AFRODAD

Annual Debt Management Report

for

Zimbabwe

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Zimbabwe Coalition on Debt and Development

ZIMCODD

Acknowledgements

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Executive Summary

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Zimbabwe is in debt distress for a very long time. It has been struggling with settling its debt since beginning of the new millennium in 2001. This has constrained the government from accessing foreign loans except from a few creditors because there are no guarantees. In the absence of any foreign loans, it is difficult for Zimbabwe to implement any development programme. It forces the government to resort to domestic borrowing crowding out private investment leading to slow growth since governments are usually inefficient compared to private sector investment unless if it is investment in key enablers in the country. Domestic resource mobilisation is constrained and the national budget expenditure is mostly recurrent. In the absence of loans, not much is happening on development.

Four major pieces of legislation that govern public debt management include the Constitution of Zimbabwe; Public Debt Management Act; Public Finance Management Act and the Reserve Bank of Zimbabwe Act. Zimbabwe's debt management legal framework is very clear and is rated quite strongly by development partners such as World Bank and MEFMI as one that meets minimum standards for debt management. The major issue has been on government's failure to comply with the law. For example with regards to observing the borrowing limits for Government's borrowing were not fixed by the National Assembly resolution The other issue if the failure by the Ministry of Finance to present to Parliament a report on loans raised and guarantees issued by the State and a comprehensive report on public debt.

The institutional arrangement for debt management includes but not limited to the Ministry of Finance and Economic Development; Debt Management Office; External and Domestic Debt Management Committee, Reserve Bank of Zimbabwe (RBZ); Parliament of Zimbabwe. The DMO is housed as a unit within the Ministry of Finance and Economic Development. Concerns were raised by some of the consulted stakeholders regarding the independence of this office. Stakeholders revealed that its efficiency and effectiveness in debt management is more critical than where it is placed. Others however, strongly felt it requires operating autonomously to ensure checks and balances within the Ministry of Finance. The other issue is the housing of the front office of the DMO in another department of the Ministry of Finance raises coordination issues thus impeding on effective debt management. The front office for the domestic debt is housed in the RBZ. Depending on information flow from the RBZ to the Ministry of Finance, this set up could also pose coordination issues thereby compromising on sound debt management. Further, it was highlighted that there is no perfect flow of information between these institutions.

The country's current sovereign debt is regarded as high and unsustainable estimated at ZWL$66.8 billion[1] as at end June 2019. External debt is estimated at US$8.1 billion (ZWL$58.8 billion), of which about US$5.9 billion (72.8 percent) is accumulated arrears. In the face of the local currency depreciation, external debt becomes expensive to service given that more Zimbabwe dollars are required to purchase US dollars if the local currency continues to depreciate against the US dollar. An issue of concern is the fact that external debt dominates in other countries but in Zimbabwe it is almost at par with the domestic debt.

Domestic debt is about ZWL$8.8 billion which translates to around 13 percent of total debt. It ballooned from zero in 2011 to about US$9.62 billion in 2018 (January to September), before declining by about 9.4 percent to ZWL$8.8 billion (about US$1.33 billion) by June 2019. This reflected a massive pace at which it accumulated which is not a good sign for the economy. Further, this is evidence of the limited access to external financing. Despite the Government of Zimbabwe benefiting from domestic debt being eroded by the depreciation of the Zimbabwe dollar against the United States (US) dollar, as Zimbabwe dollar continues to depreciate, the local creditors have been reaped off their real value of their loans which may further threatens Zimbabwe's country risk profile. Domestic debt to GDP was 37% in 2018 which is very significant compared to that of the regional countries which is lower than 20%. This implies that pressures on the government are significant. Options for borrowing are narrow locally.

External and domestic debt have largely been driven by penalties on overdue external debt; high budget deficit; Central Bank overdraft facility; large infrastructure requirements and depreciation of the local currency.

In an attempt to address the debt problem in Zimbabwe, the Government of Zimbabwe undertook a number of initiatives. One of the initiatives was the Domestic Debt Restructuring (2001-2008) but the policy did not produce intended results owing to the poor growth of the economy. The other one was Sustainable and Holistic Debt Strategy of 2010 but no debt repayments payments were done following the intervention. The Government of Zimbabwe also formulated the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy in September 2010 considering a debt relief mechanism under the Heavily Indebted Poor Countries (HIPC) initiative and make use of fresh financing from international institutions and mineral wealth to achieve sustainable development. The Lima Strategy Lima of October 2015 is yet another attempt Zimbabwe made to clear its debt arrears. It was premised on a non-HIPC debt resolution strategy designed to clear external debt arrears amounting to US$1.8 billion owed to the IMF, World Bank Group and the African Development Bank (AfDB) as a first step towards seeking a debt treatment by the Paris Club after which the government would commence negotiations towards a resolution with the Paris Club. Despite all these strategies there has been limited success achieved in addressing Zimbabwe's debt problem.

Zimbabwe's debt service requirements have increased significantly averaging 22 percent between 2009 and 2018. High debt service inhibits future investment in social expenditure such as education and health, thereby perpetuating low productivity and poverty. The country has not also been servicing its debt and in the event that it had done so, social sectors would have suffered more given the constrained fiscal space the country is grappling with, hence the need for fiscal consolidation.

Going forward, the increase in inflation is expected to continue to reduce the size of domestic debt to GDP as long as government minimises issuance of new debt. There are a number of policy and regulatory measures that the Government of Zimbabwe may consider in order to enhance debt management for the country. These include containing the budget deficit; debt restructuring and debt forgiveness; growing the economy; ensuring policy consistency; guarding against exchange rate and macroeconomic risks; the need for political will to implement punitive and deterrent measures; strengthening Zimbabwe's institutional capacity for debt management; conduct regular debt audits and ensuring public access to sovereign debt statistics.

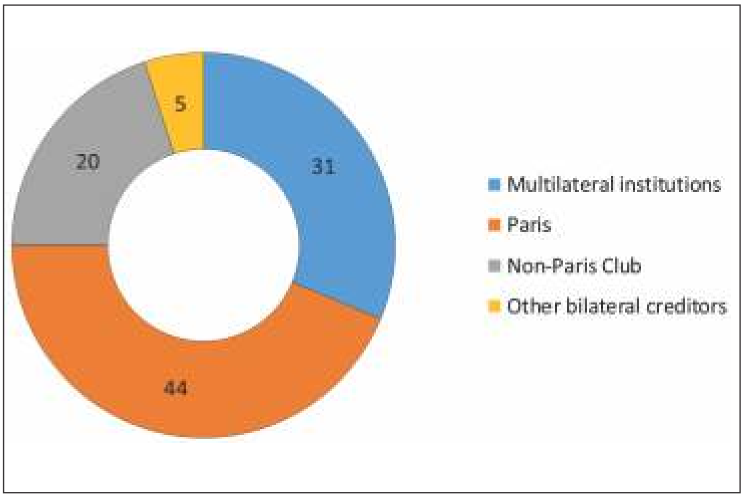
1. Background

At independence in 1980, Zimbabwe inherited about US$700 million of debt from the Rhodesian government, which mainly emanated from the United Nations sanction-busting loans to the white regime to buy arms during the civil war (Jones, 2011).

The legal basis for public debt management in Zimbabwe is contained in Public Debt Management Act [Chapter 22:21] as well as Section 300 of the Constitution. Section 3 of the Public Debt Management Act [Chapter 22:21] provides for the objective of public debt management, which is to ensure that Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a prudent level of risk, and to promote development of the domestic debt market. The International Monetary Fund (IMF)(2014) highlights that public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. It further highlights the need for countries to ensure debt sustainability; debt service even under periods of economic and financial market stress.

At independence in 1980, Zimbabwe inherited about US$700 million of debt from the Rhodesian government, which mainly emanated from the United Nations sanction-busting loans to the white regime to buy arms during the civil war (Jones, 2011). Since then the country has been on a borrowing spree to finance development expenditure (Chigumira, et al., 2018). However, over the period 1980-2000, the country had a good record of settling its external payments to multilateral and bilateral creditors and did not experience major challenges with external payment arrears. The accumulation of external payment arrears resulted in the IMF declaring the country ineligible for the general resources account of the IMF financing window (IMF, 2001 as cited in Chigumira *et al*, 2018). Equally the same, other multilateral institutions, notably the World Bank and the African Development Bank and traditional creditors from the Paris Club also suspended disbursements of existing loan facilities and also declared the country ineligible for new loans. Domestic and external debt remained unsustainable at ZWL$8.8 billion and US$8.1 billion (ZWL$58.1 billion), respectively translating to ZWL$66.8 billion in total debt as at end of June 2019. Of the external debt, interest arrears and penalties constituted about US$5.9 billion, which translates to about 72.8 percent of external debt, which shows that the actual debt is merely about US$2.2 billion. In terms of composition by creditor, 44 percent of external debt was owed to Paris Club creditors, 31 percent to multilateral creditors, 20 percent to non-Paris Club creditors and 5 percent to bilateral creditors (Figure 1).

Figure 1: Composition of External Debt Creditors, 2019



Source: Ministry of Finance and Economic Development, 2019

The existence of arrears shows that Zimbabwe is in a debt distress. In fact, evidence reveals that, on average external debt is still within manageable levels in SADC countries, with the exception of three countries (Mozambique, Zambia and Zimbabwe) that are at high risk of external debt distress (Mupunga *et al*, 2019). External debt in the SADC region is vulnerable to macro- fiscal, exchange rate and export shocks (Mupunga *et al*, 2019).

In the outlook the Government intends to curb the growth of domestic debt by implementing fiscal rules as enunciated in the Public Finance Management Act [Chapter 22:19] and the Public Debt Management Act [Chapter 22:21], a development which is commendable if implemented. Section 11(2) of the Public Debt Management Act requires that total outstanding Public and Publicly Guaranteed Debt as a ratio of gross domestic product (GDP) should not to exceed 70 percent at the end of any fiscal year. Adherence to fiscal rules will curb unnecessary recurrent expenditure, create resources for capital expenditure and may reduce acquisition of new debt and possibly create room for debt repayment.

Zimbabwe has already cleared its overdue obligations to the International Monetary Fund in October 2016. However, the country cannot acquire new debt from the international financial institutions and other creditors until they clear all the arrears they owe to creditors. The Zimbabwean government has also continued to contract new loans from China. This threatens the repeat of past mistakes of over-reliance on foreign borrowing rather than using domestic resources and using foreign borrowing for activities which will not create sufficient returns to repay the loans.

> .....the country cannot acquire new debt from the international financial institutions and other creditors until they clear all the arrears they owe to creditors.

Reintroduction of the local currency, the Zimbabwe dollar through Statutory Instrument 142 of 2019 prejudiced the local creditors since the real value of what is due to them have been eroded by a factor of 8.9931[1] just by direct conversion of the current domestic debt of ZWL$ 9.6 billion to the US$1.01 billion. In the face of weak economic growth and declining international commodity prices, heavy debt servicing potentially raises concern regarding sustainability and carries immediate implications about macroeconomic stability and economic growth and development. Hence, the need to interrogate the evolution of domestic and external debt to provide measures to enhance the country's growth and inclusive development.

It is against this background that The Annual Debt Management Report was compiled to provide an overview of the internal and external debt portfolios, macro challenges, and how the nation is managing those challenges. It is aimed at informing policy on the country's internal and external debt.

1.1 Objectives of the Annual Debt Management Report

The Annual Debt Management Report provides the country with a broad overview of the internal and external debt portfolios, macro challenges, and how the nation is managing those challenges. Its purpose is to provide the nation with information and context to inform decisions about the nation's external and internal borrowing activities.

1.2 Methodology

The Report was compiled based on both qualitative and quantitative data. The data was obtained through document review and primary data collection derived from questionnaires and interview guides. Desk review and analysis was done to understand the legislation and institutional framework governing the public management in Zimbabwe; to assess the trend, pattern and drivers of both foreign and domestic debt in Zimbabwe as well as; to understand the country's debt management strategies; its public debt management and reforms. Some of the reviewed documents include the Constitution of Zimbabwe, Public Debt Management Act [Chapter 22:21], the Public Finance Management Act, the Reserve Bank of Zimbabwe Act among others. Various government and international financial institutions policy documents and reports were also reviewed to get a clearer understanding on the evolution of debt; strategies and its socio economic impacts to the economy of Zimbabwe. Secondary data analysis was complemented by key informant interviews with Ministry of Finance and Economic Development officials from Fiscal Policy Department and Debt Management Office; Development partners such as the United Nations Development Programme, African Development Bank; regional institution, Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI);civil society organisations such as Zimbabwe Coalition on Debt and Development (ZIMCODD); as well as the academia like the Economics Department from the University of Zimbabwe. The aim was to extract key and general findings, opinions, attitudes, joint problem analysis and recommendations on debt management in Zimbabwe.

The IMF framework for fiscal analysis was used to do the debt burden projections for Zimbabwe in the medium term.

2 Legal and Institutional Framework Governing Public Debt Management in Zimbabwe.

The four major pieces of legislation that govern public debt management include the Constitution of Zimbabwe; Public Debt Management Act; Public Finance Management Act and the Reserve Bank of Zimbabwe Act.

2.1 Legal framework governing public debt management in Zimbabwe

The four major pieces of legislation that govern public debt management include the Constitution of Zimbabwe; Public Debt Management Act; Public Finance Management Act and the Reserve Bank of Zimbabwe Act. This section summarises some of the key provisions with respect to debt management.

Constitution of Zimbabwe

The Constitution of Zimbabwe has a number of provisions that impact on debt management such as requirement to set limits on state borrowing, public debt, and state guarantees; full disclosure and transparency about public debt in a comprehensive manner among others. For example, Section 300 (1) states that an Act of Parliament must set limits on

- **borrowings by the State ;**
- **the public debt; and**
- **debts and obligations whose payment or payment is guaranteed by the State and those limits, must not be exceeded without the authority of the National Assembly.**

Section 300(2) requires an Act of Parliament to prescribe terms and conditions under which the government may guarantee loans. The requirement for full disclosure and transparency about the public debt is stipulated in Section 300 (3) of the Constitution where the Minister responsible for Finance is required to gazette the terms of a loan agreement or guarantee concluded by the Government with sixty days and accountability on public debt issues. Further Section 300 (5) requires the Minister of Finance to present a comprehensive statement of the public debt of Zimbabwe biannually before Parliament. The National Budget Statements and the Mid-Term reviews seem to comply with this requirement although the issue of comprehensiveness remains debatable.

As one of the principles guiding public finance in Zimbabwe, Section 298 (1)(f) of the Constitution states that public borrowing and all transactions involving the national debt must be carried out transparently and in the best interest of Zimbabwe.

Public Debt Management Act [Chapter 22:21]

The Public Debt Management Act is provided for under Chapter 17 of the Constitution. It stipulates major guidelines on borrowing, maintenance, extinction of debt; definition of contingent liabilities; exposure of government; borrowing powers of the Minister; as well the Minister's powers to give guarantees; borrowing by local authorities and public entities among other issues.

It further provides for the functions and administration of the Public Debt Management Office which falls within the Ministry of Finance and Economic Development. One of the functions of the Public Debt Management Office is to prepare and publish a Medium Term Debt Management Strategy in accordance with Section 8 of the Act. MEFMI (2017) defines it as a plan that the government intends to implement over the medium term to achieve a desired composition of the debt portfolio, which captures the government's preferences regarding cost-risk trade-off.[2] The purpose of this Medium Term Debt Management Strategy is to guide the country on managing public debt. For example, it informs the borrowing plan for the country; outlining how much the country has to borrow externally and domestically as well as allowing the Debt Officials to draft and follow a calendar on raising the debt from the domestic and external sources. This calendar is to be given to the Reserve Bank of Zimbabwe (RBZ) to share with the market but that is not happening. The Medium Term Debt Management Strategy was drafted in 2017 but is yet to be published. It is now four years after the Public Debt Management Act was passed into law. Consultations with stakeholders revealed that it was signed to satisfy the Wold Bank credit rating system but needs buy in from the Secretary of the Ministry of Finance for its finalisation and publication.

The other purpose of the Medium Term Debt Management Strategy is to operationalise the Public debt management objectives that are provided for in Section 3 of the Public Debt Management Act. These are to ensure that Government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, with a prudent level of risk, and to promote development of the domestic debt market. The delay in its implementation is therefore postponing the operationalisation of the debt management objectives for the country. Making this document public enhances monitoring and holding the Debt Management Office (DMO) accountable by the members of the public including the civil society organisations and Parliamentarians.

Consistent with Section 300(1) of the Constitution, the Public Debt Management Act [Chapter 22:21] also sets limits on borrowings by the state as well as sustainable level of Public Debt to GDP. Section 11(2) of the Public Debt Management Act [Chapter 22:21] requires that total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP should not exceed 70 percent at the end of any fiscal year. The Minister is only allowed by law to exceed this limit in case of an occurrence of a natural disaster; to fund a large investment deemed timely and prudent by the Cabinet; or in case of a general economic slow-down requiring fiscal and monetary stimulus. Given that Zimbabwe is a signatory to the Southern African Development Community (SADC), a regional body that set itself macroeconomic convergence benchmark of public debt that is less than 60 percent of GDP[3] the limit of 70 percent of debt to GDP therefore falls outside the sustainable range according to international best practice.

Section 300 (2) of the Constitutions requires an Act of Parliament to prescribe terms and condition under which the Government may guarantee loans. These are provided for in Section 20 of the Public Debt Management Act as well as in Section 5 of the recently gazetted Statutory Instrument 79 of 2019 on Public Debt Management. These regulations were issued to further strengthen and to give effect to the legal framework governing debt management.

The Public Debt Management Act [Chapter 22:21] repealed Part VI of the Public Finance Management Act [Chapter 22:19] which contained provisions for debt management relating to borrowing powers; the purpose for which the Minister may borrow money; the manner of raising funds among others.

Public Finance Management Act [Chapter 22:19]

This Act provides for the control and management of public resources. Its objective is to secure the transparency, accountability and sound management of public revenues, expenditures and assets.

Reserve Bank Act [Chapter 22:15]

This Act sets the ceiling on Central Bank lending to the State. For example its Section 11(1) of the Reserve Bank Act states that Government borrowing will not exceed 20 percent of the previous year's revenues. Government's overdraft facility with the RBZ stood at US$2.93 billion as at December 2018 (DMO, 2019), representing 75.7 percent of the 2017 revenues which far exceed the requisite borrowing limit.

Overall observation

Zimbabwe's debt management legal framework is very clear and is rated quite strongly by development partners and regional organisations such as World Bank and MEFMI as one that meets minimum standards for debt management. The major issue has been on government's failure to comply with the law; particularly the provisions of the Constitution, the Public Management Act, the Public Debt Management Act on debt management. Parliament of Zimbabwe (2019) highlighted non-compliance of Ministry of Finance to the Constitution with regards to gazetting loans contracted and guarantee issued (Section 300 (3)); as well as failure to present to Parliament a report on loans raised and guarantees issued by the State and a comprehensive report on public debt. The Parliament of Zimbabwe (2019) report further highlighted breaches of many provisions in the Public Debt Management Act by the Minister of Finance. For example,

- **limits for Government's borrowing were not fixed by the National Assembly resolution nor by means of a provision in a Finance Bill in line with section 11(2) of the Public Debt Management Act**
- **The Minister of Finance failed to comply with the requirements and condition for borrowings provided for in section 13 (1) of the Public Debt Management Act**
- **The Minister of Finance failed to propose and seek approval from the National Assembly, the aggregate of the amounts to be guaranteed in line with Section 13 (1) of the Public Debt Management Act.**
- **The Minister of Finance also failed to list and present to the National Assembly, monthly, quarterly and annual reports on loans and guarantees as required by Section 30 of the Public Debt Management Act.**

The other thorny issue regarding the legal framework is on what happened to the domestic debt on change over from the multiple currency regime to the mono-currency in June 2019. It stood at around US$ 10 billion at the end of 2018 (US$ 9.6 billion at the end of September 2018 as

> **Parliament of Zimbabwe (2019) highlighted non-compliance of Ministry of Finance to the Constitution with regards to gazetting loans contracted and guarantee issued (Section 300 (3)...**

per the 2019 budget statement). This was however reported to be ZWL$9.5 billion at the end of 2018 according to the 2019 Mid-Year Budget Review and Supplementary Budget. Basically, the Government has told people (owning such assets) that we will pay you only a tenth of what you owned (a trick through a smart transition from US$ to ZWL$ and followed by a huge depreciation). This is a blatant violation of the Constitution, unless there is provision for settling these debts at the former agreed rate. This seems to be contrary to Section 298(1) (f) of the Constitution, one of the principles of public financial management, which states that financial management must be responsible.

Contingent liabilities being assumed by government are on the high side raising questions of compliance to the existing legal framework on the management of contingence liabilities. The other issue is that there is no office that is responsible to effectively monitor contingent liabilities in Zimbabwe. Some of the consulted stakeholders cited that this could be owing to a lack of capacity to do so.

2.2 Institutional framework governing public debt management in Zimbabwe.

Institutional framework in the form of organisational structure, systems, human capacity, reporting and oversight for debt management is assessed in this section.

Effective debt management is necessary to ensure that the cost of debt obligations is minimized in the long term and that the country has the capacity to meet all obligations when they are due (Government of Zimbabwe and World Bank, 2018). The strengthening of public debt management capacity has been a priority issue for the Government of Zimbabwe since 2011 and great strides have been made. This is evidenced by the setting up of a dedicated Debt Management Office (DMO), adoption of a modern public debt management legislation, preparation and adoption of debt management procedures manuals, regular reconciliation of public debt database, installation of frameworks for debt data back-up, as well as staff recruitment and training.[4]

Institutional arrangement

The institutional arrangement for debt management includes but not limited to the Ministry of Finance and Economic Development; DMO; External and Domestic Debt Management Committee, Reserve Bank of Zimbabwe (RBZ); and Parliament of Zimbabwe. Their duties and responsibilities are summarised hereunder.

The Ministry of Finance and Economic Development is a major player when it comes to debt management in Zimbabwe. Debt management duties of the Minister for this Ministry as provided for in the Constitution as well as the Public Debt Management Act include:

- **borrowing public debt on behalf of the state;**
- **repayment of state loans;**
- **guaranteeing the repayment of loans;**
- **taking recommendations of the External and Domestic Debt Management Committee when exercising his authority;**
- **maintaining the public debt at sustainable levels; as well as**
- **Disclosure of information concerning loans and guarantees periodically to Parliament and the Government gazettes.**

To ensure transparency and accountability, the Constitution further mandates the Minister to report to Parliament at least twice a year on both the performance of loans raised and guaranteed by the state. The Minister must also table in Parliament a comprehensive statement of the public debt of Zimbabwe at the same time as the

ZIMCODD (2019) highlights that whilst the Committee is confirmed to have met a couple of times to discuss and give advice to the Minister of Finance and Economic Development with regard to debt management in Zimbabwe.

estimates of revenue and expenditure are laid before the National Assembly in terms of Section 305 of the Constitution. As elaborated in the section on reporting below, the Minister reports on debt before Parliament as per the Constitutional requirement although the reporting lacks comprehensiveness.

The DMO is housed as a unit within the Ministry of Finance and Economic Development. The Public Debt Management Act mandates the Debt Management Office to conduct annual debt sustainability analyses. In terms of its independence to execute its mandates, some of the consulted stakeholders revealed that its efficiency and effectiveness in debt management is more critical than where it is placed. Others however, strongly felt it requires operating autonomously to ensure checks and balances within the Ministry of Finance. In the current arrangement, the Ministry on one hand receives advice from the DMO yet on the other hand, it oversees the debt office hence creating an opportunity for faltering on prudent debt management practices. The other issue is the housing of the front office of the DMO in another department of the Ministry of Finance. An ideal DMO has a front, middle and back office structure in one place. The current set up raises coordination issues thus impeding on effective debt management. The front office for the domestic debt is housed in the RBZ. Depending on information flow from the RBZ to the Ministry of Finance, this set up could also pose coordination issues thereby compromising on sound debt management. Consultations with stakeholders revealed that there is limited debt data reconciliations and validation between the Ministry of Finance and the RBZ. Further, it was highlighted that there is no perfect flow of information between these institutions.

Section 7(1) of the Public Debt Management Act provides for the creation of an External and Domestic Debt Management Committee whose functions are to advise the Minister on public debt management policy and strategy; all external borrowings, domestic debt issuance and guarantees; as well as any other functions assigned to it by the Minister. The Committee reports to the Minister. It is composed of the Secretary for the Ministry of Finance, who shall be the Chairperson of the Committee, the Governor of the Reserve Bank of Zimbabwe, and the Attorney General. The Debt Management Office plays a secretarial role for this Committee. The chairperson of this Committee may invite any other person to provide technical expertise when the Committee meets. The Committee is required to meet at least once every calendar month in terms of Section 7(3) of the Public Debt Management Act. This Committee was formed in 2015 but only operationalised this year 2019. ZIMCODD (2019) highlights that whilst the Committee is confirmed to have met a couple of times to discuss and give advice to the Minister of Finance and Economic Development with regard to debt management in Zimbabwe, its meetings are not being conducted regularly. Section 7(2) (ii) states that the Committee shall meet at least once every calendar month.

Reserve Bank of Zimbabwe is responsible for issuing government securities for the sole purpose of supporting monetary policy objective in terms of Section 12 of the Public Debt Management Act. Section 18 (1)(c) of the same Act allows the Minister to authorise the Reserve Bank in its capacity as the banker of the State, to act as agent of the State in the repayment of interest and principal and also in the issuance of Government securities in repayment of the public debt ,as he or she may determine. As stated earlier, the Reserve Bank of Zimbabwe sits in the External and Domestic Debt Management Committee thus providing policy advice on debt management in Zimbabwe. The participation of the Bank is normal in countries where the Central Bank still acts as a fiscal agent to government.

Parliament of Zimbabwe plays an oversight role in debt management as provided for in the Constitution, Public Debt Management Act, and Public Finance Management Act. Section 299 (1) of the Constitution provides that Parliament must monitor and oversee expenditures by all the tiers of government. Some of its duties include receiving, scrutinising and holding the Minister accountable for issues emerging from his reports whose contents and timing are clearly outlined in Section 36 of the Public Management Act. Further, Section 36(3) highlights yet another role for Parliament, which is the ratification of all external loans contracted under the Public Debt Management Act in accordance with the Constitution.

> **The government's excessive borrowing without Parliament's approval is clear evidence of the limitations of Parliament's capacity to play its oversight role.**

One major challenge on oversight is the competence of the Parliamentarians to play this role. The government's excessive borrowing without Parliament's approval is clear evidence of the limitations of Parliament's capacity to play its oversight role. Zimbabwe's laws did not set any minimum educational qualification for one to be a Member of Parliament. Given that debt management is a relatively specialised field, this may tend to compromise effective oversight by the Parliamentarians. In addition, the incompleteness of the reports presented to Parliament by the Minister of Finance further impedes them to deliver on their mandate.

Reconciliations and human capacity building

The DMO conducts regular reconciliation of public debt in collaboration with international financiers like the IMF and the World Bank, a practice which is applauded to have improved the accuracy of reported data. More so, it is fully manned and the staff is getting adequate human resource capacity building and support from various organisational like MEFMI, World Bank, and IMF among others. The major challenge however, which is not unique to this department is the limited capacity of the DMO to retain staff by offering them competitive remuneration packages owing to limited fiscal space.

In terms of the extent of debt management, Zimbabwe is rated quite highly, for example in the Public Expenditure and Financial Accountability[5] (PEFA) Assessment of 2017(Government of Zimbabwe and World Bank, 2018). This report highlights that central government loans and issued guarantees are approved by a single authority and recorded and reconciled at least quarterly, using a comprehensive system.

Reporting

The Constitution as well as the Public Debt Management Act require the Minister of Finance to report to Parliament at least twice per year on all government debt management activities, guarantees and lending. For example, in line with Section 300(4) of the Constitution, Section 36 of the Public Debt Management Act requires the Minister's report to include:

- **information on how the debt management strategy has been implemented over the course of the financial year;**
- **bi-annual reporting of debt management activities covering an evaluation of outcomes against the debt management objectives;**
- **a list of all guarantees issued by Government including a classification of guarantees according to their probability of being called in;**
- **a list of all outstanding borrowings and related debt service projections including classification of the loans by Government, public entities and local authorities.**

Its Section (3) stipulates that the Minister shall at the same time as the estimates of revenue and expenditure are laid before the National Assembly, table in Parliament a comprehensive statement of the public debt.

Government of Zimbabwe and World Bank (2018) highlights that approval of and reporting on all government debt and guarantees through the Minister for Finance, as provided for by the Constitution and the Public Debt Management Act, have been respected since 2015. Whilst this has been done through the budget statements presented to the Parliament, it is the comprehensiveness of the reports that still needs to be improved in order to enhance transparency and accountability on debt management. For example, the budget documentation must contain summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on (Government of Zimbabwe and World Bank, 2018). This is however sometimes not fulfilled. The 2019 National Budget Statement for example, only reports on public and public guaranteed debt without giving details. No other details relating to fiscal risks as well as any contingency liabilities linked to PPPs were reported. Only information relating to corporate governance reforms for state enterprise was reported. Further, implementation of debt strategy as well as an update on outstanding debt and the related debt services are missing in the reports. This is despite the fact that Zimbabwe is a member of the International Budget Partnership that calls for fiscal transparency and accountability.

Consultations with the Ministry of Finance Officials revealed that they have the tools to make a thorough assessment of the risks and the Ministry commits to report these on how they impact the budget forthwith.

> **The Constitution as well as the Public Debt Management Act require the Minister of Finance to report to Parliament at least twice per year on all government debt management activities**

3 Trends, Pattern and Drivers of External and Domestic Debt in Zimbabwe.

....the issue of debt in Zimbabwe dates back to independence when Zimbabwe inherited about US$700 million of debt from the Rhodesian government

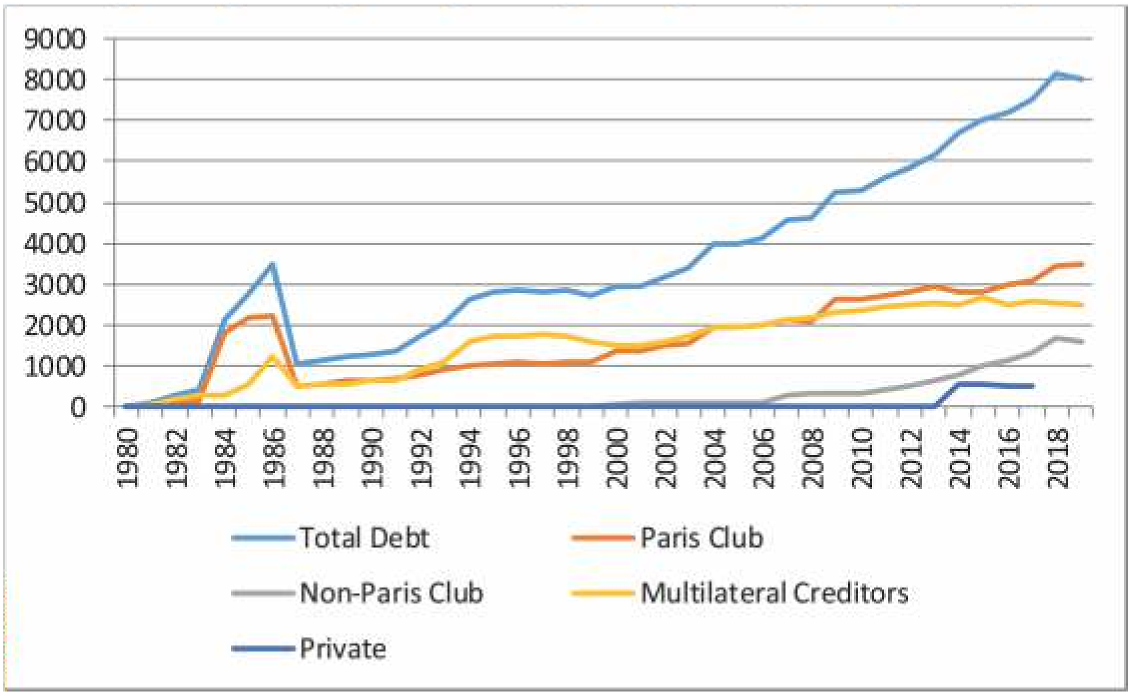
3.1 Size, nature and composition of sovereign debt

Zimbabwe has been struggling with settling its debt since beginning of the new millennium in 2001. However, the issue of debt in Zimbabwe dates back to independence when Zimbabwe inherited about US$700 million of debt from the Rhodesian government, which mainly emanated from the United Nations sanction-busting loans to the white regime to buy arms during the civil war (Jones, 2011). Since then the country has been borrowing spree to finance infrastructure, social services and other development expenditure that was considered as critical for the country (Chigumira, et al., 2018). However, over the period 1980-2000, the country had a good record of settling its external payments to multilateral and bilateral creditors and did not experience major challenges with external payment arrears.

The country's current sovereign debt is regarded as high and unsustainable estimated at ZWL$66.8 billion[1] as at end June 2019. Domestic debt is about ZWL$8.8 billion which translates to about 13 percent of total debt. External debt is estimated at US$8.1 billion (ZWL$58.8 billion), of which about US$5.9 billion (72.8 percent) is accumulated arrears.[6] Multilateral institutions are owed a total of US$2.5 billion (30.9 percent of external debt), of which the World Bank, African Development Bank, European Investment Bank and others are owed about US$1.5 billion, US$702 million, US$309 million and US$74 million respectively. Total bilateral debt amounted to US$5.5 billion with Paris Club creditors being owed US$3.5 billion whereas the Non-Paris Club is owed US$1.6 billion. The evolution of external debt shows the ballooning of external debt from 1980 to June 2019 (Figure 2 and Annex 1). The rise in government debt may reflect the economic collapse during the period 2000 – 2008 (Chigumira *et al.*, 2018) as well as the effects of the 2014 fall in commodity prices as enunciated by the IMF Fiscal Monitor (April 2018). In actual fact the external debt did not decline in 2019 but it is the issue of different sources of information which was used. The slight variation in figures of 0.2 percent for external debt from US8.116 billion reported in December 2018 to US$8.1 for June 2019 may be due to the rounding off of figures during reporting since the 2019 figures were retrieved from the 2019 Mid-Year Budget Review and Supplementary Budget whereas other statistics for prior years were availed by the DMO.

The country's current sovereign debt is regarded as high and unsustainable estimated at ZWL$66.8 billion[1] as at end June 2019.

Figure 2: Evolution of Zimbabwe's External Debt (US$ Billions), 1980-2019[7]

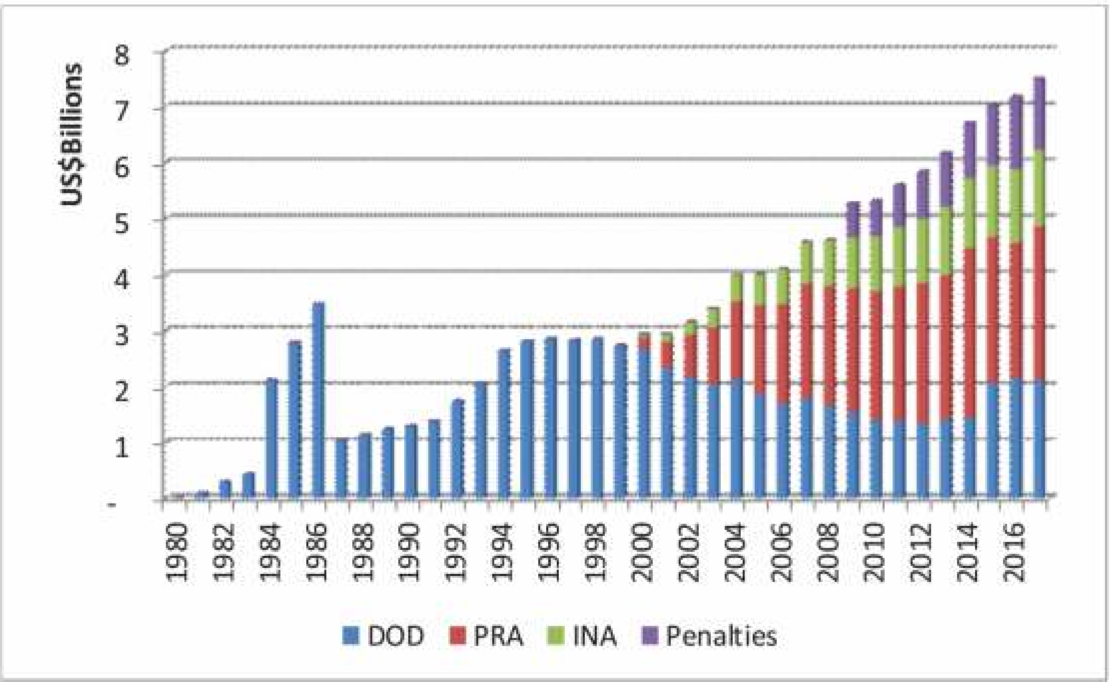


Source: Zimbabwe Aid Debt and Management Office (2019), Government of Zimbabwe (2019)

Despite the fact that public debt dates back to the 1980s, Zimbabwe's failure to service the debt resulted in the accumulation of external payment arrears due to IMF's suspension of Zimbabwe to access the general resources account of the IMF financing window (IMF, 2001). Equally the same, other multilateral institution, notably the World Bank and the African Development Bank and traditional creditors from the Paris Club also suspended disbursements of existing loan facilities and also declared the country ineligible for new loans. The composition of public external debt has changed dramatically over recent years, with declining concessionality and increased borrowing from non-traditional lenders and private creditors. Private debt started to show up in 2014 at about US$565.9 million and has been slightly declining by about 3.23 percent, 3.18 percent and 4.32 percent from 2015, 2016 and 2017, respectively.

The debt owed to Paris Club and that of multilateral creditors have been consistently increasing since 2000 due to interest payments and penalties due to non-payments of debt owing (Figure 3 and Annex 2). Non-Paris Club debt started to accumulated from 1986, and has started to grow faster from 2006 mainly due to the increase in Chinese debt. This has been due to the Government of Zimbabwe's failure to access credit from the traditional creditors (multilateral and Paris Club).The external debt build up in Zimbabwe has been slowing down not because the country has no appetite to borrow but because the Government has difficulties to borrow more due to the existence of the arrears.

Figure 3: External debt, Interest and Penalties (US$ Billions), 1980 - 2017



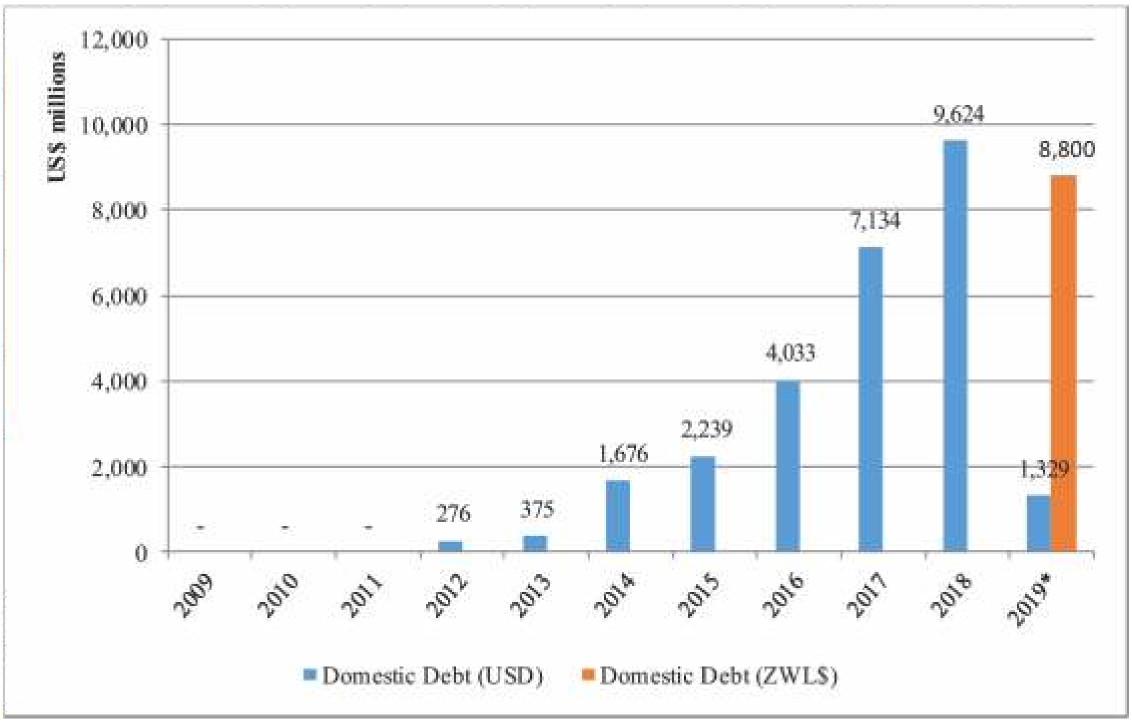
Source: Zimbabwe Aid Debt and Management Office (ZADMO), 2018

*DOD – Debt outstanding and Disbursed; PA- Principal Arrears; INA- Interest arrears

Zimbabwe has cleared arrears with the IMF in October 2016. However, the country cannot acquire new debt from the international financial institutions and other creditors until they clear all the arrears they owe to creditors with the exception of other bilateral creditors such as China. The Zimbabwean government has been contracting new loans from China, which if not managed carefully can threaten the sustainability of Zimbabwe's debt burden due to high appetite to borrow at a time when the country's fiscal space is constrained. The limited fiscal space by the Government threatens its ability to pay back the loans acquired.

Between 2009 and 2011, Zimbabwe was running a cash budgeting system which did not provide for accumulation of domestic debt. However, from 2012 onwards, domestic debt skyrocketed to about US$9.62 billion in 2018 (January to September), before declining by about 9.4 percent to ZWL$8.8 billion (about US$1.33 billion) by June 2019 (Figure 4). The decline of domestic debt has been necessitated to debt repayment since the Government of Zimbabwe has been honouring maturing domestic debt. All the debt was converted at US$1: ZWL$1. This is a positive development given that government borrowing from the local market crowds out local private investment. However, the liberalisation of the domestic currency to the US dollar in 2019 which resulted in the RTGS dollar being pegged at RTGS$2.5 against US$1 led to the erosion of the value of the domestic debt in US dollar terms. The introduction of the mono-currency in June 2019 further eroded the value of real the domestic debt to ZWL$8.8 billion which equated to about US$1.33 billion as at 30 June 2019 (Figure 3). The liberalization of the exchange rate has reduced the real value of the domestic debt at the expense of the creditors.

Figure 4: Domestic Debt (US Millions), 2009 - 2019[8]



Source: Zimbabwe Aid Debt and Management Office (ZADMO), 2018 and Ministry of Finance and Economic Development, 2019

Despite the Government of Zimbabwe benefiting from domestic debt being eroded by the depreciation of the Zimbabwe dollar against the United States (US) dollar, as Zimbabwe dollar continues to depreciate, the local creditors have been reaped off their real value of their loans which may further threatens Zimbabwe's country risk profile. For instance, the Monetary Policy Statement of 20 February 2019 introduced the exchange rate between the US dollar and the bond initially at US$1 to RTGS2.5. However, the local currency has continued to depreciate and has registered an average interbank rate of US$1: ZWL$9.7955 as at 9 August 2019.[9] Domestic debt of ZWL$8.8 billion translates to about US$898,371,701.3 million due to the depreciation of the Zimbabwe dollar. However, external debt becomes expensive to service given that more Zimbabwe dollars are required to purchase US dollars if the local currency continues to depreciate against the US dollar. In the face of weak economic growth and declining international commodity prices, heavy debt servicing potentially raises concern regarding sustainability and carries immediate implications about macroeconomic stability and economic growth and development. Hence, the need to interrogate the evolution of domestic and external debt to provide measures that enhance the country's growth and inclusive development.

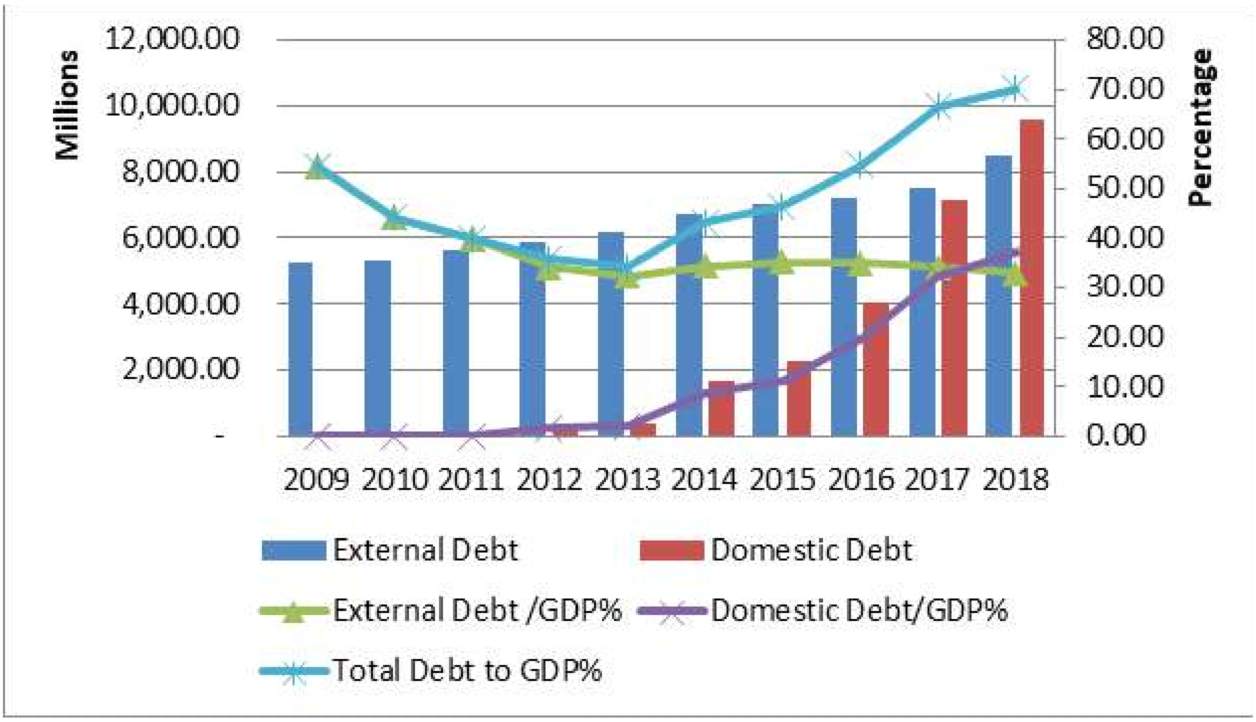
The Government of Zimbabwe recently made a decision to improve on compensation to all former farmers affected by the Land Reform Programme in accordance with the country's laws and commitments under the various bilateral agreements (Government of Zimbabwe, 2018). A key issue raised by some of the consulted stakeholders as part of challenges on debt compilation relates to the absence of the land debt in the government's debt books. It is not clear how much the country owes to the former farmers as well as the interest that is accruing. More so, data consistency of debt statistics in the various government documents is an issue thereby raising concerns on the system's gaps to capture the exact debt position for the country. There is an irregularity on the country's public finance audits. The audits mainly focus on how the funds were expended but not on their performance e.g. how the country's debt is performing according to law or according to the country's debt strategy; as well as the action taken by government to address the issues raised by these audits. What is critical at the end of day is value for money.

3.2 Foreign and domestic debt as a proportion of GDP

When funds are borrowed, they have to be repaid. It is not much of an issue if the funds are borrowed to increase the country's capacity to repay the debt e.g. through productive capital investments. Zimbabwe has however, been on record of allocating the bulk of its resources on recurrent expenditure. For example, its total Government spending on recurrent expenditure was 90.49percent between 2015 and 2017 (Global Economic Governance, 2018). This state of affairs imposes a huge burden on the economy as it does not increase its capacity to generate resources to repay the debt and tax payers will have to repay the debt.

Debt to GDP ratio is an indicator that reflects on a country's ability to repay borrowed loans. Zimbabwe's total debt to GDP was 54.52 percent when the country emerged out of the hyper inflationary era in 2009. A steady decline of debt to GDP to 34.24 percent was recorded as the economy was recovering and registering high economic growth (see Figure 5). This ratio however, nearly doubled to 66.43 percent in 2017 mainly driven by huge domestic debt that was not supported by corresponding growth of the economy.

Figure 5: Debt to GDP (%) between 2009 and 2017



Source: ZADMO and ZIMSTAT (2019)

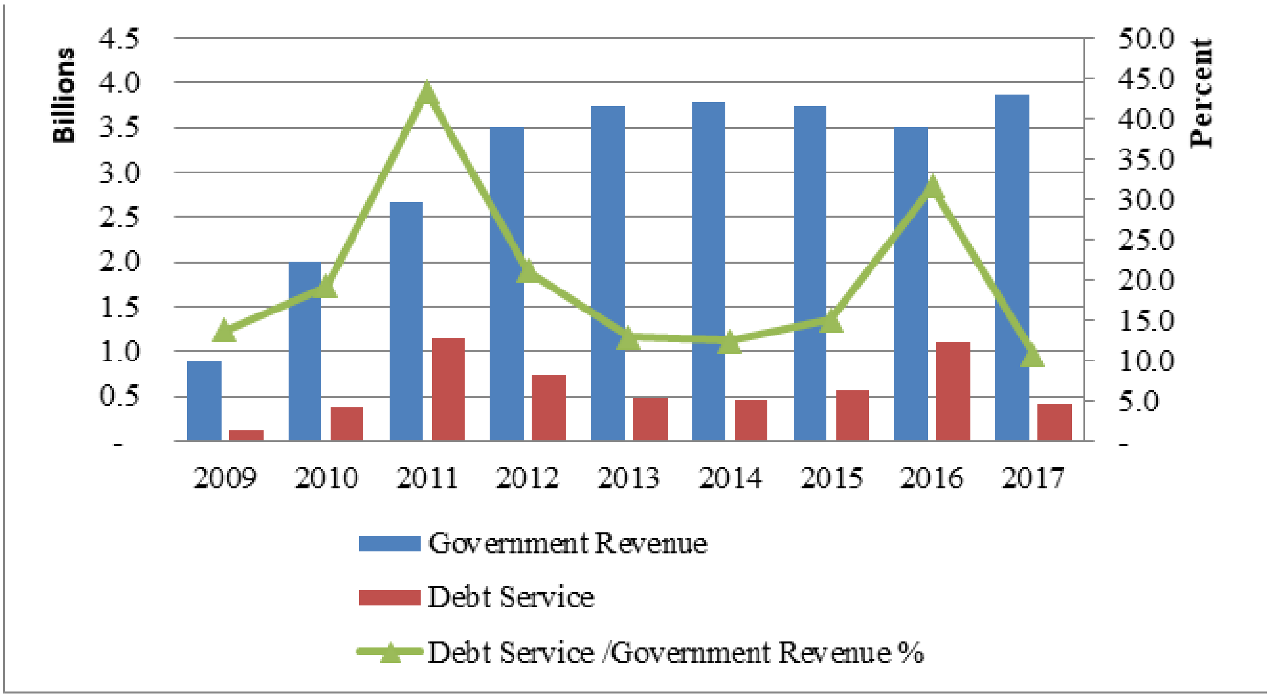
Huge domestic debts were mainly driven by elevated wage bill, agricultural financing among other expenses. Whilst total debt to GDP was slightly below the constitutionally provided limit of 70percentit exceeded what was agreed as sustainable threshold by the SADC region as well as international best practice as alluded to above. SADC's macroeconomic convergence benchmark of public debt is less than 60 percent of GDP.[10]

Further, the debt sustainability analysis conducted by the IMF in 2017 revealed that external debt to GDP will remain unsustainable throughout the projected period between 2017 and 2037. Estimates showed that external debt to GDP ratio will remain above its threshold both in the baseline and extreme shock scenarios.

3.3 Debt service as a proportion of government revenue

The trend in debt service to government revenue seems to be following the movements in the cost of serving the debt (see Figure 6). Debt service to government revenue oscillated between 10.7 percent and 43.3 percent in the period between 2009 and 2017. This in the face of huge arrears, huge domestic borrowing and subdued revenues that constrained the country to service its debts through revenues.

Figure 6: Debt Service to Government Revenue (%) between 2009 and 2017



Source: Ministry of Finance Revenue out turns, 2019 MCF, Annual Budget Review For 2016; World Bank and the 2017 Outlook; Parliament of Zimbabwe (2019)

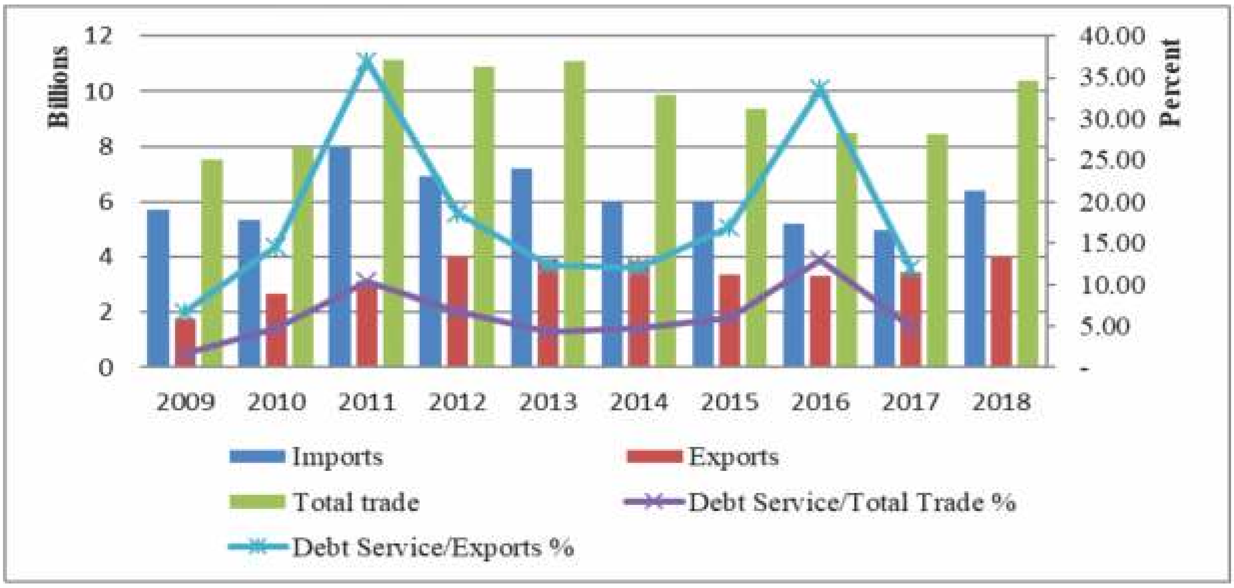
According to Essl *et al* (2019), revenues remain subdued amid weak growth and structural rigidities. Debt is harder to deal with, if tax revenues are lower.[11] Evidence abounds that Zimbabwe's revenue generation capacity is heavily constrained. In 2019, for example, the economy is expected to grow even below -2 percent owing to poor agricultural performance; low power generation, high inflationary pressures, foreign currency shortages and limited external financial support (Government of Zimbabwe, 2019). Further, industry capacity utilisation is projected to decline from 48.2 percent in 2018 to around 34.3 percent in 2019 (CZI, 2019).

Such shrinking of the national cake constricts government's capacity to generate revenue to meet its dues. More so there has also been an increase in the non-compliance of tax payers further constraining the country to raise adequate revenues to services its debts. For example, the Zimbabwe Revenue Authority reported that the stock of outstanding tax debt rose from US$821 million in 2014 to an estimated US$3.5 billion between the period 2014 and 2017. This amount was enough to finance at least 60 percent of the announced 2018 National Budget. Further, around 60.6 percent of the economy is informalised (Medina and Schneider, 2018) and the bulk of the economic agencies are not in the Zimbabwe Revenue Authority tax net. The country will not be able to service the principal while interests and penalties continue to accrue. This implies that the general citizens will incur the huge costs as payments on the debt are made at the expense of expenditure on social sectors and rehabilitating infrastructure. Other options for domestic resource mobilisation such as savings, and diaspora remittances have also been weak in generating resources to service debt.

3.4 Debt service as a proportion of exports

This indicator reflects government's ability to meet external creditor claims on the public sector through export revenues.[12] Figure7 illustrates the evolution of debt service to exports. The ratio sharply shot from 6.76 percent from 2009 to 36.94 percent within two years amidst sluggish growth in exports. A moderate decline was noted when debt service to exports significantly dropped to 12.08 percent in 2014 before rising again. A persistent deterioration of this ratio signals an inability to generate enough foreign exchange to meet obligations on a country's Public and Publicly Guaranteed debt, and thus potential debt distress in the absence of external support or debt restructuring.[13]

Figure 7: Debt Service to Total Trade (%) between 2009 and 2018



Source: ZIMSTAT and World Bank Debt Statistics for 2019

Weak export competitiveness and the withdrawal of foreign investment have hampered the country's debt service capability (IMF, 2017). The weak export competitiveness is partly explained by the high cost of doing business in Zimbabwe owing to the prolonged harsh economic environment. In the 2018 Global Competitiveness Report, the country was ranked 128th out of 140 countries of the world four places down the ladder from the 2017 score (Schwab , 2018). In terms of foreign direct investment inflows, Zimbabwe recorded US$745 million in 2018 (United Nations Conference on Trade and Development (UNCTAD), 2019). These inflows represent around 3 percent of the country's GDP and is too small for the country to take off to become an upper middle income by 2030.

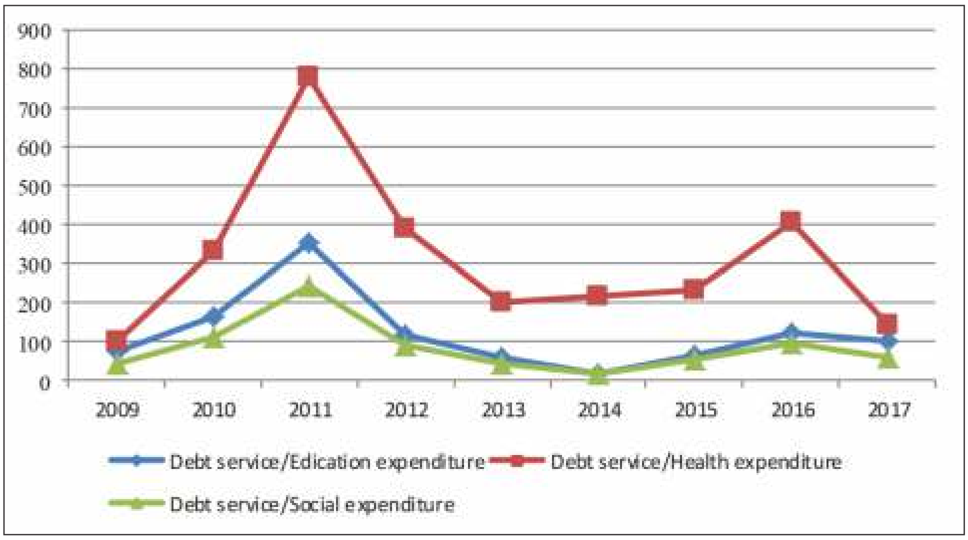
Debt sustainability assessment done by the IMF (2017) revealed that debt service to export ratio will remain below its respective threshold from the baseline scenario throughout the projected period from 2017 to 2037. However, in the most extreme shock scenario, it will be above, indicating that Zimbabwe will not be in a position to meet its debt obligations as they fall due in the event of a drastic shock to exports. It further reflects high risk of liquidity challenges.

In addition, the ratio was projected to be increasing throughout the medium term thus indicating an increase in the debt service burden.

3.5 Debt service in comparison with expenditure on social sector, health and education

Massive debt burden that has been built up for close to two decades in Zimbabwe are economically distortive as they trigger economic recessions, rising unemployment as well as reducing tax and other public income, such that public service provision becomes difficult to fund (Ellmers, 2016). Hence sovereign debt crises can set back economic and social progress and hinder the ability of governments to engage in economic and social investments necessary for sustainable development. Debt service has not been effected for most of the external creditors as the government of Zimbabwe has been servicing domestic debt. As such there cannot be any impact of the same on domestic service provision. Despite that Zimbabwe has not been servicing its debt, the debt service ratio to education, health and social services sector is very high (Figure 8). This implies that if the country was servicing its debt, debt service would be more that what is allocated to education, health and social services sector. This situation would not be ideal since more resources would go towards debt service instead of social services which may be catastrophic given that these services are basic services which are required for an economy to perform well.

Figure 8: Debt service to Education, health and Social sector, 2009 - 2017



Source: Ministry of Finance and Economic Development, various years and World Bank Debt Statistics for 2019

The accumulation of debt through interest and penalty charges has some implications on future service delivery when the debt is eventually cleared. This may impact the social services since more resources will be required to repay the debt and arrears. This may affect resources to be availed for social services such as education and health, which also have some multiplier effects to other productive sectors of the economy. Excessive debt service payments prevents government spending on critical social services and other development related spending including infrastructure further stalling growth.

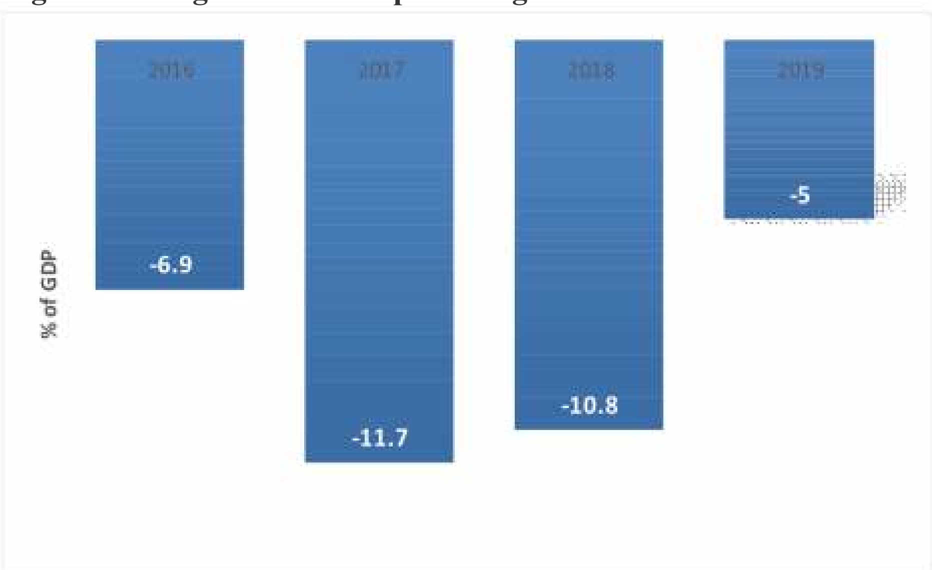
3.6 Trends and drivers of external and domestic debt in Zimbabwe Drivers of Debt

Anaya and Pienkowski (2015) argue that the primary balance, the interest rate, growth and inflation are the main drivers of public debt. Furthermore, they argued that the choice of monetary policy regime plays an important role in these debt dynamics. Hence, countries with constrained monetary policy are more at risk from changes in market sentiments and must rely much more on fiscal policy to constrain debt. For Zimbabwe a number of drivers can be singled out to have been driving external and domestic debt. These include the following:

Penalties on overdue external debt - For almost two decades, Zimbabwe has not been paying external debt. As a result, penalties have piled and comprise a huge component of the external debt.

High budget deficit -Huge budget deficit was also driving debt due to excessive spending above means, including subsidies and relatively higher wages than it warranted especially in the multicurrency regime which operated from February 2009 to June 2019. The budget deficit which was the major driver of domestic debt rose from -6.9 percent of GDP in 2016 to -11.7 percent of GDP before slightly declining to -10.8 percentage in 2018 (Figure 9). The budget deficit is expected to further decline to -5% in 2019 owing to the fiscal consolidation measures to contain government expenditure. Limited revenue generation due to tax loopholes, tax evasion, inefficient tax administration and corruption and lack of access to external funding, especially concessional borrowing due to debt arrears also lead to the accumulation of debt and the slow growth of the economy. The World Bank (2018) argues a drought in 2015, fall in commodity prices and an expansionary fiscal policy led to a burgeoning fiscal deficit and acute foreign currency shortages dampening demand and supply.[14]

Figure 9: Budget deficit as a percentage of GDP



Source: Ministry of Finance and Economic Development, 2019

In 2019, the Ministry of Finance and Economic Development through the 2019 Mid-Year Budget Review and Supplementary Budget reported a budget surplus of budget surplus (savings) of ZWL$803.6 million translating to about 19.2 percent of the total budget by June 2019

However, the performance of the budget deficit going forward will depend on the performance of fiscal consolidation (austerity) measures that are meant to reduce fiscal deficit and ultimately sovereign debt. In 2019, the Ministry of Finance and Economic Development through the 2019 Mid-Year Budget Review and Supplementary Budget reported a budget surplus of budget surplus (savings) of ZWL$803.6 million translating to about 19.2 percent of the total budget by June 2019. This was due to fiscal deficits which fell due to the austerity measures currently being undertaken by the Government of Zimbabwe. This is in line with the targets set by the Transitional Stabilisation Programme (October 2018 – December 2020). However, it was also reported in the 2019 Mid-Year Budget Review and Supplementary Budget that the surplus will be overturned into a deficit by year end.

Central Bank overdraft facility - The government of Zimbabwe has been financing the fiscal deficit largely through domestic borrowing from both commercial banks and Central Bank using an overdraft facility. The overdraft created electronic deposits or Real Gross Time Settlement (RTGS) in the banking system allowing the government to make payments without concomitant increases in United States dollar cash balances. This resulted in a mismatch between US$ cash balances and RTGS balances resulting in cash US$ versus RTGS dollar exchange rate weakening while inflation was increasing.

Large infrastructure requirements - Large infrastructure requirements amid rapidly growing population, also lead to issuing debt to fill the financing gaps. World Bank (2012) estimated that Zimbabwe faces huge infrastructure financial requirements estimated at US$33 billion over a twenty-year period from 2012. The AfDB (2011) also argues that, Zimbabwe requires around US$1.7 billion annually between 2011 and 2020 towards the rehabilitation of existing infrastructure networks. Transitional Stabilisation Programme (October 2018 – December 2020) also estimated that the country requires about US$26.97 billion for the two year period of the programme. This warrants that the huge infrastructure gap may drive capital expenditure which may in turn push the overall expenditure to incur budget deficits.

Depreciation of the local currency – Depreciation of the local currency leads to a country requiring more domestic resources to finance external debt. This is what has happened through the introduction of the mono currency where more domestic resources are required to service the same level of external debt. Hence, it is important for policymakers to ensure that their debt is sufficiently hedged against currency and interest rate risks. However, the depreciation of the local currency leads to a decline in the real value of the domestic debt.

The government of Zimbabwe has been financing the fiscal deficit largely through domestic borrowing from both commercial banks and Central Bank using an overdraft facility.

4 The Impact of Public Debt Strategies and Public Debt Management and Reforms in Zimbabwe

> Given the structure of the economy, the existence of short-term debt may not address the requisite concessionary long term financing required to boost the ailing economy.

In an attempt to address the debt problem in Zimbabwe, the Government of Zimbabwe undertook a number of initiatives. Some of the initiatives undertaken by government to clear the debt include the following:

- ***Domestic Debt Restructuring (2001-2008)*** – through restructuring of 30% of domestic debt to the tune on ZWL$125 billion in 2000 part of domestic debt to medium and long term while the remainder was converted to Treasury Bills (TBs) of 91 days, six months and one year maturities (ZIMCODD, 2019). However, the policy did not produce intended results since only 1.5% was categorised as long term debt by 2017 with 98.5% debt as short term. Given that the Zimbabwe economy primarily depends on agriculture and mining as the provider of feedstocks to other sectors of the economy, these sectors have a longer gestation period and hence this may also affect the resources which ultimately accrue to the government through taxies and levies. Given the structure of the economy, the existence of short-term debt may not address the requisite concessionary long term financing required to boost the ailing economy. Despite a deliberate strategy to restructure the domestic debt further to long-term, the country has been struggling to meet this objective.

- Sustainable and Holistic Debt Strategy, 2010 - This was a hybrid model which involved a combination of traditional debt resolution initiatives and creative leveraging of the country's natural resources for economic development (ZIMCODD, 2019), following a decade of struggling to pay international creditors. However, no debt repayments payments were done following the intervention.

- *A debt plan Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS) in September 2010* –Government of Zimbabwe formulated the ZAADDS considering a debt relief mechanism under the Heavily Indebted Poor Countries (HIPC) initiative and make use of fresh financing from international institutions and mineral wealth to achieve sustainable development. The plan's key objective was to enable Zimbabwe to secure comprehensive external arrears clearance and debt relief from creditors at the same time as laying a solid foundation for economic growth supported by investment from both domestic resources and external support. The initial ZAADDS sign posts were:

Establishment and operationalization of a debt management office;
Reengagement with creditors and the international community;
Establishment of a track record under an IMF Staff Monitored Program (SMP). A Staff Monitored Programme is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board. For instance, a Staff Monitored Programme was undertaken between April and December 2013;

Seeking the reclassification to IDA-only eligibility. The eligibility for IDA support depends on a country's relative poverty, defined as gross national income (GNI) per capita below an established threshold and updated annually ($1,175 in fiscal year 2020)[15]. Zimbabwe is categorised as a blend country with IDA-eligibility based on per capita income levels and are also creditworthy for some International Bank for Reconstruction and Development (IBRD) borrowing; and

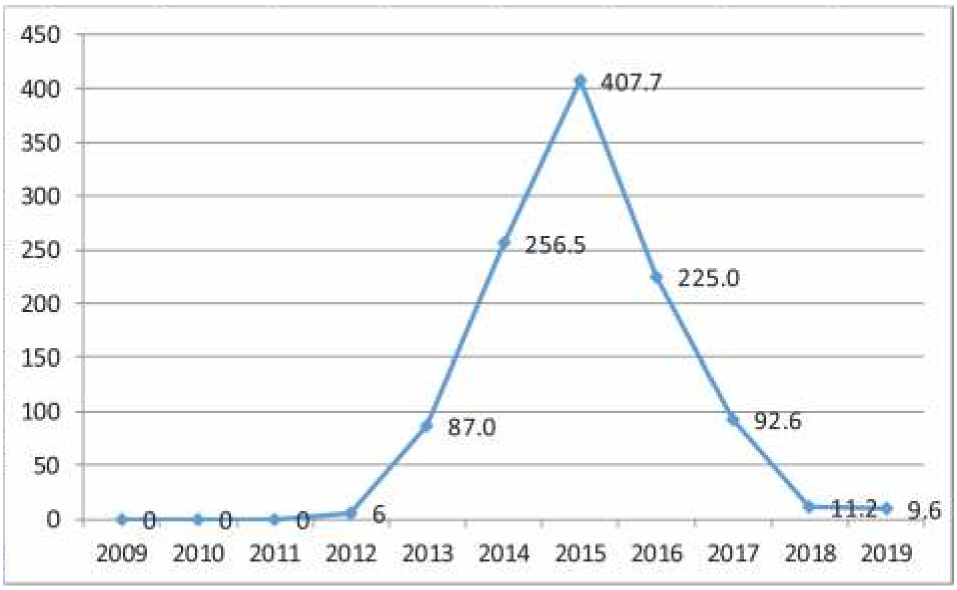
Open comprehensive negotiations with creditors for arrears clearance and full debt relief.

The new debt management office within the Ministry of Finance immediately started consolidating all debt claims, data, and proceeded to validate and reconcile figures with creditors.

- Establishment and operationalisation of Zimbabwe Aid and Debt Management Office (ZADMO) – This is another initiative which was meant to improve transparency and accountability in the compilation, publishing and management of the debt in Zimbabwe. The DMO is now fully operational under the Ministry of Finance and Economic Development.

- *Lima strategy, October 2015* – The Government of Zimbabwe presented a new arrears clearance strategy to its creditors on the side-lines of the 2015 International Monetary Fund and World Bank Annual Meetings in Lima in October 2015, The Lima Strategy is premised on a non-HIPC debt resolution strategy designed to clear external debt arrears amounting to about US$1.8 billion owed to the IMF, World Bank Group and the African Development Bank (AfDB) as a first step towards seeking a debt treatment by the Paris Club after which the government would commence negotiations towards a resolution with the Paris Club. The strategy includes (a) using SDR allocations to repay arrears to the IMF which was already undertaken , (b) a bridge loan to repay arrears owed to the AfDB and IDA, and (c) a long term loan from a bilateral creditor to repay arrears to the IBRD. The Government intends arrears clearance to be followed by a resumption of lending from these institutions and, eventually, debt relief from the Paris Club and other creditors. This staggered process started with clearance of the US$108 million arrears to the IMF on 20 October 2016. This adds to tokens payments that have been made between 2012 and 2019 which cumulatively amounts to about US$1.1 billion (Figure 10).

Figure 10: Principal External Debt Repayments (US$ Millions), 2009 - 2019



Source: Reserve Bank of Zimbabwe, 2019

Implementation of the IMF staff monitored programme - Zimbabwe has already engaged in reengagement with the international community and is implementing another IMF supported SMP

- Implementation of the IMF staff monitored programme -Zimbabwe has already engaged in reengagement with the international community and is implementing another IMF supported SMP. Under this initiate the Government of Zimbabwe has qualitative and quantitative measures which are supposed to be met to as part of reforms which are meant to improve the ease of doing business in Zimbabwe. The quantitative measures include (i) ceilings on: the primary budget balance, net domestic assets of the RBZ, net financing of the nonfinancial public sector by the Reserve Bank of Zimbabwe, and new contracted and guaranteed non-concessional external public debt; and (ii) floors on net international reserves, and social spending (IMF, 2019).The structural benchmarks focus on enhancing public financial management, improving fiscal transparency and accountability, increasing financial stability, and advancing governance reforms.

- The Government has also indicated its willingness to compensate white farmers who lost their farms during the land reform programme. For instance, there was dialogue with the Netherlands Foreign Trade and Development Ministry over outstanding differences on the issue of compensation in respect of Dutch farmers affected by the country's land reform in accordance with the Bilateral Investment Protection and Promotion Agreement (BIPPA) concluded in December 1996.

Despite these strategies implemented by the Government to address the sovereign debt challenges, external debt remains a big challenge to the economy. This affects the country's country risk and the ability to access concessionary lines of credit from the international market. This is happening at a time when the productive sector wants to retool in order to compete on the international market. The signing and ratification of the African Continental Free Trade Area (AfCFTA) by Zimbabwe, puts more pressure to domestic producers as the country open the borders to its African counterparts. This calls for the need to continue prioritising engagement with the international community to address the debt problem. The domestic debt problem has been temporarily addressed due to liberalisation of the currency and honouring of maturing debt. The Government should continue to honour maturing debts since treasury bills are being issued out to the domestic market.

"The Government has also indicated its willingness to compensate white farmers who lost their farms during the land reform programme."

5 Socio Economic Impact of Debt Crisis in Zimbabwe

External debt arrears fundamentally prevent Zimbabwe from accessing foreign capital and investment driving the economy down.

5.1 Policy challenges that have been arising from the debt crisis

High level of external debt negatively affects growth and development. External debt that is arrears is a thorn in debt management and economic recovery. External debt arrears fundamentally prevent Zimbabwe from accessing foreign capital and investment driving the economy down. It forces the government to resort to domestic borrowing crowding out private investment leading to slow growth since governments are usually inefficient compared to private sector investment unless if it is investment in key enablers in the country. This may result in a vicious circle of poverty. For a country such as Zimbabwe with huge natural resource base and economic potential, the level of external debt should not be excessive. However, with the declining economy, despite fiscal consolidation measures to stabilize the country, it is becoming a problem and a big burden. The debt issue should be resolved through expenditure control and expediting revenue generation through trying to contain leakages in revenue collection. This is critical given the volatility of external financing which may be acquired with strings attached.

On external debt interest and charges now exceed the actual debt borrow which shows the extent that the country is incapacitated to services the debt. Failure to acquire concessionary lines of credit following suspension to borrow from IMF and other international financial institutions resulted in the country accruing arrears in terms of debt and interest payments to the creditors. This led to debt from the non-Paris Club increasing with the increase in domestic debt from 2012 as the government resorted to borrowing from the local market which can crowd out domestic private investment. The domestic debt has however, been eroded due to the liberalisation of the exchange rate since February 2019. External debt remains a big challenge as more domestic resources are requires to service the debt since more Zimbabwe dollars are required to survive the debt depending on the ruling interbank rate. This reduced the resources which should be availed for rehabilitation and expansion of infrastructure, social services such as education, health and resources that should be availed to the marginalised groups. This also deprives the quality of life for the present and future generation, hence the need to find a lasting solution to the debt crisis. Defaulting on repayments of debt has led to the increase in the country's risk premium which further exacerbates the cost of doing business in Zimbabwe.

Failure to meet international debt payment obligations has left the country out of the international financial markets. This implies that the country can only tap into domestic savings for borrowing which seriously limits investment opportunities at a time when the country requires financial resources in line with its aspirations of becoming a middle income country by 20130.

The Government has to explore options to clear the external debt arrears as a first option before engaging partners on new debt. Currently, efforts are being made towards clearing outstanding debt to the World Bank, the AfDB and European Investment Bank. Consultations are also ongoing with Paris Club creditors and Non-Paris Club, a move which is critical to addressing the outstanding arrears.

The impact of narrow fiscal space and its adverse effects on the economy means narrowing space for domestic resources mobilization. Strategies can be adopted by Zimbabwe to move out of the debt trap are to raise economic growth as this will reduce the debt/GDP ratio. This includes adherence to fiscal rules even beyond the Staff Monitored Programme. Other issues which may raise economic growth are attracting foreign investment including through joint ventures, aggressive ease of doing business and reducing corruption and re-engagement with the international community to resolve the debt issue. Raising revenue including through more efficient tax administration, removing loopholes and reducing tax evasion. Other issues such as control of excessive and unnecessary expenditure, reducing blanket subsidies and exemptions with effective targeting of those in need may reduce unnecessary expenditure. The Government should move away from engaging in some businesses and leaving them to the private sector if they can do it better and more efficiently hence the current reforms towards privatization of some parastatals is the right direction.

Hence, there is a need to continue with prudent macroeconomic management to ensure that the economy can fight against shocks. The World Bank (2018) also argue that there is need to reduce vulnerability by facilitating the use of alternative energy to reduce oil dependence, diversifying development and expanding labour market access to secure remittances.

> **"Strategies can be adopted by Zimbabwe to move out of the debt trap are to raise economic growth as this will reduce the debt/GDP ratio."**

5.2 Impact of debt service on the government revenues and social investment in Zimbabwe.

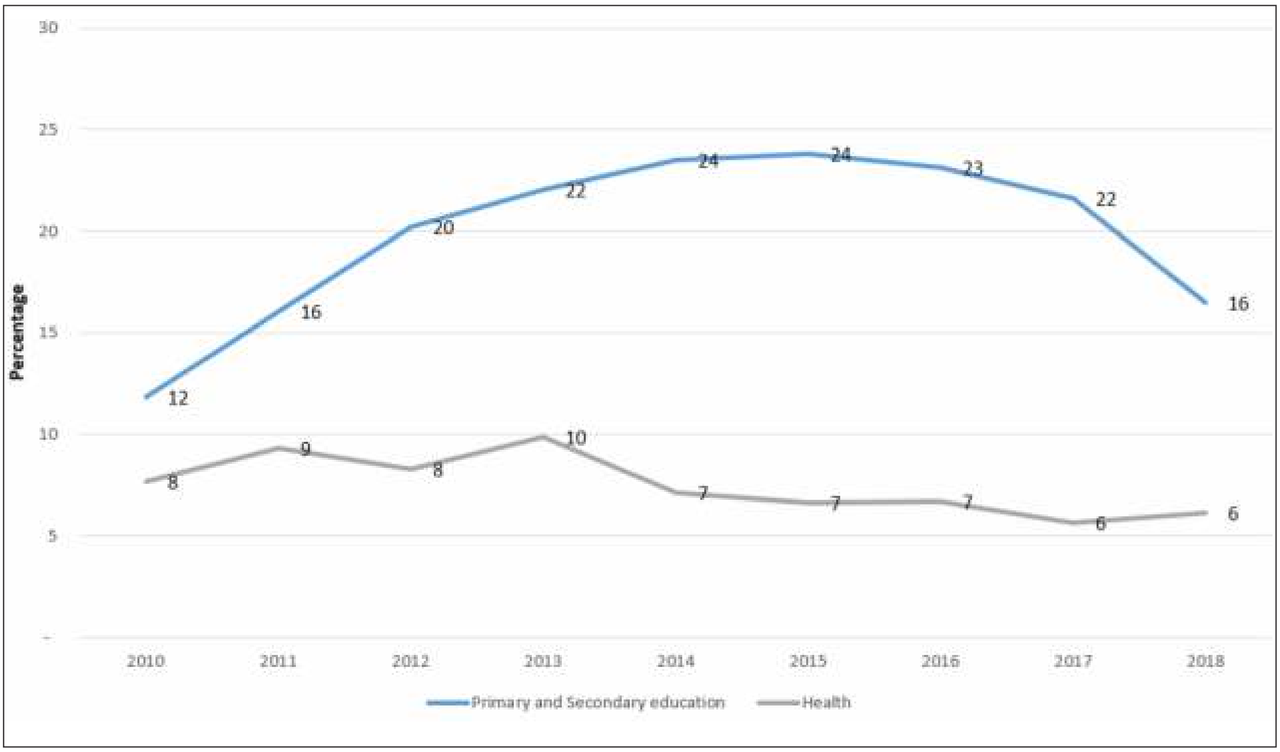
High debt service inhibits future investment in social expenditure such as education and health, thereby perpetuating low productivity and poverty (IMF, 2018). High debt service impact on social investment through various direct and indirect channels. Directly, debt service payments crowd out social spending by government to support improved access to quality education, health, among others. This implies that in developing countries which cannot readily raise taxes such as Zimbabwe increased debt service payments directly result in reduced government resources towards social spending such as health, education and social protection.

Indirectly, high debt service payments may also affect investment in social spending through reduction in growth. High debt service also affects growth through the investment channel by heightening uncertainties and decreasing expenditures on economic infrastructure. The increased high debt service discourages private sector-led investment and thus growth. The overall impact would be a reduction in total revenue, which will also impact on social spending. Lastly, the larger share of resources for debt can also result in increased liquidity which will also have impact negatively on growth, therefore reduced government revenues and concomitant social spending.

Zimbabwe's debt service requirements have increased significantly averaging 22 percent between 2009 and 2018. The debt service is expected to rise even higher in 2019 as a result of the recent liberalisation of the exchange rate. In 2019, the projected total debt service to government revenue is around 33%.If the Zimbabwean Government was servicing its debt in full, including foreign debt, then on average 22 percent social spending would be affected per annum. Servicing the debt would have crowded out financing of social services in the country. This could have been suicidal given that the two are basic human rights that should be extended to the citizens. Government on average allocates 30 percent of revenues to education and health, this means the 22 percent debt service will negatively impact on social spending (see Figure 11).

If the Zimbabwean Government was servicing its debt in full, including foreign debt, then on average 22 percent social spending would be affected per annum.

Figure 11: Budgetary Allocations of Social Sectors to Government Revenue (%)



Source: *Ministry of Finance and Economic Development, 2019*

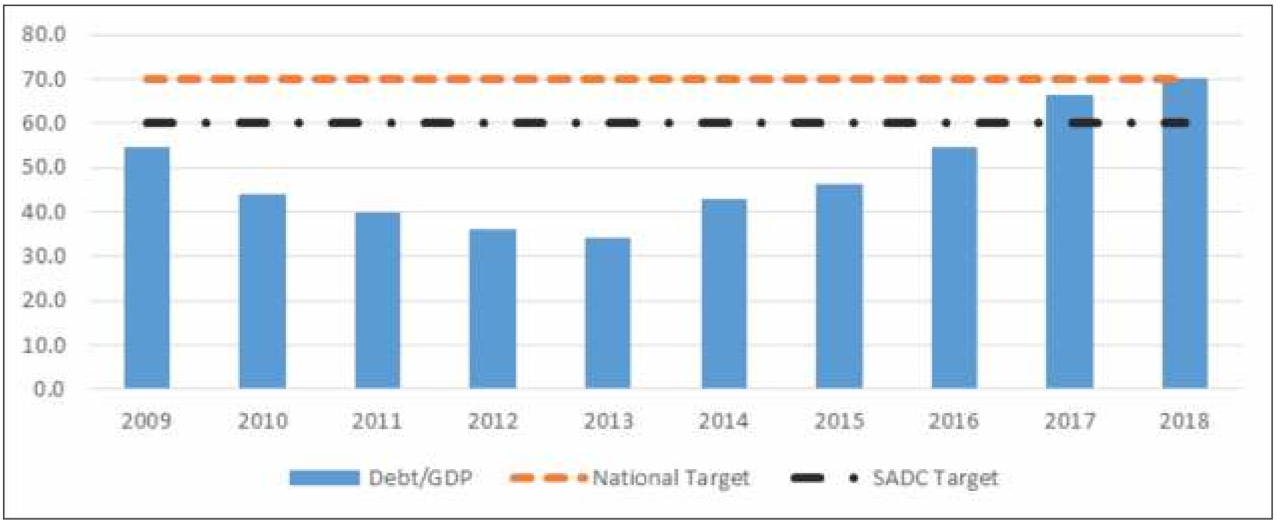
Given the challenge in servicing the foreign debt, Zimbabwe has been accumulating arrears on external debt. The country has been paying only nominal (token) payments on external debt. In 2018, the country paid only 5.3 percent of the total external debt service, resulting on minimal effect on the social sector spending.

5.3 Impact of sovereign debt on the fiscal space and domestic resources mobilization in Zimbabwe

The increase in sovereign debt in Zimbabwe has led to reduction in fiscal space. The fiscal space is the gap between actual debt and the debt ceiling as given by the law or some other prudent level (Heller, 2005) and (Ghosh, Kim, Mendoza, Ostry, & Qureshi, 2013). In Zimbabwe, two debt limits are important. Zimbabwe has a debt rule which limit of total public debt to GDP at 70 percent as alluded to above. In addition, as part of the SADC regional finance and investment protocol, the country should abide by the regional macroeconomic convergence target of public debt to GDP of 60 percent (SADC, 2006). In addition, Zimbabwe is rated as weak in terms of debt carrying capacity using the IMF/World Bank Low Income Country Debt Sustainability Framework (DSF), implying a total public debt bench mark of 35 percent of GDP in present value terms. The DSF benchmark is even lower than the national and regional thresholds. Debt carrying capacity is determined using various factors that have a bearing on the debt management capacity, solvency of debt and ability to repay, which include the CPIA, domestic growth, reserves, remittances and world growth.

Figure 12 shows that the developments in Zimbabwe's total public debt to GDP against national and SADC regional benchmarks for the period 2013to 2018.

Figure 12: Public Debt to GDP against National and SADC target (%)



Source: Ministry of Finance and Economic Development, 2019 and ZIMSTAT, 2019

As shown in Figure 12, Zimbabwe's debt has surpassed all the prudent debt benchmarks in 2018, implying that the country has no fiscal space. This means that the country has no longer any budgetary room for government to increase expenditure without further threatening the debt situation, which is already in debt distress. Given that the actual debt level has breached the prudent levels, it also means the country has no any additional debt buffer which ensures that that debt remain stable even macroeconomic risks.

"Given that the actual debt level has breached the prudent levels, it also means the country has no any additional debt buffer which ensures that debt remain stable even macroeconomic risks."

To check the impact of debt on fiscal space, it is also important to model the primary balance that ensures that Zimbabwe's debt is sustainable (IMF, 2018). The primary balance is calculated using the debt stabilising primary balance approach, which is a simple tool with minimal data requirements. This approach calculates the primary balance to be achieved in order for debt to remain stable, given the set of macroeconomic assumptions, mainly related to real interest arte and growth. If the debt stabilising primary balance is higher compared to the actual, it means the country has no fiscal space and there is need for fiscal consolidation. The debt stabilising primary balance was found to be -1.3 percent of GDP, which is well higher than the historical actual average of -6 percent since 2015. This means that the country has no fiscal space and in fact there is need for fiscal consolidation.

Table 1: Debt Sustainability Analysis: Macroeconomic Assumptions

Baseline Scenario	2019	2020	2021	2022	2023	2024
Real GDP growth	-6.5	3.0	3.0	3.0	3.0	3.0
Inflation	185.6	108.2	44.2	18.6	8.8	9.0
Primary Balance	-5.2	-4.4	-3.3	-2.8	-1.8	-1.2
Effective interest rate	5.0	5.7	7.9	8.5	8.7	8.6

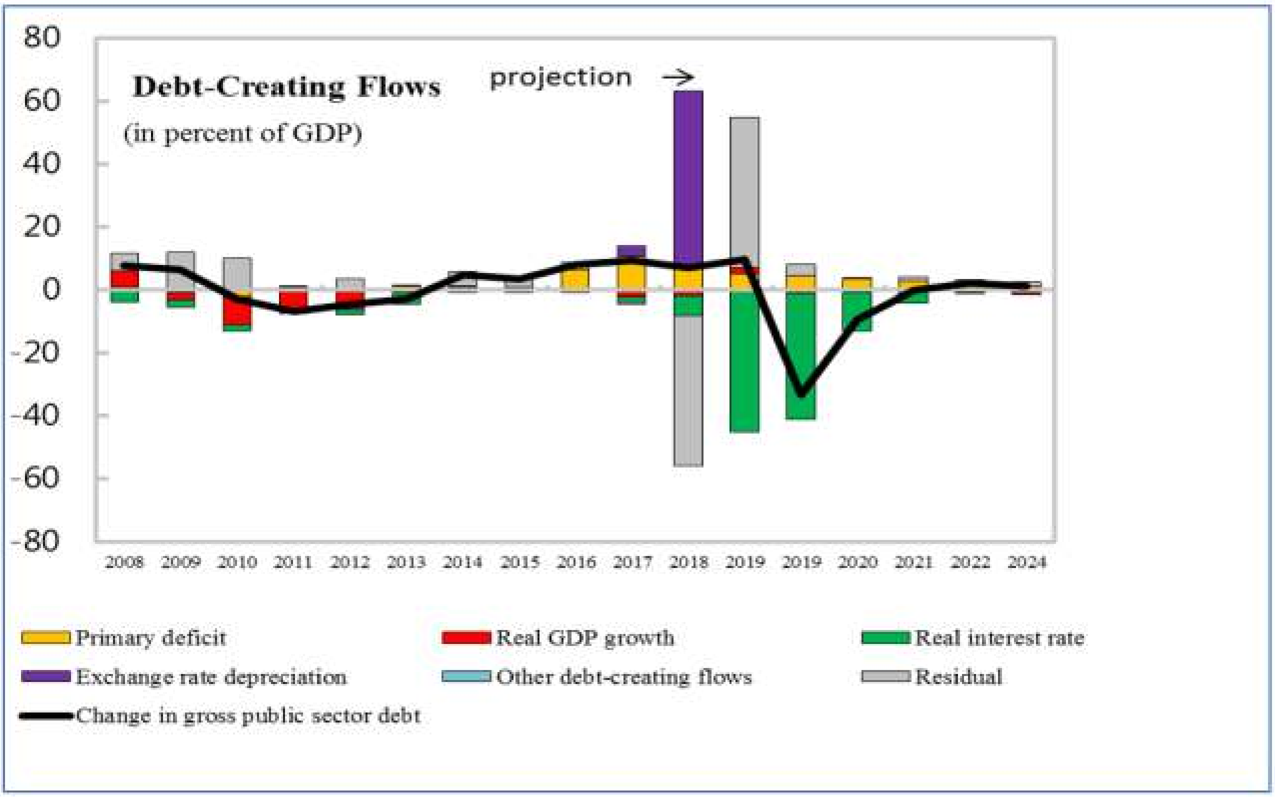
Author's Assumptions

6 Debt Sustainability and Macroeconomic Shocks

To understand Zimbabwe's debt sustainability in the medium term, the evolution of debt burden indicators were assessed under the baseline scenario and stress scenarios. The baseline scenario is based on the government's envisaged macroeconomic framework for 2019 and projections based on the country's historical performance and potential output growth dynamics. The stress scenarios were computed as the historical average minus one standard deviation. The IMF framework for fiscal analysis was therefore used to do the debt burden projections in the medium term. In addition to profiling the evolution of debt under baseline scenario, it subjects the debt to macroeconomic stress testing. The baseline considers an average growth rate of 3 percent considerable fiscal consolidation that culminates in primary balance at -1.2 percent in 2024.

The main baseline assumption underpinning the evolution of debt burden indicators are shown in Table 1. Based on the assumptions above, Zimbabwe's public debt to GDP ratio is expected to progressively decline from 71 percent in 2018 to 41 percent in 2020 and remain relatively stable around 40 percent up to 2024 as shown in Figure 13. The sharp decline in the public debt to GDP ratio in 2020 is as a result of high inflation that eroded the real value of domestic debt. In addition, the fiscal consolidation being undertaken by Government will result in little debt being issued, overally depressing total public debt. As shown in Figure 13, fiscal laxity given by huge primary deficit was historically the main factor driving public debt ratio upwards. From 2019, however, negative real interest rate will be the main factor driving public debt down in the medium term.

Figure 13: Drivers of Public Debt



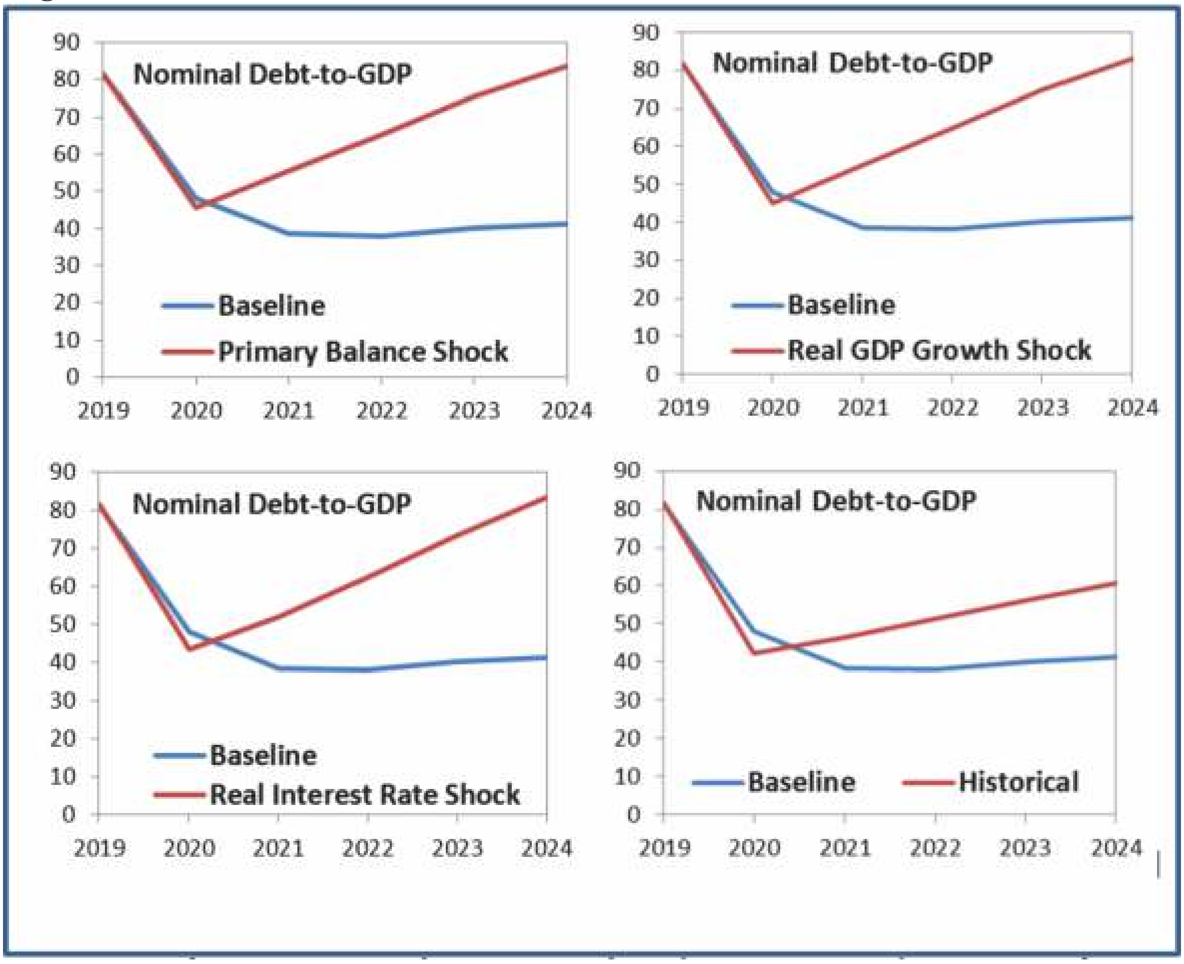
Source: Author's own estimates using data from Ministry of Finance and Economic Development, 2019

6.1 Sensitivity of Zimbabwe's public debt to macro-fiscal shocks

The baseline case is, however, vulnerable to macroeconomic shocks, which may result in increased debt. Figure 14 shows that public debt is likely to increase in the event of shocks to GDP, real interest rate and primary balance. It is likely that if the upward inflation trend witnessed in 2019 continues, the interest rates are likely to go up in the near-term. Importantly, it shows that if government stops austerity measures mid-way, public debt is likely to rebound. Lastly, public debt is likely to increase if government follows its historical trend. This implies that government's fiscal austerity programme is critical to bring down debt to sustainable levels.

> **It is likely that if the upward inflation trend witnessed in 2019 continues, the interest rates are likely to go up in the near-term.**

Figure 14: Public Debt and Macroeconomic Shocks



Source: Author's own compilation using data from Ministry of Finance and Economic Development, 2019

In addition, to the impact of inflation, domestic debt has been contained since 2019 as a result of significant fiscal consolidation efforts by government.

The baseline scenario forecasts public debt to GDP to decline from 2019. This is mainly attributed to the expected decline in domestic debt to GDP, as a result of increases in inflation and fiscal consolidation, which slowdown the build-up of new debt. For instance, domestic debt at $9,612 million, accounted for about 40% in 2018 but this has fallen drastically as a percentage of GDP in 2019. Using the 2019 Mid Term National Budget Review, domestic debt at ZWL$8,761 million as at June 2019, accounted for only about 7.6% of GDP. The increase in inflation is expected to continue to reduce the size of domestic debt to GDP as long as government minimises issuance of new debt. In addition, to the impact of inflation, domestic debt has been contained since 2019 as a result of significant fiscal consolidation efforts by government. This resulted in government recording fiscal surplus for the period January - June 2019. The fiscal consolidation efforts include limited recourse to Central Bank financing, restructuring of overdraft facility, cash advances and treasury bills held by Central Bank into long-term marketable instruments and issuance of Treasury Bills for cash flow management only.

"The increase in inflation is expected to continue to reduce the size of domestic debt to GDP as long as government minimises issuance of new debt."

7 Possible policy and regulatory measures on debt management in Zimbabwe.

The fact that Zimbabwe is already implementing a Staff Monitored Program should work as pointers to show the country's readiness to reform the economy.

Contain the budget deficit – On domestic debt, there is need for government is to contain the budget deficit within the limits prescribed in the Transitional Stabilisation Programme. The Government needs tocontrol of excessive and unnecessary expenditure, reduce subsidies and impose exemptions to the well to do with effective targeting. The oother issue includes the need to contract new domestic debt only for productive purposes. This is important even if domestic debt is not a big issue at the moment. The culture of managing the debt by adhering to fiscal rules is critical to avoid crowding out domestic private investment. The Government of Zimbabwe should continue to honour new domestic debt that is due for repayment under the current fiscal consolidation measures to rebuild the confidence in the domestic market.

Debt Restructuring and Debt Forgiveness- The analysis of debt shows that the country has no fiscal space for social sector financing even under current arrangements where government is servicing only less than 10% of its debt service. This implies that government cannot fully service its external obligations without serious dislocations on the social sectors of the economy. Given the high debt service to education, health and social services spending, there is need for seriously considering debt restructuring since resumption of debt service payments may significant affect resources available for social spending. This is catastrophic given that social services should be prioritised to benefit the marginalised groups. Against this background, government should vigorously pursue the international re-engagement process with a view to restructure the external debt with multilateral institutions, the African Development Bank and the World Bank. The issue of debt forgiveness can be pursued with the Paris Club given the current difficulties that the country is facing to service the arrears and the debt accrued from external creditors. The fact that Zimbabwe is already implementing a Staff Monitored Program should work as pointers to show the country's readiness to reform the economy. However, to enable creditors to consider debt restructuring and debt forgiveness, Zimbabwe should strive to meet all the indicators under the IMF Staff Monitored Program to give assurance to the creditors that the country is ready to transform the country. These measures will enable the Zimbabwean authorities to try and grow the economy while adhering to fiscal rules which then will enable the country to generate enough resources to fund critical expenditure requirements such as health, education, social services and infrastructure.

Growing the economy- The government needs to take decisive policy action to raise economic growth (this will automatically reduce debt/GDP ratio) including through smart economic policies, structural reforms, making policies consistent and market friendly, attracting foreign investment including through joint ventures, aggressive ease of doing business and reducing corruption. Growing the economy increases the country's potential to generate more government revenue to service its debt.

Policy Consistency - The current fiscal consolidation by government will result in decline in public debt. There is, however, need to ensure that government stays on course and avoid costly policy reversal that would result in debt explosion.

The depreciation of the Zimbabwe dollar against the United States dollar requires the country to raise more resources to service the debt at a time when the country has limited fiscal space.

Guard against exchange rate and macroeconomic risks- Going forward, the debt profile for Zimbabwe is very sensitive to macroeconomic risks particularly GDP growth, exchange rate and real interest rate. The introduction of the Zimbabwe dollar as a mono-currency brought about the exchange rate risk for external debt. The depreciation of the Zimbabwe dollar against the United States dollar requires the country to raise more resources to service the debt at a time when the country has limited fiscal space. As such there is need to ensure limited fluctuations in the Zimbabwe dollar/ US exchange rate to guarantee public debt sustainability in the medium term.

Commitment to adhere to legal provisions of debt management and implementation of punitive and deterrent measures - There is need for high commitment within the institutions responsible for debt management (e.g. Ministry of Finance, Reserve Bank of Zimbabwe and DMO) to operate within the legal framework of debt management in Zimbabwe. The culture of compliance should be inculcated in these institutions. For example, the government requires to observe provisions relating to the borrowing limits prescribed by law as well as seeking approval from Parliament with regards to aggregate of the amounts to be guaranteed as required by law. It further needs to timely prepare ad publish comprehensive debt management reports in order to enhance transparency and accountability on debt management. More so, corrective measures should be put in place in case of breach of law. Government is cognisant of the fact that adherence to the borrowing legal requirements helps the country to avoid committing the country to unsustainable and unproductive loans (GoZ, 2017 National Budget 2018). It is therefore expected for Government to implement and follow the statutory provision on debt management.

Strengthen Zimbabwe's institutional capacity for debt management - There is need to strengthen the Debt Management office in the Ministry of Finance and Economic Development. The DMO front, middle and back offices require to be in one place for ease of coordination. More so, there is need to ensure that institutions responsible for debt management such as the Ministry of Finance and the Reserve Bank of Zimbabwe are well coordinated. There is also need for an office that is responsible for effectively monitoring of contingent liabilities in Zimbabwe. Further, Parliament and Audit office should enforce compliance with fiscal rules.

The depreciation of the Zimbabwe dollar against the United States dollar requires the country to raise more resources to service the debt at a time when the country has limited fiscal space.

It is imperative for the Government to finalise and make the Medium Term Debt Management Strategy publicly accessible. This not only enhances debt management in the country but enhances monitoring and holding the Debt Management Office (DMO) accountable by the members of the public including the civil society organisations and Parliamentarians.

Conduct regular debt audits -Like any other government transactions; debt management processes can be audited alongside the usual audits of public finance. There could be loopholes in debt management processes which increase risks for the country if unattended. Debt audit is important for Zimbabwe as it assesses how well the government is utilising debt proceeds as well as tracking achievements towards the debt management goals for the country. Thus through these audits, Zimbabwe will also send a message to international partners on how serious it is on debt management.

Ensuring public access to sovereign debt statistics - Currently bits and pieces of debt statistics are published in government and government agencies report such as the national budgets publish different debt statistics. This calls for the need to relook at the figures to ensure that both the Ministry of Finance and Economic Development and the Reserve Bank of Zimbabwe publish the same statistics over reported period. A series of the statistics can be published at the Ministry of Finance and Economic Development, the Reserve Bank of Zimbabwe and the ZIMSTAT websites and through hard copies to ensure easy access to the information. The current scenario where the information is availed upon request does not augur well with the transparency requirement where the information should be available to the citizenry to ensure accountability.

> **Debt audit is important for Zimbabwe as it assesses how well the government is utilising debt proceeds as well as tracking achievements towards the debt management goals for the country.**

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[2] http://mefmi.org/2017/08/01/zimbabwe-develops-a-medium-term-debt-management-strategy-and-the-first-annual-borrowing-plan/

[3] https://www.sadc.int/files/5713/5292/8372/Regional_Indicative_Strategic_Development_Plan.pdf

[4] http://mefmi.org/2017/08/01/zimbabwe-develops-a-medium-term-debt-management-strategy-and-the-first-annual-borrowing-plan/

[5] On assessing debt management, PEFA seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements

[6] The prevailing interbank rate was US$1: RTGS$7.2466

[7] 2019 figures are recorded as at June 2019

[9] https://www.rbz.co.zw/documents/Exchange_Rates/2019/Aug/RATES-09-August-2019.pdf

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Annex 1: Evolution of Zimbabwe's Domestic and External Debt, 2009-2019

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total External Debt	5270	5320	5613	5847	6160.5	6704.3	7030.0	7186.5	7508.1	8164.0	US$8100 (ZWL$58.800)
Paris Club	2614	2621	2735	2828	2960.8	2828.3	2811.2	3010.5	3095.1	3468.0	3500.0
Non-Paris Club	329	331	443	534	659.7	801.7	1004.6	1148.3	1337.5	1691.0	1600.0
Multilateral Creditors	2327	2368	2435	2485	2540.0	2508.4	2666.7	2497.7	2568.3	2562.0	2500.0
Private	0	0	0	0	0.0	565.9	547.6	530.1	507.2		
Domestic Debt	-	-	-	276	375	1,676	2,239	4,033	7,134	9,624	ZWL$$8,800 (US$1,329)
Total debt	5,270	5,320	5,613	6,123	6,536	8,380	9,269	11,220	14,642	17,788	ZWLI66,800 (US$16,914)

Annex 2: External debt, Interest and Penalties (US$), 1980 - 2017

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt outstanding and disbursed	1,544,844,212	1,394,766,225	1,379,072,902	1,346,193,424	1,411,748,538	1,443,523,966	2,072,369,568	2,150,677,568	2,115,486,750.27
Principal arrears	2,223,054,709	2,312,670,027	2,418,700,511	2,509,318,185	2,585,468,886	3,042,127,821	2,608,986,197	2,428,397,512	2,756,524,443.18
Interest Arrears	905,532,750	984,652,645	1,067,657,944	1,150,370,366	1,228,437,522	1,246,379,580	1,275,999,160	1,312,667,41 4	1,361,927,797.24
Penalties	596,861,276	627,863,055	747,224,472	841,379,425	934,882,131	972,243,034	1,072,680,570	1,294,803,983	1,274,158,995.86

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