



ZIMBABWE:-

**STRATEGIES FOR CLEARING EXTERNAL DEBT
ARREARS AND THE SUPPORTIVE ECONOMIC
REFORM AGENDA**

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INTRODUCTION

Zimbabwe is in arrears on most of its external official debt. Lack of balance of payments and budget support has hampered economic growth prospects. Moreover, critical offshore credit facilities contracted by the private sector are expensive on account of perceived country risk.

Under the multiple currency system (dollarization), the lack of access to external financial support has translated into a tight liquidity situation. Moreover, growing import dependence on the back of subdued export performance and lack of competitiveness in general, has brought to the fore, the need for the country to meaningfully secure both debt and non-debt creating capital inflows to put the country on a recovery path and to catch up with the rest of Africa.

Within this context, Government has resolved to find lasting solutions to clear its external debt arrears to both multilateral and bilateral creditors as a prerequisite for the country to unlock fresh capital injections in order to meaningfully contribute towards the attainment of accelerated, inclusive and sustained economic growth and poverty reduction. It is against this backdrop that Government constituted a Debt Arrears Clearance Committee (DACC) in May 2015, which was mandated to come up with strategies to resolve the country's debt burden. The Committee, which is chaired by the Governor of the Reserve Bank of Zimbabwe (RBZ), comprises of officials from the following institutions:

- i. Ministry of Finance and Economic Development;
- ii. Reserve Bank of Zimbabwe;
- iii. International Monetary Fund (IMF);

- iv. World Bank Group (WBG); and
- v. African Development Bank (AfDB)

International Financial Institutions (IFIs) are represented in this Committee by their respective country representatives. Various options proffered by IMF, WBG, AfDB and Government were explored by the Committee. In this regard, the Committee would like to express its appreciation to the International Monetary Fund (IMF), the World Bank and the African Development Bank for providing useful insights into alternative arrears clearance options applicable to the Zimbabwean context.

It is against the above backdrop that, this paper presents the strategies that Government has resolved to pursue in its quest to effectively resolve the country's external debt arrears to both multilateral and bilateral creditors for consideration by IFIs and Development Partners. The paper also highlights the supportive reform agenda that Government is pursuing to unleash economic transformation and poverty eradication.

The IFIs and development partners are therefore kindly requested to support these debt arrears clearance strategies and the economic reform agenda for the betterment of the Zimbabwean economy.

OVERVIEW OF ZIMBABWE'S PUBLIC DEBT

As at end of December 2014, the country's total external debt amounted to US\$10,8 billion, of which US\$6,8 million was public sector debt and

US\$4,0 billion was private sector external debt. Whilst the private sector debt is performing, the public sector one is not.

Table 1: Zimbabwe's Total External Debt as at 31 Dec 2014 (US\$ Million)

	Debt Outstanding Disbursed	Principal Arrears	Interest Arrears	Penalties	Total
TOTAL PUBLIC EXTERNAL DEBT	1,214	3,271	1,262	1,023	6,768
Bilateral Creditors	260	1,101	313	771	2,445
Paris Club	156	1,040	308	759	2,264
Non-Paris Club	103	61	5	11	180
Multilateral Creditors	380	1,028	670		2,078
AfDB	0	250	262	-	512
AfDF	38	12	4	-	54
IBRD	-	325	288	-	613
IDA	317	165	53	-	534
IMF	-	97	23	-	120
Other	25	179	40		245
External Debt (Publicly Guaranteed Parastatal Debt)	574	1,143	280	251	2,248
Bilateral Creditors	574	297	87	197	1,155
Paris Club	98	297	87	197	679
Non-Paris Club	476	-	-	-	476
Multilateral Creditors	-	279	194	54	527
AfDB	-	37	36	-	73
IBRD	-	139	144	-	283
Other Multilateral Creditors	-	103	14	54	171
Other External Debt	-	566	-	-	566
PRIVATE SECTOR EXTERNAL DEBT	4,069	-	-	-	4,069
TOTAL EXTERNAL DEBT	5,283	3,271	1,262	1,023	10,837

Source: Government of Zimbabwe

The country's arrears status to the multilateral creditors has, therefore, rendered the country ineligible to access funding from these institutions. As a result, the need for arrears clearance has become critical. The country's public and publicly guaranteed external debt is mainly owed to bilateral creditors which constituted about 53% (or US\$3,6 billion) and multilateral creditors which accounted for about 38% (or US\$2,6 billion), as shown in Table 1 above.

Publicly guaranteed external debt, mainly of state-owned enterprises, amounted to US\$2,2 billion or 25% of the public guaranteed external debt.

STRATEGIES FOR CLEARING EXTERNAL DEBT ARREARS

Various mechanisms for clearing external payment arrears to IFIs that were explored by the Committee included the use of domestic resources, donor grants, donor loans, regional partners' assistance and bond issuances.

A synthesis of these arrears clearance options and extensive deliberations by the Committee have yielded an agreed direction in terms of Government's preferred roadmap for the clearance of debt arrears.

The arrears clearance road map takes into account the fact that Zimbabwe does not qualify for HIPC and the Multilateral Debt Relief Initiative (MDRI).

The country's strategy in respect of clearing debt arrears is, therefore, premised on a non-HIPC debt resolution strategy and supported by a credible economic reform agenda to ensure debt sustainability and unleashing economic transformation.

In essence, the strategy that the country is pursuing is anchored on the clearance of external debt arrears to the three IFIs namely the IMF, WBG and the AfDB as a first step toward seeking a debt treatment by the Paris Club in the context of a strong economic reform program.

The resolution of external debt arrears to IFIs is to be achieved through a combination of the following strategies that Government has put in place:

- a. Use of domestic resources to clear arrears to the IMF;
- b. Use of a bridge loan to clear AfDB Group debt arrears; and
- c. Use of a medium to long-term loan facility to clear arrears to the World Bank Group.

It is envisaged that the settlement of external payment arrears by Government to the tune of US\$1.8 billion owed to multilateral creditors, would be completed in the first part of 2016. Specifically, the chronological steps would be for Government to use the bridge loan facility that has been arranged by the debt advisers, African Export-Import Bank (Afreximbank), to clear the outstanding arrears to AfDB of US\$585 million and ADF of US\$16 million by 31 December 2015. The bridge loan would be repaid using inflows from the Pillar II of AfDB.