



ZIMBABWE

ANNUAL PUBLIC DEBT BULLETIN

DECEMBER 2018

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

Zimbabwe Public Debt Management Office

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Any queries should be addressed to:

The Head

***Zimbabwe Public Debt Management Office,
Ministry of Finance and Economic Development,
E-Block, Sixth Floor, Mgandani Dlodlo Complex, Corner Samora
Machel Avenue and Simon Vengai Muzenda Street, Harare,
Zimbabwe.***

+263 24 279571-9/ +263 24 2708043

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FOREWORD

1. Since the turn of the millennium, Zimbabwe has been grappling with a huge external debt overhang, which has now become an albatross around the country's neck, that is clogging the wheels of economic development and social transformation. In addition, the continued accumulation of arrears is seriously undermining the country's credit rating, and severely compromising the country's ability to secure new financing in the form of Foreign Direct Investment (FDI) and also from multilateral and bilateral sources.



*Prof. M. Ncube,
Minister of Finance and
Economic Development*

2. The evolution of Zimbabwe's debt crisis can be traced to the country's inability to service its external payment obligations due to the drastic reduction in foreign exchange earnings, following the economic downturn and consecutive droughts during the 1980s and 1990s. This external debt overhang resulted in the country being placed on financial sanctions by the Multilateral Development Banks (MDBs) and other creditors, compromising the country's ability to access new financing from the international capital markets.
3. In this regard, the Government of Zimbabwe has formulated a holistic debt resolution strategy which seeks to pave the way for negotiating a comprehensive arrears clearance strategy and the provision of international debt relief from all creditors as enunciated under the key reforms in the Transitional Stabilisation Program (TSP) (October 2018 to December 2020).
4. Pursuant to this, the Government with the assistance of the World Bank Group organised a Round Table Forum with Development Partners on the side-lines of the October 2018 IMF/World Bank Annual Meetings in Bali, Indonesia. The Forum agreed that arrears resolution and implementation of reforms in the TSP will be critical to unlocking new financing and investment for the country's development agenda.

5. Furthermore, Government took steps to strengthen Debt Management in Zimbabwe through enacting the Public Debt Management Act in 2015. In this regard, the robust legal and institutional framework, with clear objectives, will modernise and professionalise debt management in Zimbabwe.
6. Timely reporting of accurate public debt statistics, is one of the key elements of effective Public Debt Management. In line with international good practices, my Ministry has compiled and is publishing this first issue of the Zimbabwe Public Debt Bulletin. This Bulletin will enable more informed and effective policy formulation and decision-making by Government and our stakeholders. The Bulletin will serve as Government's instrument for promoting financial accountability and transparency in the public sector. More broadly, the Bulletin is intended to help create more public debt awareness among stakeholders, both in Zimbabwe and beyond our borders.
7. I am convinced that this Public Debt Bulletin will go a long way in meeting the demands by our stakeholders for comprehensive, internationally comparable and reliable data on public debt.
8. My special thanks go to the Secretary for Finance and Economic Development, Mr. G. T. Guvamatanga, the Head of the Zimbabwe Public Debt Management Office (ZPDMO), Mr. A. N. Bvumbe who, with his dedicated team, worked diligently to ensure that the publication of this first issue of the Public Debt Bulletin becomes a reality.
9. I invite all readers to give their valuable feedback which will facilitate improvements of our future editions of the Public Debt Bulletin.



Hon. Prof. Mthuli Ncube

Minister of Finance and Economic Development

ACKNOWLEDGEMENTS

1. The compilation of our first issue of Zimbabwe's Public Debt Bulletin for dissemination and use by our stakeholders involved the collaborative effort of many players.
2. I would like to thank all the Zimbabwe Public Debt Management Office staff for their significant contribution to the publication of this flagship Public Debt Bulletin and all the other departments in the Ministry of Finance and Economic Development, who also assisted in one way or another in the successful production of this Bulletin. These officials worked tirelessly, under the guidance of the Head of the Zimbabwe Public Debt Management Office, Mr. A.N. Bvumbe to make this publication a reality.
3. Without financial and technical assistance from the African Development Bank (AfDB), United Nations Development Programme (UNDP), Department for International Development (DFID), Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and United Nations Conference on Trade and Development (UNCTAD), this important work could not have been successfully carried out. I would like to sincerely thank them for their support.

A handwritten signature in black ink, appearing to read 'G.T. Guvamatanga', with a long, sweeping underline that extends to the right.

G.T. Guvamatanga

Secretary for Finance and Economic Development; and

Chairperson of the External and Domestic Debt Management Committee (EDDC)

LIST OF ACRONYMS

AfDB	African Development Bank
ADF	African Development Fund
AG	Accountant General
ATM	Average Term to Maturity
ATR	Average Term to Re-fixing
BADEA	Arab Bank for Economic Development in Africa
BOP	Balance of Payments
CPIA	Country Policy and Institutional Assessment
CUB	Committed Undisbursed Balance
DeMPA	Debt Management Performance Assessment
DMFAS	Debt Management and Financial Analysis System
DOD	Disbursed Outstanding Debt
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EIB	European Investment Bank
FDI	Foreign Direct Investment
GoZ	Government of Zimbabwe
IDBZ	Infrastructure Development Bank of Zimbabwe
IMF	International Monetary Fund
INA	Interest Arrears
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MoFED	Ministry of Finance and Economic Development
MTDS	Medium Term Debt Strategy
NDF	Nordic Development Fund

ODA	Official Development Assistance
OFID	OPEC Fund for International Development
PC	Paris Club
PTA	Preferential Trade Area
PPG	Public and Publicly Guaranteed
PRA	Principal Arrears
RBZ	Reserve Bank of Zimbabwe
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
TSP	Transitional Stabilisation Programme
UNCTAD	United Nations Conference on Trade and Development
ZIMSTATS	Zimbabwe National Statistics Agency
ZPDMO	Zimbabwe Public Debt Management Office

CURRENCY ACRONYMS

CHF	Swiss Franc
CNY	Chinese Renminbi
EUR	Euro
GBP	Great British Pound
NOK	Norwegian Kroner
SEK	Swedish Kroner
INR	Indian Rupee
JPY	Japanese Yen
KWD	Kuwait Dinar
SDR	Special Drawing Rights
USD	United States Dollar

CHAPTER 1: OVERVIEW

Introduction

1. This flagship issue of the Public Debt Bulletin, is being published as a policy tool to address the demands for comprehensive, internationally comparable and reliable information on public debt by policy makers, investors, Development Partners, local and international financial institutions and other key stakeholders.
2. Maintaining a reliable, comprehensive and accurate public debt database is one of the cornerstone of public debt management. Timely reporting of accurate public debt statistics to all stakeholders enhances transparency and accountability in public debt management. The external public debt data, which is continuously reconciled with Zimbabwe's creditors, enables various debt sustainability analyses to be conducted under different debt relief options and assumptions.
3. Furthermore, this Public Debt Bulletin is coming at a time when the Government of Zimbabwe has embarked on an accelerated reengagement process with the Multilateral Development Banks (MDBs), notably the International Monetary Fund (IMF), the World Bank Group (WBG), African Development Bank (AfDB) and the European Investment Bank (EIB), as well as bilateral creditors.
4. The reengagement process is being implemented under the auspices of the Staff Monitored Programme (SMP) with the IMF, which is a stepping stone towards arrears clearance, accessing debt relief and new financing from the international community.

Objectives of Debt Management

5. The objectives of debt management in Zimbabwe as stated in the Public Debt Management Act are as follows:

“to ensure that Government’s financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent level of risk, and to promote the development of the domestic debt market.”

6. The specific debt management objectives in Zimbabwe include the following:

- *Maintaining a comprehensive, updated and accurate public debt data base;*
- *Instituting robust and sound institutional and legal framework for public debt management; and*
- *Continuously re-engaging and expediting debt resolution with all creditors.*

Public Debt Management Strategy

7. Public Debt Management Strategy focuses on central government debt, both domestic and external, including guaranteed external and domestic debt.

8. The Strategy’s main thrust is to clear external debt arrears and to develop the domestic debt market. The successful implementation of the Strategy is premised on the success of the country’s external debt arrears clearance plan, which will unlock new external financing for inclusive and sustained growth.

9. Realisation of the Strategy is guided by the following fundamentals:

- *Accelerated implementation of the arrears clearance strategy;*
- *Focus on concessional external financing;*
- *Limit non-concessional borrowing to economically viable projects;*
- *Introduction of the Auction-Based System for domestic securities issuances;*
- *Domestic Financing informed by an Annual Borrowing Plan and Issuance Calendar;*
- *Development of the Secondary Market to improve on liquidity and encourage investment in long-term bonds; and*
- *Ensuring transparency and information sharing through regular public debt publications on the stock of public debt and its main features.*

CHAPTER 2: LEGAL AND INSTITUTIONAL FRAMEWORK FOR DEBT MANAGEMENT IN ZIMBABWE

10. The Constitution of Zimbabwe in Section 300 provides for Debt Management operations and authorises the promulgation of a dedicated Debt Management Act.
11. The Public Debt Management (PDM) Act was promulgated in September 2015. The Act provides for the management of Public Debt in Zimbabwe, establishes the Zimbabwe Public Debt Management Office (ZPDMO) on a statutory basis, including its functions and administration, and provides for the raising, administration and repayment of loans by the State, as well as giving guidelines in respect of certain loans.
12. The Public Debt Bulletin is published in accordance with Sections 5 item k of the PDM Act. The section provides for the publication of reports of all loans and guarantees by the State.
13. According to the PDM Act, the objectives of Public Debt Management in Zimbabwe are the following:
 - *Ensuring that Government's financing and payment needs are met at lowest possible cost with a prudent degree of risk; and*
 - *To promote domestic debt market development.*

Key Tenets of the Public Debt Management Act

Borrowing Powers – Section 11

Section 11 provides for the following borrowing powers:

- *“the Minister [of Finance and Economic Development] shall have sole authority to borrow money on behalf of Government by concluding loan agreements, issuing Government Securities, or entering into supplier’s credit agreements and to issue Government Guarantees, in Zimbabwe and in both local and foreign currencies”.*

Borrowing Purposes- Section 12

Section 12 of the PDM Act provides for the borrowing purposes as follows:

- *to finance national priority infrastructure and productive sector projects with high economic and social impact provided debt shall only be incurred on projects that can generate sufficient revenues to repay the loan;*
- *to finance Government budget deficits;*
- *to maintain a credit balance on the Treasury main account at a level determined by the Minister;*
- *to provide such Government loans or credits to local authorities, public entities and any other entity referred to in the definition of “public debt” in section 2(1):*
- *to honour obligations arising under Government guarantees;*
- *to refinance outstanding debt or repay a loan prior to its date of repayment:*
- *to immediately protect, mitigate or eliminate effects caused by a natural or environmental disaster or any other national emergency;*
- *to replenish international reserves;*
- *to meet requests by the Reserve Bank to issue Government securities for the sole purpose of supporting monetary policy objectives; and*
- *to fulfil any other purpose as the National Assembly may by resolution approve.*

Borrowing Limits - Section 11

Section 11 of the PDM Act provides for the borrowing limits as follows:

- *borrowing limits shall be fixed by the National Assembly for any given financial year upon recommendation from the Minister and External and Domestic Debt Committee;*

and

- *the Limit set should ensure that: total outstanding public and publicly guaranteed debt ratio to GDP should not exceed 70% in any fiscal year.*

Power to give Guarantees - Section 20

Section 20 of the PDM Act provides for the issuance guarantees as follows:

- *the Minister of Finance is mandated to issue guarantees;*
- *guarantee limits set by National Assembly;*
- *prior to issuance of guarantees, the ZPDMO shall assess the capacity to repay by the beneficiary; and*
- *guarantee fee is charged which is set by the Minister of Finance.*

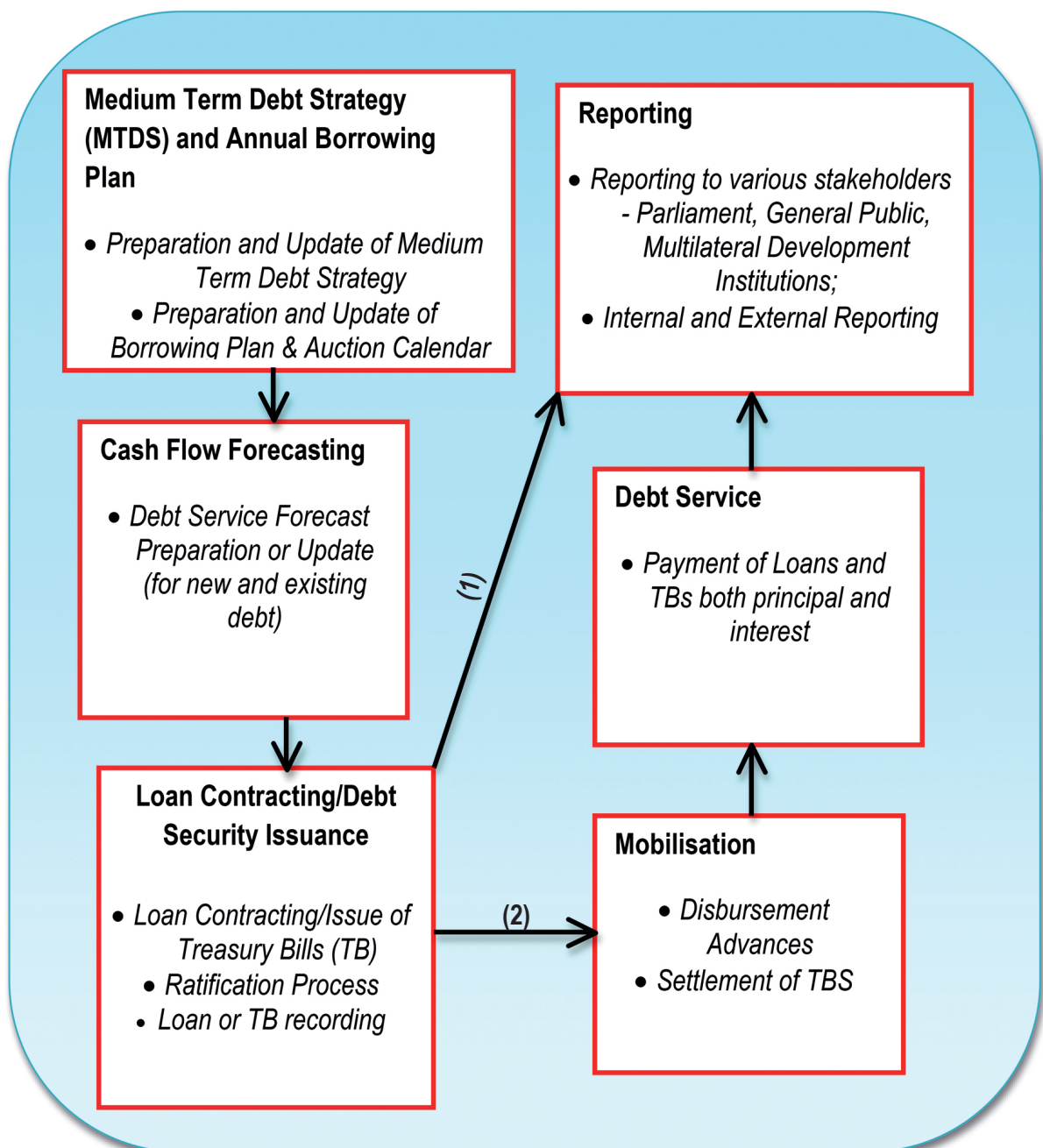
Borrowing by State Owned Enterprises and Local Authorities - Section 22

Section 22 of the PDM Act provides for the borrowing by State Owned Enterprises (SOEs) and Local Authorities as follows:

- *SOEs can borrow externally subject to approval by the Minister of Finance;*
- *Local Authorities can only borrow within Zimbabwe subject to being given a borrowing power certificate;*
- *borrowing limits are set by Minister of Finance in consultation with the Minister in charge of Local Government; and*
- *limits are based of the country's ability to repay.*

Borrowing Procedures

14. The chart below depicts the borrowing procedures applicable under the PDM Act and Public Finance Management Act.

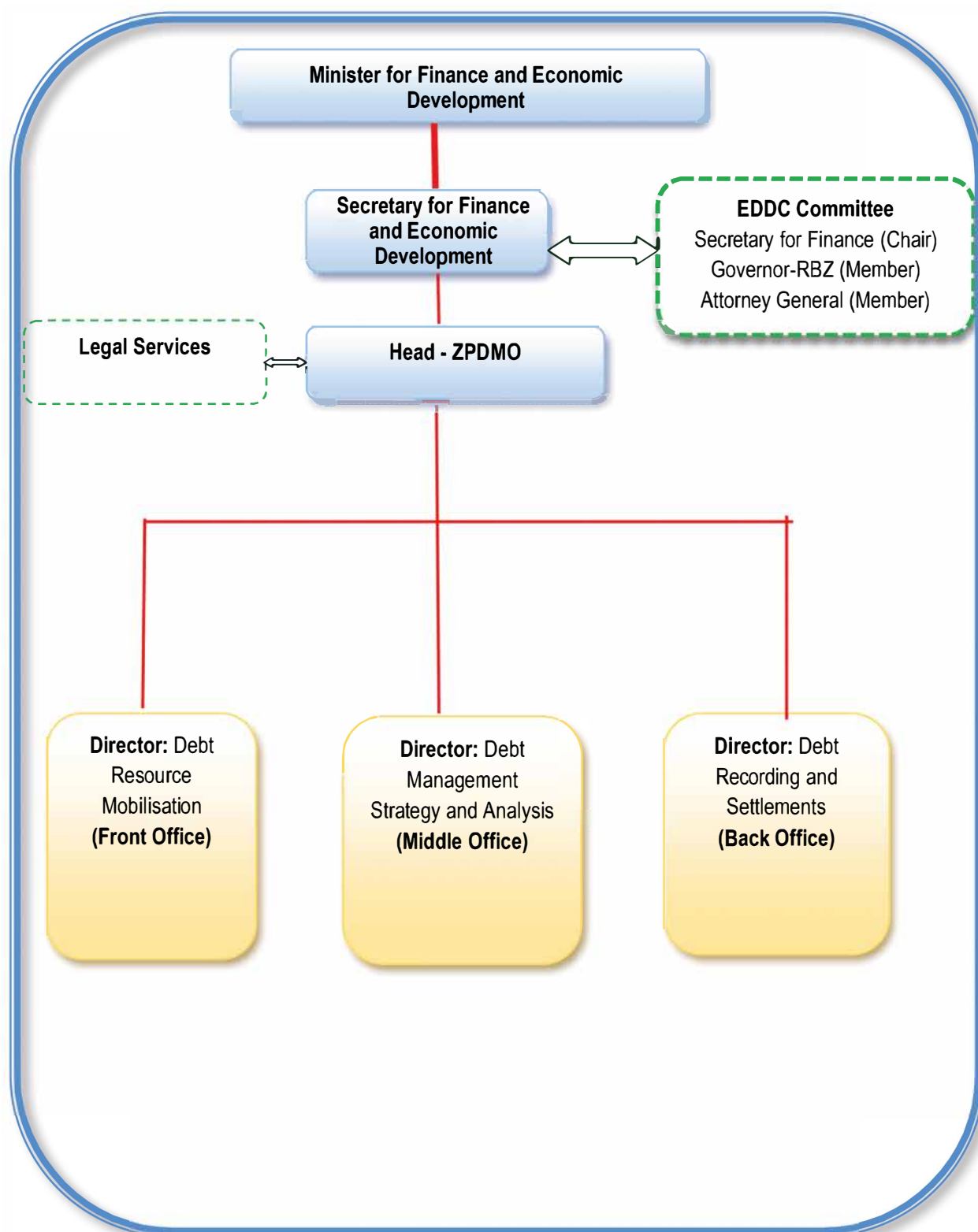


- (1) Ratification process and loans contracted are reported to Parliament.
- (2) After contraction, loans are disbursed.

Operations and procedures for the External and Domestic Debt Management Committee (EDDC)

15. The External and Domestic Debt Management Committee (EDDC), shall report to the Minister of Finance and its functions shall be the following:
- *to make recommendations to the Minister on public debt management policy and strategy;*
 - *to make recommendations to the Minister concerning all external borrowings, domestic debt issuance and guarantees;*
 - *to advise the Minister on all policy matters relating to public debt management; and*
 - *to perform any other functions assigned to it by the Minister in connection with the public debt.*
16. In performing the functions in terms of section 7 of the Act, the EDDC shall consider the following reports:
- *Medium Term Debt Strategy;*
 - *Debt Sustainability Analysis Report;*
 - *Annual Borrowing Plan;*
 - *Issuance Calendar;*
 - *Debt Portfolio and Risk Analysis Report;*
 - *Public Debt Statistical Bulletin;*
 - *Bi-annual Parliament Reports; and*
 - *Any other report as maybe required.*

Reporting Structure of the Zimbabwe Public Debt Management Office



Functions of the Departments in the Zimbabwe Public Debt Management Office

Debt Resource Mobilisation - Front Office

17. The Front Office is responsible for external debt negotiations and monitoring projects financed from foreign loans. It is also responsible for executing transactions in the domestic securities market, including the management of auctions in conjunction with the RBZ and other forms of domestic borrowing. Staff are responsible for implementing the borrowing strategies formulated by the Middle Office in meeting the financing gap of the budget.

Duties – Front Office, Domestic Debt

- *Determine the amount and timing of treasury bonds and bills issues based on government financing needs, including issuance calendar;*
- *Evaluate funding options for government financing;*
- *Execute government borrowing programme;*
- *Collaborate with RBZ in conducting the securities auction;*
- *Leading domestic debt negotiation for domestic loans, guarantees and on lending agreements;*
- *Interacting with domestic markets players, especially accredited dealers and market makers in government bonds;*
- *Undertake, as required, debt restructuring;*
- *Design instruments based on investor appetite;*
- *Develop securities market regulations for the issuance and trading of Government securities;*
- *Organize distribution channels for Government securities;*
- *Build and deepen investor base for Government bonds at all levels of the economy;*
and
- *Liaise with local and international institutions, including rating agencies.*

Duties – Front Office, External Debt

- *Execute external borrowing program in line with Zimbabwe's debt strategy;*
- *Leading external debt negotiations for external loans, guarantees and on lending agreements;*
- *Implement, as appropriate, the Debt Management Strategy;*
- *Process loan guarantees within the public sector as per the guidelines;*
- *Evaluate funding alternatives from international sources;*
- *Engage in restructuring of existing debt (Multilateral, Paris Club and London Club);*
- *Monitor, track and report on performance of projects funded through external borrowing including those guaranteed by Government; and*
- *Monitor, track and report on government unsecuritised debt and contingent liabilities.*

Debt Management Strategy and Analysis - Middle Office

18. The Middle Office is responsible for the analysis of the total stock of both domestic and external public debt and debt flows in specific periods. It provides reports on the level of indebtedness to each creditor and domestic debt subscribers, while evaluating external debt composition by creditor, currency, maturity, and interest-rate. The Middle Office produces debt reports and public debt management information based on measurable indicators that conform to established international standards of debt reporting which allow international comparison and measurement.
19. The Middle Office uses ZPDMO's centralised public debt databases in analysing debt data and process reports according to the type of the reports and their periodicity in line with the Public Debt Management Act and the Constitution, as well as policy documents. The preparation of debt information and reports is subject to established standards and international good practice to allow comparability and to meet the specific needs of target audiences. The department collates and harmonises useful feedback filtering through its Monitoring and Compliance function.

Duties – Middle Office, Debt Strategy and Analysis

- *Promotes coordination between debt management and other public policies;*
- *Undertakes debt portfolio review and debt sustainability analysis;*
- *Develops medium term debt strategies within the macroeconomic framework;*
- *Strengthens front office operations by setting operational benchmarks and defining performance boundaries/ measures;*
- *Recommends policies for approval by the External and Domestic Debt Management Committee (EDDC);*
- *In developing or modifying PDMO's debt strategy, liaises with other agencies or departments on macro policy formulation, planning, public investment, cash management, budgeting, monetary policy and Balance of Payments;*

- *Performs regular analysis of debt portfolio within the macro framework, debt sustainability targets, cost risk framework, fiscal sustainability and scenario analysis using specialised tools;*
- *Determines funding gaps and project borrowing needs within the context of fiscal and monetary targets and sustainable debt levels;*
- *Analysis of debt statistics, stocks and flows; and dissemination of reports;*
- *Analyse information on a loan-by-loan basis on various indicators such as currency composition, interest and maturity structure;*
- *Computes key statistics and economic indicators including key debt indicators and trends used by ZPDMO to track performance;*
- *Generates managerial debt reports;*
- *Prepares the Public Debt Statistics Bulletin and debt management reports; and*
- *Rolls out distribution programs for dissemination of debt statistics and economic information generated by ZPDMO.*

Duties – Middle Office, Monitoring Compliance and Risk Management

- *In line with Medium Terms Debt Strategy, undertake sensitivity analysis to measure the volatility of debt service and establish targets on external-domestic debt mix, as well as desired amortisation profiles;*
- *Design and implement prudential cost-risk policy;*
- *Design and manage viable risk management framework;*
- *Work out and propose debt management targets such as currency composition of external debt and/or amortisation profiles;*
- *Monitoring and Evaluation of potential operational risks;*
- *Ensure compliance with established benchmarks and performance measures;*
- *Ensure compliance with the Constitution, PDM Act, approved debt strategy; and*
- *Monitor key economic indicators to guide assessment of debt sustainability.*

Debt Recording and Settlements - Back Office

20. The Back Office is responsible for the recording, settlement and management of all public and publicly guaranteed external debt and domestic securities. Currently the BO in its database has 504 loans in its database, with 410 being bilateral loan, 94 multilateral loans and 251 domestic securities. The BO also records guarantees and on lent loans, as well as the settlement of called up guarantees. The Debt Recording and Settlements functions primarily include debt service payments, recording of on-lending, contingent liabilities, debt accounting and statistics, and debt financial statements.
21. The recording and monitoring of all foreign liabilities of the Central Bank and private sector external debt is done by the RBZ.

Duties – Back Office, Recording

- *Manage the Debt Management and Financial Analysis System (DMFAS), the computerized debt management system;*
- *Record in DMFAS all details related to different categories of domestic and external debt borrowing;*
- *Ensure that all debt information is recorded in a timely manner;*
- *Maintain physical records of debt data and related information in an adequate filing system (electronic records as well);*
- *Maintain reliable databases on government loans and guarantees provided to other public sector entities;*
- *Produce statistical information for all users;*
- *Register all public debt operations;*
- *Track and record contingent liabilities;*
- *Track, record and monitor sub-national debt, including on-lending; and*
- *Track, register and monitor contractors'/suppliers' debt credit.*

Duties – Back Office, Settlements

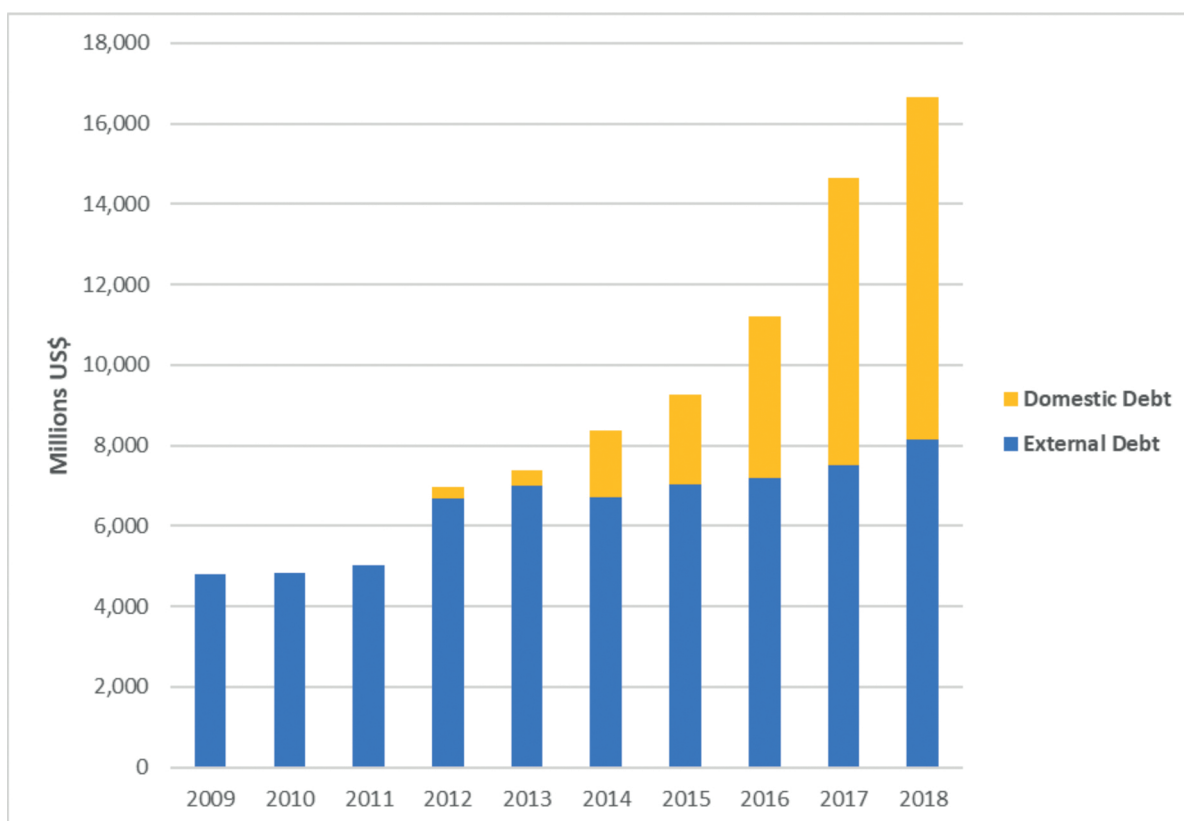
- *Undertakes reconciliation of all external debt with creditors;*
- *Verify the accuracy of debt information to ensure that debt service payments can be promptly cross checked and executed;*
- *Ensures that debt service payments for different types of borrowing are processed promptly;*
- *Ensures that demand notes from multilateral, bilateral and commercial creditors, as well as from domestic debt subscribers are processed on time;*
- *Checks accuracy of creditor statements against ZPDMO's own record and forecast;*
- *Secures approval for verified claims and batch them for processing;*
- *Forecasts future debt service payments (both external and domestic) to facilitate the debt service process for the budget and external payments by RBZ;*
- *Ensures adequate and timely budgetary provision for debt servicing of both external and domestic debt;*
- *Secures mandate for debt service from the Accountant General's Office.*

CHAPTER 3: PUBLIC AND PUBLICLY GUARANTEED EXTERNAL DEBT

Evolution of Zimbabwe's Public and Publicly Guaranteed External Debt

22. The economy continues to suffer from the negative effects of the huge debt overhang, as evidenced by the continued accumulation of arrears on Public and Publicly Guaranteed (PPG) external debt. With longstanding external arrears, foreign financing has been scarce, with the fiscal deficits being primarily financed through domestic borrowings.
23. Due to the need to redress socio-economic imbalances and inequalities inherited from the colonial era, the Government of Zimbabwe had to borrow externally mainly from the multilateral and bilateral creditors to finance infrastructure development and promote inclusive economic growth.
24. In 2000, the country faced acute foreign currency shortages, emanating from the Balance of Payment (BOP) challenges, which resulted in the country defaulting on its external payment obligations. This led to the deterioration of the country's relationship with external creditors. Subsequently, there was a build-up of external arrears, with several creditors evoking contractual borrowing statutes by imposing remedial measures (sanctions) on Zimbabwe. The net effect was a significant decline in Zimbabwe's ability to raise concessional and non-concessional finance from international financial markets.
25. Although there has been very limited access to external sources of finance, the country's external debt stock increased significantly between 2000 and 2018 mainly due to the accumulation of arrears and the compounding effect of penalty charges on interest and principal arrears, as well as new financing from alternative sources.

Figure 1: Total PPG External and Domestic Debt 2009-2018 (USD Millions)



Recent Developments in Public and Publicly Guaranteed External Debt Position

26. As at end December 2018, Zimbabwe's total PPG external debt amounted USD9.479 billion (including US\$1.54 billion foreign liabilities of the RBZ). Total public external debt constituted 85 per cent of the total external debt, while publicly guaranteed debt was 15 per cent.

Table 1: PPG External Debt Summary as at end December 2018 (USD millions)

	Non-Guaranteed			Guaranteed ²			Grand Total
	DOD ¹	Arrears	Total	DOD	Arrears	Total	
External Debt (Inc. RBZ)	3,586	4,469	8,054	51	1,374	1,425	9,479
External Debt (Excl. RBZ)	2,046	4,469	6,514	51	1,374	1,425	7,939
<i>Bilateral Creditors</i>	1,732	2,746	4,479	51	847	898	5,377
Paris Club	175	2,441	2,615	36	818	853	3,469
Non Paris Club	1,195	251	1,446	16	29	45	1,491
RBZ Assumed Debt	363	54	417	0	0	0	417
<i>Multilateral Creditors</i>	313	1,722	2,036	0	527	527	2,562
World Bank Group	219	980	1,198	0	291	291	1,489
African Development Bank	35	577	612	0	80	80	692
European Investment Bank	19	135	154	0	156	156	309
Others	40	32	72	0	0	0	72
<i>RBZ Foreign Liabilities</i>	1,540	0	1,540	0	0	0	1,540

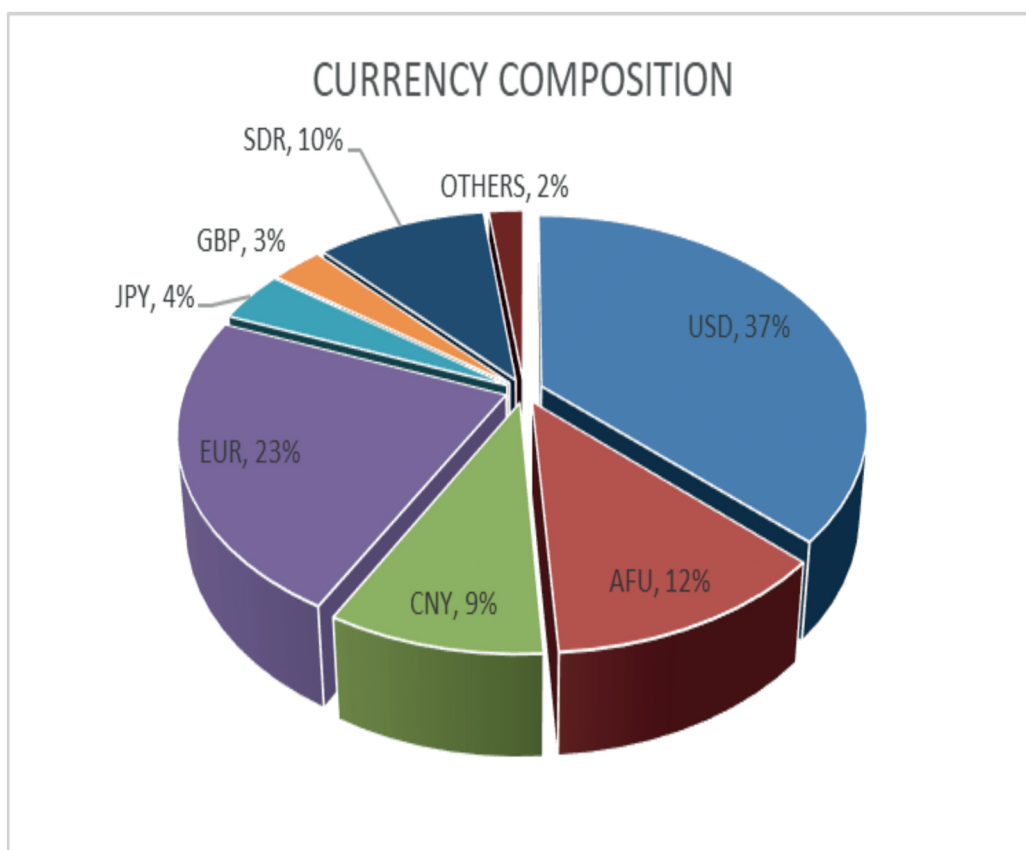
Public and Publicly Guaranteed External Debt by Currency Composition

27. The debt portfolio as at end December 2018 was largely exposed to the US dollar and the Euro, which accounted for 37 per cent and 23 per cent respectively. Other significant currencies in the portfolio were AFU (12 per cent), SDR (10 per cent), JPY (4 per cent) and others (2 per cent) which include CHF, SEK, and KWD.

1 Debt Outstanding and Disbursed

2 Parastatal Debt Guaranteed by the Central Government

Figure 2: PPG External debt by Currency Composition as at end December 2018

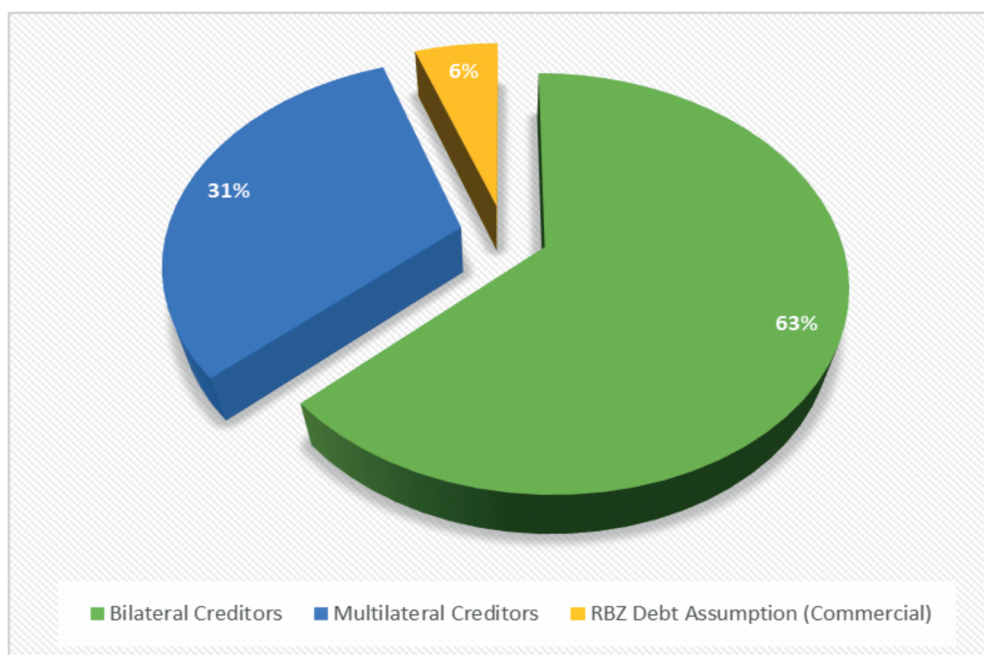


28. Zimbabwe's PPG external debt portfolio which is mainly denominated USD and EUR, exposes the country's to the adverse effects of the foreign exchange rate movements, which has contributed to the changes in the stock of external debt over time. A diversified currency mix, however, mitigates against exchange rate risks on the country's external debt.

Public and Publicly Guaranteed External Debt by Creditor Type

29. Bilateral creditors accounted for 63 per cent of Zimbabwe's total public and publicly guaranteed external debt (excluding foreign liabilities of the RBZ) as at end December 2018. The chart below shows the composition of the PPG external debt by creditor type.

Figure 3: PPG External Debt by Creditor Type



30. Among the bilateral creditors, the Paris Club is owed 44 per cent, while the Non-Paris club creditors make up 21 per cent of the total PPG external debt. Multilateral creditors account for 32 per cent of the total PPG external debt.

Table 2: Major Paris Club Creditors – December 2018 (USD millions)

Country	Amount	Per cent of PPG Bilateral External Debt
Germany	950	19.1
France	628	12.7
Japan	397	8.0
United Kingdom	375	7.6
United States of America	283	5.7
Total	2,633	51.3

31. Of the total PPG bilateral external debt, 65 per cent is owed to the Paris Club, with the main creditors being Germany, France, Japan, United Kingdom and United States of America. Among the Non-Paris Club creditors, which account for 28 per cent of the total PPG bilateral external debt, China is the largest creditor.

Table 3: Non-Paris Club Creditors (USD millions)

Country	Amount	Per cent of PPG Bilateral External Debt
China	1,395	28.1
India	70	1.4
South Africa	21	0.4
Kuwait	5	0.1
Total	1,691	30.1

32. Multilateral creditors account for about 32 per cent of the total PPG external debt with the major creditors indicated in the table below.

Table 4: Multilateral Creditors (USD millions)

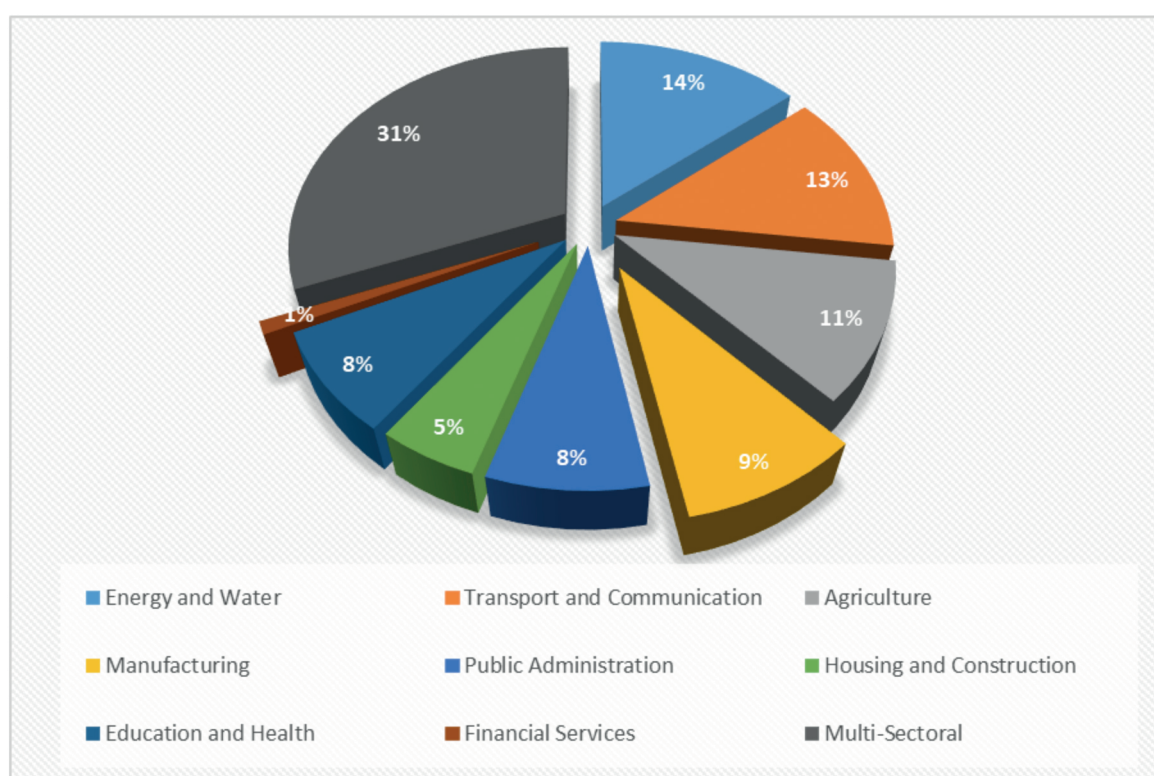
Creditor	Amount	Per cent of PPG Multilateral External Debt
World Bank Group	1,489	58
African Development Bank	692	27
European Investment Bank	309	12
Others	72	3
Total	2,562	100

Application of Externally Borrowed Resources

Public and Publicly Guaranteed External Debt Composition by Economic Sector at Contraction

33. Zimbabwe's PPG external debt portfolio, reflects that loans were largely contracted for the social services sectors (8%), infrastructure development in areas of energy and water (14%), transport and communication (13%), manufacturing (9%), as well as to support the agriculture sector (11%), as shown in the pie chart below.

Figure 4: PPG External Debt by Economic Sector – Percentage share



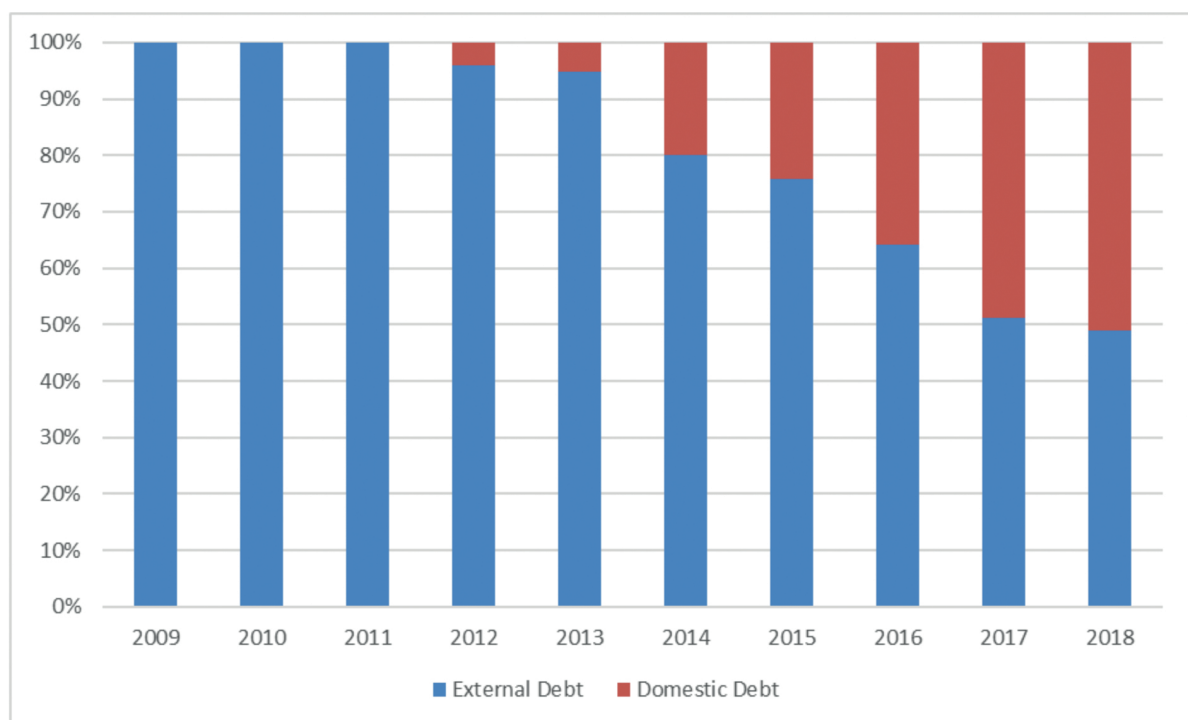
*Multi-sectoral – means a loans secured to finance 2 or more sectors.

CHAPTER 4: PUBLIC DOMESTIC DEBT

Stock of Public Domestic Debt

34. Since the inception of the multicurrency regime in 2009, the budget was managed on a cash basis and as a result there was no domestic borrowing needed to finance the budget during the period 2009, to the first half of 2012.
35. Against a background of constrained fiscal space, as well as lack of access to international financing due to arrears on external debt, the Government resorted to the domestic market to meet its budgetary financing needs starting in the second half of 2012. This resulted in an increase of public domestic debt.
36. In the past ten years, growth of total PPG debt has mostly been driven by domestic debt.

Figure 5: Trends in debt composition between 2009 and 2018 (Percentage share)



37. The sharp increase in domestic borrowing between 2013 and 2018 reflects Government's assumption of RBZ Debt, securitization of suppliers' arrears and the recapitalization of public institutions, including the RBZ.
38. The table below shows the evolution of public domestic debt during the multi-currency period.

Table 5: Public Domestic Debt 2009-2018 – Excluding ZAMCO (USD Millions)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Debt	0	0	0	276	344	1,380	1,968	3,448	6,201	8,398

39. Zimbabwe's total public domestic debt stood at USD8.4 billion (36.7 per cent of GDP) as at end December 2018 as shown on Table 5 above.
40. Treasury continued to issue domestic debt instruments to meet its budget financing needs, with gross issuances peaking in 2017 at ZWL\$ 2.982 billion. Treasury has however, since taken a policy stance to limit the issuance of domestic debt securities by targeting a balanced budget. Figure 7 below shows the gross Treasury bill issuances from 2012 to 2018.

Figure 6: Gross Treasury Bill Issuances – 2012 to 2018

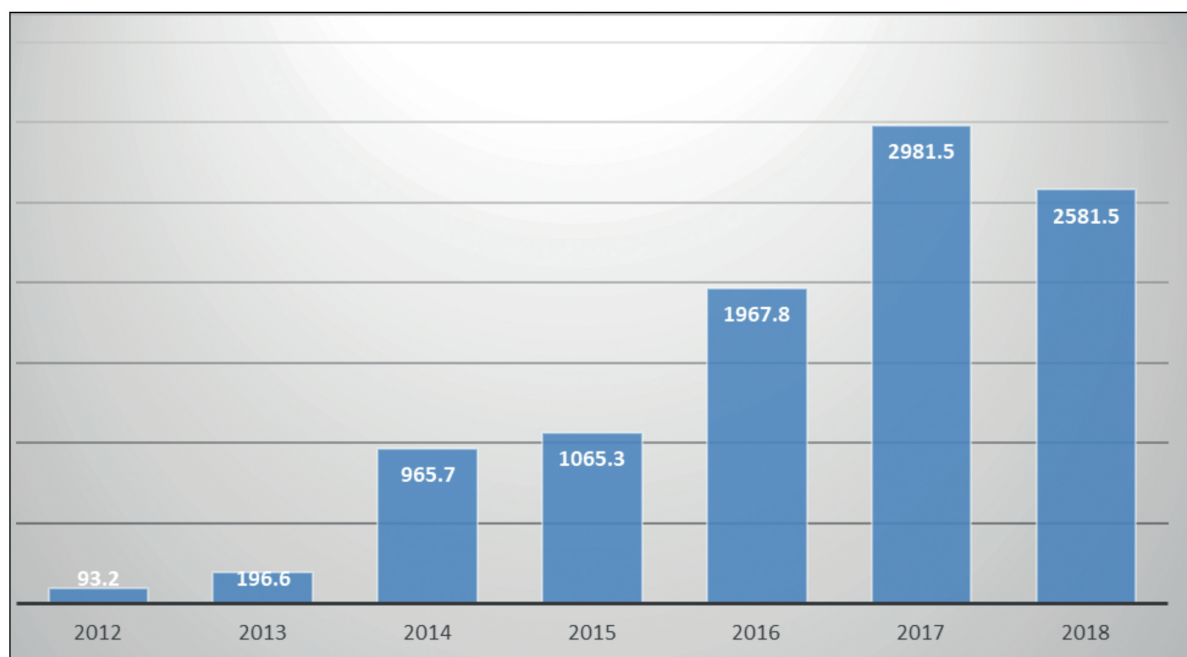


Table 6: Total Domestic Treasury Bill Issuances by purpose as at end of 2018

Purpose	Amount USD (in millions)
Budget Financing	933
Government Debt (Legacy Debt)	3,071
RBZ Debt	292
Capitalisation	149
RBZ Capitalisation	110
RBZ (Not issued with TBs)	28
Arrears	185
Overdraft Facility	2,934
Loans (Central Bank)	696
Total	8,398

41. The Treasury bills were issued for debts which had been accrued by Government at different times (current and past expenditures), for which Government paper was issued as payment. The paper which was issued was for the following purposes:

- *drought relief (El-nino induced drought experienced in 2015/2016 season);*
- *agriculture financing towards the command agriculture program;*
- *Presidential input scheme for the 2016/2017 and 2017/2018 seasons;*

- *Public Sector Investment Projects (PSIP), for which payments were overdue;*
- *Settlement of services rendered to Government by various service providers which include utilities and input suppliers;*
- *bonds issued to NSSA for Government's employer contribution for the civil service pension; and*
- *capitalisation of parastatals.*

Capitalisation

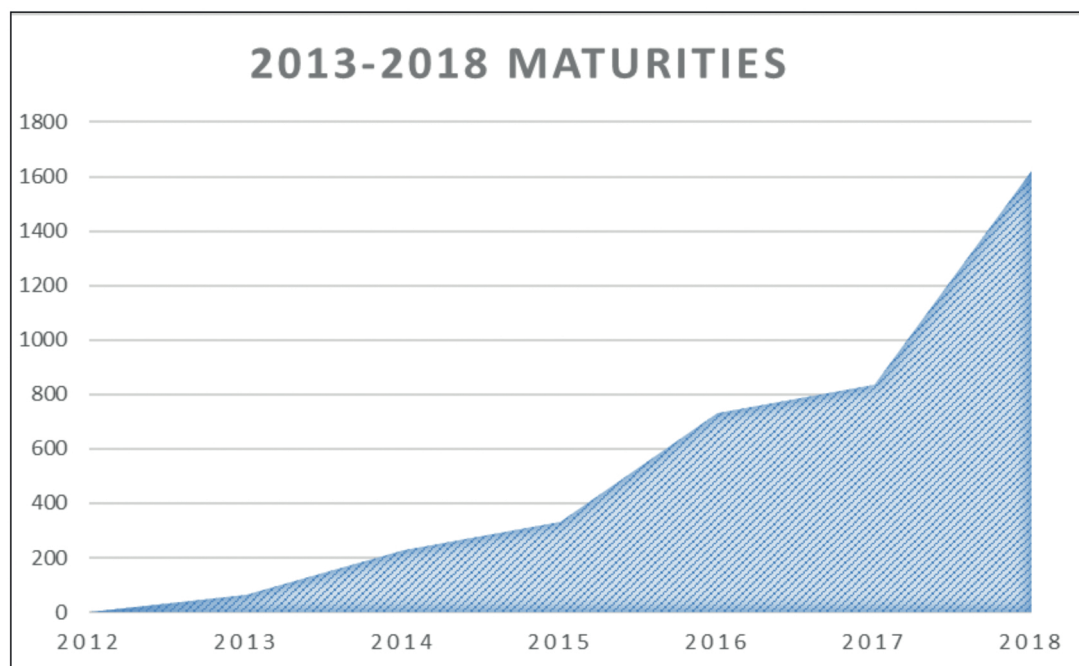
42. Government also issued Treasury bills for the capitalisation of the institutions shown in the Table below:

Table 7: Capitalisation of SOEs (USD millions)

Institution	Issuances (2012-2018)	Payments (2012-2018)	Outstanding
Agribank	30.0	0.0	30.0
Deposit Protection Board	10.0	0.0	10.0
Zimbabwe Consolidated Diamond Company	38.6	26.1	12.5
Empower Bank	12.5	0.0	12.5
IDBZ	150.0	0.0	150.0
P.O.S.B	20.0	0.0	20.0
RBZ	150.0	0.0	150.0
Women Microfinance Bank	2.5	0.0	2.5
ZB bank	20.0	0.0	20.0
Total	433.6	26.1	407.5

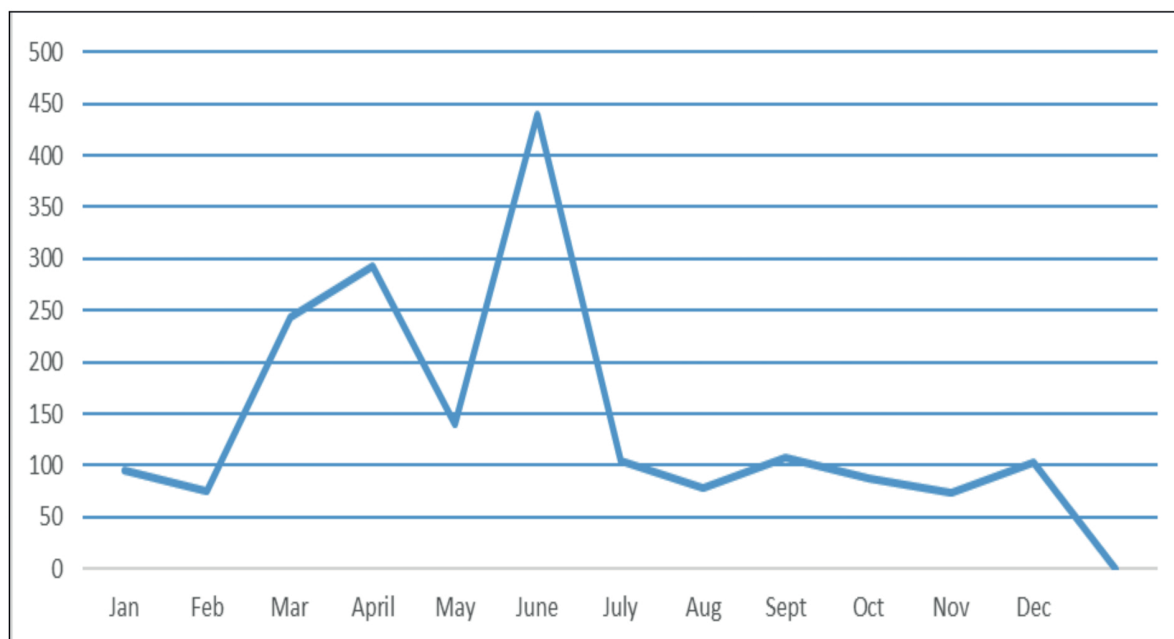
43. In 2014, the Treasury bills to GDP ratio was at 6.4 per cent and this increased sharply to 44.5 per cent by end of December 2018. Excessive issuance of short-term debt instruments at high interest rate increased Government's recurrent interest expenditure.

Figure 7: 2013-2018 Maturities of Treasury bills USD millions



44. Figure 8 shows the maturity profile for 2019 as at end 2018, with a huge spike in domestic debt payments in June 2019.

Figure 8: Treasury Bills Maturity Profile for 2019 (Value, USD millions)



45. Due to the domestic debt obligations spike in June 2019, Treasury has since restructured some of the debts held by RBZ to papers with long term maturities in order to create fiscal space for social spending, infrastructure and unexpected expenditures brought about by the effects of the Cyclone Idai, as well as the 2018/19 drought.
46. Treasury in its management of domestic borrowing, is reviewing the use of Treasury bills in support of socio-economic development programmes.
47. Going forward Treasury will limit the issuance of Treasury bills and seek to finance Government's vital socio-economic development programmes through instruments that "crowd in" the private sector, including Public Private Partnerships.

ANNEXES

Annexure 1: Zimbabwe's Total Public and Publicly Guaranteed External Debt as at end December 2018 (USD millions)

	Non-Guaranteed			Guaranteed			Grand Total
	DOD	Arrears	Total	DOD	Arrears	Total	
Total Public Debt	11,984	4,469	16,453	51	1,374	1,425	17,877
External Debt (Inc. RBZ)	3,586	4,469	8,054	51	1,374	1,425	9,479
1. External Debt (Excl. RBZ)	2,046	4,469	6,514	51	1,374	1,425	7,939
a. Bilateral Creditors	1,732	2,746	4,479	51	847	898	5,377
Paris Club	175	2,441	2,615	36	818	853	3,469
Non Paris Club	1,195	251	1,446	16	29	45	1,491
RBZ Assumed Debt	363	54	417	0	0	0	417
b. Multilateral Creditors	313	1,722	2,036	0	527	527	2,562
World Bank	219	980	1,198	0	291	291	1,489
African Development Bank	35	577	612	0	80	80	692
European Investment Bank	19	135	154	0	156	156	309
Others	40	32	72	0	0	0	72
c. RBZ External Liabilities	1,540	0	1,540	0	0	0	1,540
2. Domestic Debt	8,398		8,398				8,398
Treasury Bills and Bonds	4,555		4,555				4,555
RBZ (Not issued with TBs)	28		28				28
Domestic Arrears	185		185				185
Overdraft Facility	2,934		2,934				2,934
Loans (Central Bank Advances)	696		696				696

Notes

Outstanding Treasury Bonds to ZAMCO amounting to USD1.074 billion are not included in the stock of domestic debt since ZAMCO is responsible for making payments

Annexure 2: Public Domestic Debt Stock – Excluding ZAMCO (ZW\$ Millions, 1980 – 2004)

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Domestic Debt	1,126	1,425	1,582	1,637	1,864	2,306	2,810	3,227	3,868	4,824

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Domestic Debt	6,700	7,849	7,993	9,071	12,875	24,671	32,789	35,301	44,228	77,546

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Domestic Debt	316,441	357,340	676,832	1,162,411	5,586,309	N/A	N/A	N/A	N.A	N/A

Notes:

N/A – the numbers become insignificant due to the movement of exchange rates.

Annexure 3: Public Domestic Debt Stock (USD millions, 2012 – 2018)

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic Debt	0	0	276	344	1,380	1,968	3,448	6,201	8,398

Annexure 4: External Debt Stock (USD millions, 1980 – 2018) - Excluding RBZ Foreign Liabilities

Year	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
PPG External Debt	658	731	959	1,220	1,122	1,627	2,252	2,359	2,110	1,867

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
PPG External Debt	1,988	2,136	2,432	2,878	3,385	3,549	3,548	3,458	3,452	3,259

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
PPG External Debt	3,103	3,059	3,270	3,469	4,073	4,068	4,167	4,591	4,620	4,815

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018
PPG External Debt	4,844	5,013	6,692	7,014	6,704	7,030	7,187	7,508	7,939*

*RBZ Foreign Liabilities as at 31 December 2018 amounted to US\$1.54 billion

Annexure 5: Total Private External Debt: Annual Series (USD Millions)

	Long Term	Short Term	Debt Outstanding
1999	162	382	544
2000	152	256	408
2001	67	154	221
2002	56	157	213
2003	41	118	159
2004	78	75	153
2005	57	66	123
2006	45	159	204
2007	51	209	260
2008	35	185	220
2009	57	156	213
2010	142	454	596
2011	353	551	904
2012	528	981	1,509
2013	1,002	950	1,952
2014	2,263	1,807	4,070
2015	1,913	1,671	3,584
2016	1,920	1,731	3,652

Source: External Loans and Exchange Control Review Committee Database

METHODOLOGY

Compilation and valuation

1. Figures are in US dollars (USD), denoted US\$ while in Zimbabwe local currency denotes ZWL\$.
2. Stocks are valued using exchange rates at end of period, while flows are valued using exchange rate on date of transaction. Projections are valued using <https://www.xe.com/currencytables/?from=USD&date=2018-12-31> exchange rates as at end December 2018.
3. Tables in the bulletin are adapted from, tables in the External Debt Statistics Guide for Compilers and Users (2014) and Public Sector Debt Statistics Guide for Compilers and Users (2011). These guides present the international standards on debt statistics compilation and presentation and reflect the combined efforts of the relevant main international organisations. Concepts and definitions are also in accordance with Guides for Public Debt Management (2003).

Data Coverage

- *Public Debt (both Domestic and External Debt);*
- *Publicly-Guaranteed External Debt; and,*
- *Private Sector Non-Guaranteed External Debt.*

Sources of Data

4. The sources of statistics for data series from 1989 to 2018 were from institutional records of Ministry of Finance and Economic Development, as reconciled with creditors, Reserve Bank of Zimbabwe (for private sector non-guaranteed external debt), Zimbabwe Statistical Agency (ZIMSTAT) and Breton Woods Institutions.

5. Debt figures for the 1980 to 2008 period were compiled from the reports of the Comptroller and Auditor-General and the Reserve Bank of Zimbabwe Quarterly Economic Bulletins.

Use of DMFAS for Database Maintenance and Reporting by ZPDMO

6. ZPDMO uses the Debt Management and Financial Analysis System (DMFAS) for debt database maintenance and debt reporting.
7. The System has been developed by the DMFAS Programme of United Nations Conference on Trade and Development (UNCTAD) since the early 1980s. It is used in over 60 low-and-middle income countries to meet their debt management needs, including:
 - *Day-to-day operational needs of the debt manager;*
 - *Statistical requirements of the debt office; and,*
 - *Analytical needs of policymakers.*
8. Development of the System has been underpinned by developments in domestic and international finance, dynamic user needs and advances in information technology.
9. Government of Zimbabwe acquired and started using DMFAS in the mid-1980s. Following the debt data validation exercise, ZPDMO was assisted by UNCTAD to migrate from version 5.3 to the latest version 6.0. User training was subsequently provided to ZPDMO staff.

GLOSSARY

A

Amortization: The repayment of principal of a loan spread out over a period of time.

Amortization Schedule: The schedule for the repayment of principal and payment of interest on an ongoing basis.

Arrears: The total of scheduled debt service payments that have fallen due but remain unpaid.

Assumed Debt: Reserve Bank of Zimbabwe legacy debt taken over by the Government of Zimbabwe through an Act of Parliament.

B

Bilateral Creditor: In DMFAS, it refers to official bilateral creditors which include governments and their agencies (including Central Bank), autonomous public bodies or official export credit agencies.

Bilateral Debt: Loans extended by a bilateral creditor.

Borrower (debtor): The organization or the entity defined as such in the loan contract which usually is responsible for servicing the debt.

C

Commercial Credit: In the context of the Paris Club, loans originally extended on terms that do not qualify as official development assistance (ODA) credits.

Commitment: An obligation to pay for a given amount under specified financial terms and conditions.

Commitment Charge (fee): Charge or fee made for holding available the undisbursed balance of a loan commitment.

Commitment Date: The date on which the commitment occurs.

Concessional Loans: Loans that are extended on terms substantially more generous than market loans. This have lower interest rates, longer grace period and longer maturity.

Contingent liability: Contingent liabilities can be explicit or implicit. Explicit contingent liabilities are obligations based on contracts, laws, or clear policy commitments. Implicit contingent liabilities, on the other hand, are political or moral obligations and sometime arise from expectations that government would intervene in the event of a crisis or a disaster.

Creditor: The organization or entity that provides money or resources and to whom payment is owed under the terms of a loan agreement.

Creditor Country: The country in which the creditor resides.

Currency of Repayment: The unit of account in which a loan is to be repaid.

Currency of Reporting: The unit of account in which amounts are reported to the compiling agency and/or to an international agency compiling debt statistics.

D

Debt Cancellation: The amount of debt forgiven by a creditor.

Debt Distress: An unsustainable debt position, where a country is accumulating arrears.

Debt Overhang: Is a debt burden that is so large that a country cannot unlock new financing to finance future projects.

Debt Relief: Any form of debt reorganisation that relieves the overall burden of debt.

Debt Rescheduling: Debt rescheduling refers to the formal deferment of debt service payments and the application of new and extended maturities to the deferred amount.

Debt Service: Refers to payments in respect of both principal and interest.

Debt-Service to Export Ratio: The ratio of debt service (interest and principal payments due) during a year, expressed as percentage of exports (typically of goods and services) for that year.

Disbursed Loans: The amount that has been disbursed from a loan but has not yet been repaid or forgiven.

Disbursed and Outstanding Debt (DOD): The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

Domestic Debt: Gross domestic debt, at any given time, is the outstanding contractual, and not contingent, liabilities that residents of a country owe to other residents of the country that require payment(s) of interest and/or principal by the debtor at some point(s) in the future.

E

External Debt: Gross external debt, at any given time, is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by residents of an economy.

F

Face Value: The amount of principal to be repaid for a debt instrument

Fixed Interest Rate: A rate of interest that is defined in absolute terms at the time of the loan agreement.

G

Grace Period: The period between the commitment date of the loan and the date of the first principal repayment.

Grant Element: The measure of concessionality of a loan, calculated as the difference between the face value of the loan and the sum of the discounted future debt service payments to be made by the borrower expressed as percentage of the face value of the loan.

Guarantee of a loan: An undertaking by the government to pay part or all of the amount due on a debt instrument extended by a lender in the event of non-payment by the borrower.

L

Loan: An agreement in which a lender undertakes to make specified resources available to a borrower. The amount of funds disbursed is to be repaid (with or without interest and late fees) in accordance with the terms of a promissory note or repayment schedule.

Loan Agreement: The legal evidence and terms of a loan.

Loan Currency: The unit of account in which a loan was borrowed

M

Maturity Date: The date on which a debt obligation is extinguished. This include grace period and repayment period.

Medium-Term Debt Management Strategy (MTDS): is a debt management plan to be implemented over the medium term in order to achieve a desired composition of the Government debt portfolio, which captures the Government's preferences with regard to the cost-risk trade off, taking into account budget balances and cashflows.

Multi-Currency: Adoption of a basket of currencies as legal tender.

Multilateral Creditors: Multilateral institutions such as the IMF and the World Bank, African Development Bank, European Investment Bank as well as other multilateral development banks.

N

Nominal Value: The nominal value of a loan instrument is the amount that at any moment in time the debtor owes to the creditor at that moment.

Non – Paris Club Creditors: Creditors not in the Paris Club (See Paris Club)

O

Official Development Assistance (ODA): Flows of official financing administered with the promotion of the economic development and welfare of developing countries as the main objective, and which are concessional in character with a grant element of at least 25 percent (using a fixed 10 percent rate of discount).

P

Paris Club: An informal group of creditor governments that has met regularly in Paris since 1956 to reschedule bilateral debts; the French treasury provides the secretariat.

Penalty Interest Charges: This is the additional interest that may be levied on obligations overdue beyond a specified time.

Present Value: The discounted sum of all future debt service at a given rate of interest.

Present Value of Debt-to Exports Ratio (PV/X): Present value (PV) of debt as a percentage of exports (usually of goods and services) (X).

Primary Surplus/Deficit: The difference between Revenues and Expenditures (less interest payments)

Private Creditors: Creditors that are neither government nor public sector agencies. These include private bondholders, private banks, other private financial institutions, and manufacturers, exporters, and other suppliers of goods that have a financial claim.

Public Sector: The public sector includes the general government, monetary authorities, and those entities in the banking and other sectors that are public corporations.

R

Repayment Period: The period during which the debt obligation is to be repaid.

S

Service Charges: All charges that must be paid as a cost for the loan, such as: interest, commitment fees, management fees.

Short-term Debt: Debt that has maturity of one year or less.

Supplier Credit: A loan extended by an exporter to finance the purchase of that exporter's goods or contractual services.

T

Treasury Bills: Negotiable securities issued by the Government. In general these are short term obligations issued with maturity of one year or less.

U

Undisbursed Balance: Funds committed by the creditor but not yet utilised by the borrower.

Reference for Glossary

1. "External Debt Management: An Introduction", by Thomas M. Klein, World Bank Technical Paper No. 245
2. "External Debt Statistics: Guide for Compilers and Users, BIS, ComSec, Eurostat, IMF, OECD, Paris Club Secretariat, UNCTAD, World Bank, 2003".
3. "Debt and DMFAS Glossary, UNCTAD, 2008".

