the Public Finance Management Act to strengthen Treasury oversight of public enterprises and local authorities. The Draft Amendment Bill is currently being drafted and will be submitted to Cabinet before the end of 2015.

8. A first round of discussions with stakeholders of the proposed amendments to the Procurement Act has taken place and we are now incorporating their feedback. We will send the amendments to Cabinet by end December 2015. We will also receive assistance under the World Bank administered Zimbabwe Reconstruction Fund for the implementation of reforms to the procurement framework and building of capacity of procuring agencies.

9. We have started work on restructuring parastatals to reduce fiscal costs, improve accountability and service delivery. To this end, Cabinet has considered turnaround strategies for the Zimbabwe Broadcasting Corporation, Cold Storage Commission, Air Zimbabwe, the National Railways of Zimbabwe and TelOne. The Cabinet has already approved the strategies for Air Zimbabwe and TelOne. The financial situation of the Agricultural and Rural Development Authority has improved following the establishment of joint venture partnerships. Turnaround strategies for Zimbabwe National Water Authority, Industrial Development Corporation and NetOne have been submitted for consideration in the next quarter. We will publish the audited financial statements of the Zimbabwe Mining Development Corporation. In addition, we are working on a Corporate Governance Bill which will establish a Corporate Governance Agency and performance principles for state owned enterprises (SOEs).

B. Raising Confidence in the Financial Sector

10. The policy measures put in place by the Reserve Bank of Zimbabwe (RBZ) to enhance financial stability have begun to yield fruit:

- We cleaned the financial sector of all distressed banks by end-June 2015. Of the two remaining distressed banks at end-March, one has been successfully recapitalized and the other has been placed under the judicial management of the Deposit Protection Corporation.

- The ratio of banking sector non-performing loans (NPLs) to total loans has declined from 20.5 percent in September 2014 to 14.5 percent in June 2015.

- Banking sector capitalization has improved. At the end of June 2015 all operating financial institutions complied with the minimum capital requirements.

11. ZAMCO is now fully functional. Its operational framework has been defined and mostly implemented. This framework, together with ZAMCO's governance structure, is in line with international best practice. To strengthen ZAMCO's mandate, we have developed amendments to the Reserve Bank of Zimbabwe Act which are now before Parliament (third review structural benchmark). The NPL acquisition policy has been approved by ZAMCO Board. ZAMCO has undertaken a phased approach to acquiring

NPLs, focusing initially on the top 100 eligible mortgaged-backed NPLs. At the end of August 2015, it had acquired NPLs amounting to US$157 million, financed by long-term government securities. Our asset valuation and pricing policy is in line with Fund TA recommendations. We are also exploring the possibility of private funding. Moreover, ZAMCO has established a sinking fund to help meet the debt servicing obligations for the government securities. In addition to acquiring and resolving NPLs, ZAMCO will also play an instrumental role in redressing potentially viable companies. The credit reference system will complement the work of ZAMCO, toward further reducing NPLs.

12. The interbank liquidity facility underwritten by the Afreximbank is now operational, and has gone a long way in addressing liquidity shortages in the financial sector. At the end of July 2015, a total of US$126 million was mobilized from the surplus banks, of which US$89 million has been accessed by participating banks.

13. The RBZ Debt Assumption Act was enacted on 7 August 2015 and 43 percent of validated non-core RBZ debt has been assumed by Government through the issuance of long-term securities. The amendments to the Reserve Bank and the Banking Acts aimed at enhancing corporate governance, the problem bank resolution framework, risk management and compliance, have been submitted to Parliament.

14. We believe interest rates should be market-determined. However, in the current difficult environment, the quality of banks' portfolios could be compromised by very high interest rates that encourage risky lending. To safeguard the financial sector, the RBZ and the Bankers Association of Zimbabwe agreed on guidelines for interest rates.

15. As part of our effort to provide credibility to the multicurrency system, in June 2015, we promulgated a law demonetizing the Zimbabwe dollar (Z$) through the Reserve Bank of Zimbabwe Demonetisation of Notes and Coins Notice, 2015. This removes the legal status of the Z$. Over a four-month period all Z$ bank deposits on December 31, 2008 and Z$ cash held by the public will have been converted in accordance with the rates stipulated in the above cited Notice.

C. Addressing Zimbabwe's Substantial Debt Burden

16. The large external debt burden and the outstanding payment arrears continue to impede Zimbabwe's access to external finance, hampering its development agenda. We have stepped up our efforts to reengage with creditors to garner support in resolving our external arrears. We have also continued to make payments to the World Bank (WB), in line with its *pari passu* requirement, and to the African Development Bank (AfDB) along the same lines. We have also maintained token payments to the European Investment Bank (EIB). As our payment capacity improves, we will increase our payments to all IFIs. The EIB and the International Finance Corporation (IFC) and business delegations from several countries had scoping visits to Zimbabwe this year.

17. During the remainder of this SMP, we will continue to treat current SDR holdings as our core international reserves, unless used for arrears clearance to the IMF as part of a strategy to clear the arrears to the IFIs. We will avoid selective debt servicing to bilateral creditors, as it may complicate reaching an agreement with creditors on a debt resolution strategy. Nevertheless, we will continue to make repayments to all creditors that are providing us with positive net new financing.

18. In June 2015, we contracted a US$200 million non-concessional loan mainly to restructure our

existing obligations, including those of key economic sectors, such as mining and agriculture to prevent these from becoming nonperforming. In addition, this transaction avoided incurring new arrears with a creditor that has provided new net inflows.

19. As reiterated in our 2015 Budget Statement, we will continue to make best efforts to contract or guarantee concessional loans and resort to non-concessional loans only if grants and concessional financing are not available, subject to the limits proposed in Table 1, and for critical growth-enhancing projects that can improve the country's capacity to repay. For large projects, we are committed to consult with reputable and independent institutions, such as the WB or AfDB before signing loan agreements. We have not yet concluded negotiations for the guarantees of two loans for fiber optic expansion and the expansion of power generation in Hwange. We have concluded discussions on the development of Zhove irrigation project (US$30 million) and the construction and rehabilitation of 12 primary and 5 secondary schools in settlement areas. We now await draft loan agreements. In addition, preliminary discussions are currently underway for the financing of the rehabilitation and development of irrigation infrastructure in eight provinces (US$30 million), renovation of Bulawayo Thermal Power plant (US$87 million), and rehabilitation and restoration of water supply schemes (US$34 million). In addition, we may contract non concessional loans for clearing external debt arrears.

20. The newly enacted Public Debt Management Act statutorily establishes the debt management office within the MoFED, and provides the legal and institutional framework that guides debt management operations.

D. Other Structural Reforms

21. Enhancing the business environment remains a key objective. We plan to publish guidelines on the Indigenisation and Economic Empowerment Law on the website of the Zimbabwe Investment Authority (structural benchmark for the third review). Job creation and equal opportunities for all Zimbabweans remain the over-arching goal of ZIM ASSET. In August 2015, we amended the Labour Act which dated back to 1985 (structural benchmark for the third review).

PROGRAMME MONITORING

22. The SMP will continue to be monitored through quantitative targets and structural benchmarks. Updated quantitative targets are set out in Table 1 and the structural benchmarks in Table 3. The third and final review of the SMP will take place in early-2016 based on end-December 2015 quantitative targets. The agreement between Zimbabwe and IMF staff regarding the technical definitions of quantitative targets and structural measures described in this LOI, as well as reporting requirements, are further specified in the attached Technical Memorandum of Understanding (TMU, Attachment 1).

23. The Government of Zimbabwe remains committed to ensuring that the programme remains on track, given its importance as one of the key steps toward a Fund-supported financial programme and hence the importance of establishing a good track record of implementing sound macro-economic policies. To this end, we will continue to monitor the programme at both the technical and political levels. At the political level, the monitoring is coordinated by the Office of the President and Cabinet through monthly meetings. The technical monitoring committee, comprised of officials from the Ministry of Finance and Economic Development, Ministry of Economic Planning and Investment Promotion the

Reserve Bank of Zimbabwe, the Zimbabwe National Statistics Agency, and the Zimbabwe Revenue Authority, meets regularly.

Yours sincerely,

/s/	/s/
Hon. Patrick A. Chinamasa,	John P. Mangudya,
Minister of Finance & Economic Development Government of Zimbabwe	Governor Reserve Bank of Zimbabwe

Table 1. Zimbabwe: Quantitative Targets

(Millions of U.S. Dollars, unless otherwise indicated)

	2014[1]	2015[1]						
	Dec.[2]	March	March	June[2]			Sept.	Dec.[2]
	Act.	Program	Act.	Program	Act.	Status	Proposed	Proposed
1. Floor on primary budget balance of the central government [3,4]		-10	-36	-142			-91	-55
Adjusted floor	-98			*-148*	-142	Met		
2. Floor on protected social spending	95	15	15	35	35	Met	57	72
3. Floor on stock of net international reserves	178	177	183	189	223	Met	140	184
4. Floor on payments to the PRGT	1.95	0.45	0.45	0.90	0.90	Met	1.35	1.80
5. Continuous ceiling on the stock of new non-concessional external debt contracted or guaranteed by the general government with original maturity of one year or more	369	400	13	400	13	Not met 5/	400	400
Memorandum Items:								
1. Ceiling on total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates	178	304	209	341	225	Met	231	178

[1] Value of cumulative flows for the calendar year, unless otherwise indicated.

[2] Program performance will be monitored based on the quantitative targets for December 2014, June 2015 and December 2015.

[3] To be adjusted downwards in any quarter and subsequent quarters by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.

[4] To be adjusted downwards in any quarter and subsequent quarters by the full amount of any domestic debt issuance by central government ring-fenced for clearance of domestic payment arrears. For end-December 2014, the adjusted floor reflects $76 million borrowed to clear domestic arrears.

[5] The target was not met since a $200 million nonconcessional loan contracted did not meet the program definitions as it is not debt contracted for the financing of critical growth-enhancing projects in accordance with the TMU.

Table 2. Zimbabwe: Structural Benchmarks for the Second Review

Benchmarks[1]	Macroeconomic Rationale	Review	Status
Tax Policy			
1. Submit to Cabinet a report with MoFED's recommendations on reforms to the fiscal regime for the mining sector.	Enhance tax administration and improve revenue collection	2nd	**Met**.
Public Financial Management			
2. Submit to Cabinet a strategy paper on reducing the wage bill.	To manage the wage bill to allocate more resources towards the capital budget	2nd	**Met**.
Financial Sector			
3. Develop the operational framework for ZAMCO, specifying: • an appropriate legal and governance structure, including necessary powers; • an asset valuation and transfer pricing strategy; and • a feasible and sustainable funding strategy.	Address the problem of NPLs and strengthen banks' balance sheet	2nd	**Met.**
4. Submit to Parliament the amendments to the Reserve Bank of Zimbabwe Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd	**Met.**
5. Submit to Parliament the amendments to the Banking Act.	Strengthen legal and regulatory framework and reduce financial sector vulnerability	2nd	**Met.**

[1] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.

Table 3. Zimbabwe: Structural Benchmarks 2015

Benchmarks[2]	Macroeconomic Rationale	Review	Status
Public Financial Management			
1. Submit to Cabinet amendments to the Public Finance Management Act to strengthen Treasury's financial oversight of SOEs and local authorities.	Enhance public expenditure and financial management	3rd	
2. Submit to Cabinet amendments to the Procurement Act to tighten the public procurement framework and make it more efficient and transparent.	Strengthen governance and accountability	3rd	
Financial Sector			
3. Develop draft principles of the ZAMCO Bill for submission to Cabinet.	Strengthen the mandate of ZAMCO	3rd	Met
Investment Climate			
4. Produce a guide on the Indigenisation and Economic Empowerment Law for publication on the ZIA website.	Increase transparency and boost investor confidence	3rd	
5. Submit to Cabinet amendments to the Labour Relations Act.	Improve the business climate by promoting labour market flexibility, as well as enhancing productivity and competitiveness	3rd	Met

[2] Each structural benchmark is to be completed by the earlier of: (i) the time of the relevant review; or (ii) end-December 2015, the end of the SMP.

Technical Memorandum of Understanding

INTRODUCTION

This memorandum sets forth the understandings between the Government of Zimbabwe and the IMF staff regarding the definitions of the quantitative targets, the structural benchmarks, the applicable adjusters, and the respective reporting requirements for the Staff- Monitored Programme (SMP). The quantitative targets and structural benchmarks are reported in Table 1 of the Government's Letter of Intent (LOI).

DEFINITIONS

1. **Central government** represents a single institutional unit consolidating all the accounts whose total revenues and expenditures are authorized through the Blue Book (including line ministries, the Parliament of Zimbabwe, the Auditor General's Office, and Vote of Credit). The definition excludes public entities with autonomous legal personae whose own budgets are not included in the central government budget.

2. **The general government** comprises the central government, the Reserve Bank of Zimbabwe (RBZ), extra-budgetary funds, social security, and local governments.

3. **The public sector** comprises the general government and all state-owned enterprises.

4. **Non-interest expenditures** are measured on a cash basis. Non-interest expenditures include current expenditures (wages and salaries, pensions, goods and services, grants and transfers), capital expenditures, and net lending. Net lending comprises loans granted by the central government, except in the case of on-lending of externally borrowed funds, which is included as a negative domestic financing item ("below the line"). All expenditures and net lending financed with loans to be serviced by the central government fall within the programme's definition of expenditures and net lending, even if the cash did not transit through the treasury. Non-interest expenditures will be measured from the budget execution data.

5. **Domestic arrears** are defined as overdue domestic payment obligations of the central government, whether verified or not, to domestic service providers, agricultural input suppliers, and on capital certificates. Payments for goods and services are in arrears if they have not been made within 90 days after invoice receipt from service providers; and after the invoice date for contractors executing capital projects for the government. Arrears will be monitored using the monthly Fiscal Monitor. Domestic service providers are defined to comprise the Central Mechanical Equipment Department (CMED), NetOne, TelOne, ZESA Holdings, ZINWA (water authority), and the local authorities.

QUANTITATIVE TARGETS

Floor on the Primary Budget Balance of the Central Government

6. **The primary budget balance of the central government** is measured on a cash basis and is defined as revenues and grants minus non-interest expenditures. The central government primary balance will be measured from above the line using budget execution data.

Floor on Protected Social Spending

7. **Protected social spending** is measured on a cash basis and comprises central government spending in the following areas:

- **education** (recurrent spending on teaching and learning materials, on student stipend support from the National Education and Training Fund; and capital spending on upgrading of schools and other facilities);

- **health** (recurrent spending on government hospitals and health centres, on grant-aided institutions such as Parirenyatwa Hospital, mission hospitals, and local authorities, on maternal and child health, on results-based financing, on preventive health programmes, on procurement of ARVs and TB drugs; and capital spending on revitalization of health institutions, on medical equipment, and on procurement of ambulances and service vehicles);

- **social protection** (recurrent spending on the Basic Education Assistance Module (BEAM), on the harmonized cash transfer, on health assistance, on rehabilitation of disabled persons, on government social protection institutions; and capital spending on refurbishment of rehabilitation centres);

- **water and sanitation** (capital spending on water and sewer infrastructure for local authorities, on water supply infrastructure for small towns and growth points, and on water and sanitation for rural areas);

- **agriculture** (recurrent spending on animal diseases and risk management, and capital spending on irrigation rehabilitation and development and on input support for disadvantaged households); and

- **other** (capital spending on construction and rehabilitation of rural roads).

Floor on the Stock of Net Official International Reserves

8. **Net official international reserves (NIR)** are defined as the difference between the RBZ's liquid, convertible gross official foreign reserve assets and its short-term official foreign reserve liabilities. For the purpose of the programme, SDR-denominated accounts will be valued at the programme exchange rate of US$ 1.52 per SDR.

- **Gross official reserve assets** of the RBZ are defined as the sum of: (i) Zimbabwe's SDR holdings (excluding SDRs allocated under the Fourth Amendment of the IMF's Articles of agreement and placed in escrow account at the IMF (SDR 66.4 million); (ii) refined gold: (iii) balances with foreign banks; (iv) foreign treasury bills, securities and investments, and foreign currency held by the Reserve Bank of Zimbabwe; and (v) Zimbabwe's reserve position in the Fund. Pledged or otherwise encumbered assets, including but not limited to, assets used as collateral or as guarantee for third-party external liabilities are excluded from official reserve assets.

- **Short-term official reserve liabilities** of the RBZ are defined as: (i) outstanding credit from the IMF; (ii) and short-term foreign currency liabilities to non-residents with maturity of up to and including one year. Official foreign liabilities used to calculate the NIR do not include long-term liabilities such as SDR allocations.

Ceiling on the Amount of New Non-concessional External Debt Contracted or Guaranteed by the General Government with Original Maturity of One Year or More

10. **Contracting or guaranteeing of new external debt by the general government** applies to debt to non-residents with original maturity of one year or more. For the purposes of the programme, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis for the prevailing calendar year.

11. Debt is defined as concessional if, at the time of its contracting, the ratio between the present value (PV) and the face value of debt is less than 65 percent (equivalent to a grant element of at least 35 percent). The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent.

12. New non-concessional debt will be contracted or guaranteed only as financing for critical growth-enhancing projects that can improve the country's capacity to repay. These projects would be consistent with the key sectors expected to drive economic growth under ZIM ASSET, including mining, agriculture, infrastructure, transport, tourism, ICT, SMEs and cooperatives, supported by investment in education and health facilities. Large projects (above $100 million) will be assessed in consultation with a reputable and independent financial institution, such as the African Development Bank, the Development Bank of Southern Africa, or the World Bank, prior to the signing of the loan agreement and project documents.

Adjusters

13. The quantitative target on the primary budget balance of the central government specified under the programme is subject to the following adjusters:

- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any new borrowing disbursed and utilized by central government for priority infrastructure projects.

- The floor on the cumulative primary budget balance in any quarter and subsequent quarters will be adjusted downwards by the full amount of any domestic debt issued by central government ring-fenced for clearance of domestic payment arrears.

DATA REPORTING

14. To facilitate the monitoring of programme implementation, the Government of Zimbabwe will prepare and forward to the Fund staff electronically information in accordance with the agreed reporting framework contained in Table 1.

Table 1. Zimbabwe: Data Reporting for Programme Monitoring

Data Description	Reporting Institution	Reporting Frequency	Submission Lag
Monetary and Financial Sector			
NIR, NFA, monetary control programme	RBZ	Weekly	1 week
Broad money survey	RBZ	Monthly	2 months
RTGS transactions	RBZ	Monthly	1 month
Prudential liquid asset ratios	RBZ	Monthly	1 month
Cash flow of the RBZ	RBZ	Monthly	1 month
Balance sheets and income statements for financial institutions	RBZ	Quarterly	2 months
Financial soundness indicators (aggregate and by bank)	RBZ	Quarterly	2 months
Lending activity of banks (by sector)	RBZ	Quarterly	2 months
Commercial bank interest rates	RBZ	Monthly	1 month
External Sector			
RBZ purchases and sales of foreign currency	RBZ	Monthly	1 month
Balance of payments (incl. revised outturn for previous quarters)	RBZ/ZIMSTAT	Quarterly	3 months
Import and export data, for aggregated sectors	RBZ/ZIMSTAT	Monthly	1 month
Net international reserves (incl. reserve assets/liabilities by currency)	RBZ	Monthly	1 week
Foreign exchange flow data (by type of flow)	RBZ	Monthly	1 month
Diamond production, exports, and prices	RBZ	Quarterly	1 month
RBZ Monthly Economic Review	RBZ	Monthly	6 weeks
Quarterly report on macroeconomic developments	MoFED	Quarterly	1 month
Detailed terms and conditions of all new contracted and government-guaranteed external borrowing (concessional and non-concessional); and committed undisbursed balances (by creditor)	MoFED	Monthly	1 month
External debt stock, disbursements, amortization, interest, other fees and charges, and repayment (by creditor and currency)	MOFED	Quarterly	1 month

Table 1. Zimbabwe: Data Reporting for Programme Monitoring (concluded)			
Data Description	**Reporting Institution**	**Reporting Frequency**	**Submission Lag**
Fiscal Sector			
Central government operations – revenue, expenditure, and financing	MoFED	Monthly	1 month
Detailed data on the execution of the recurrent budget (by economic and administrative classification and by line ministry)	MoFED	Monthly	1 month
Total stock of arrears to domestic service providers, agricultural input suppliers, and on capital certificates at end-Month	MoFED	Monthly	1 month
Stock of domestic debt, disbursements, amortization, interest, and other fees and charges; face value, maturity, interest rate, and payments schedule for new domestic loans and securities	MoFED	Monthly	1 month
Employment data for each ministry	MoFED	Monthly	1 month
Detailed data on resource revenue (by type)	MoFED	Quarterly	1 month
Detailed data on the budget execution of protected social spending (as defined in this document)	MoFED	Quarterly	1 month
Details of disbursed external budget support and project grants and loans	MoFED	Quarterly	1 month
Real Sector			
Consumer Price Index	ZIMSTAT	Monthly	1 month
Fuel price indices, including Petrol, Diesel, and Paraffin	ZIMSTAT	Monthly	1 month
Producer Price Index; Building Materials Price Index; Poverty Datum Lines; and Civil Engineering Materials Index	ZIMSTAT	Quarterly	6 weeks
Agricultural production data (volume/value of major products)	ZIMSTAT	Semi-annually	6 months
Mining production data (volume/value by minerals), excluding production from sand and stone quarries	ZIMSTAT	Quarterly	6 weeks
National Accounts (breakdowns of production and expenditure side in real and nominal terms)	ZIMSTAT	Annually	8 months
Quarterly Digest of Statistics	ZIMSTAT	Quarterly	3 months
Structural Benchmarks			
Update on the status of implementation of the structural benchmarks specified in Table 3 of the LOI	MoFED/RBZ	Quarterly	3 weeks

Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

    (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

    (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

    (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.