One Hundred and Tenth Sovereign Debt News Update: Zimbabwe’s 2023 Public Debt Report Paints a Gloomy Picture Despite Considerable Progress Made Through the (ACDRRP)

By:

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Zimbabwe held its harmonized elections in August of 2023, resulting in a pause in the structured dialogue platform meetings which are part of the Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP). The Structured Dialogue Platform was established in December 2022, bringing together creditors and development partners to foster structured dialogue on economic and governance reforms that lay the foundation for arrears clearance and debt resolution processes. As reported in the One Hundred and Second Sovereign Debt News Update, governance reforms presented a challenge for the Process as the elections were reportedly marred with gross irregularities. As if the "sham of an election" was not enough, it is the combination of the government's actions in the period after the elections, and the contents of the recently published 2023 Public Debt Report by the Public Debt Management Office, that do not inspire hope for the Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP).

Resource-Backed Loans (RBLs)

Zimbabwe has had limited access to credit lines from multilateral lenders including the World Bank, the International Monetary Fund and the African Development Bank for over 20 years, forcing the nation to resort to its mineral wealth to open lines of credit. This borrowing technique, known as resource-backed loans, allows a country to obtain funding in exchange for future streams of income from its natural resources, which are collateralized. According to one source, in December 2023, Zimbabwe was reported to be using the proceeds of its platinum exports to settle a $400-million loan from the African Export-Import Bank (Afreximbank). The government had signed the $400-million loan from Afreximbank for budget support and the financing of trade-related infrastructure in February 2023. The financing carries a 10.2% interest rate and matures in six years, with the borrowing cost increasing to 12.2% in the event of default. According to the 2023 Public Debt Report, "*[t]he $400-million Afreximbank loan is repaid using 35% of Zimplats' export proceeds*," and these are managed by the Reserve Bank of Zimbabwe (RBZ).

Notably, this would not be the first of resource-backed loans and sourced by the Central Bank on behalf of the country. In 2019, the RBZ secured a $500 million loan from the African Export-Import Bank to try and stabilize its currency market by offering platinum production as collateral. The loan was litigated on the grounds that it had been awarded without parliamentary approval. While the courts did not go as far as ordering the loan's cancellation as originally sought in that case, by a consent order between the Government and the Plaintiffs in that case, the Court ordered the publication of the loan terms which had not been disclosed to the public. That consent order confirmed that non-disclosure constituted a clear case of lack of transparency and accountability in the loan contracting process.

These RBLs, which constitute a form of contingent debt, are dangerous as they exert dire socio-economic impacts by fuelling corruption and unsustainable resource extraction, with little to nothing to show in developmental terms. As argued in AfSDJN's book How to Reform the Global Debt and Financial Architecture, "*publicly available information on collateralised borrowing remains rare and as a result there is often no knowledge of the terms or even their very existence due to the unusual and broad confidentiality clauses that are included in such instruments*." This, undoubtedly, underlines the pervasive issue of opaqueness and transparency that has long afflicted the sovereign debt landscape, preventing a deeper understanding of it.

IMF "Support"

While the IMF is currently precluded from providing financial support to Zimbabwe due to its unsustainable debt situation (based on the IMF's Debt Sustainability Analysis (DSA) and official external arrears) the IMF says it is ready to aid Zimbabwe's debt recovery plan. The International Monetary Fund (IMF) has since reiterated its readiness to support Zimbabwe in implementing a Staff Monitored Program (SMP) that could pave the way for arrears clearance and debt restructuring in the country. During the IMF's last briefing of 2023, Julie Kozak, the director of the IMF's Communications Department, said "*The IMF stands ready to support Zimbabwe as soon as the authorities are ready*". As such, an IMF staff team led by Mr. Wojciech Maliszewski visited Harare from 31 January to February 14, 2024, to discuss the authorities' request for a Staff Monitored Program (SMP) and commence 2024 Article IV Consultation. The Article IV mission was completed and key discussions covered policies to restore macroeconomic stability and improve growth prospects, focusing on addressing the sources of fiscal pressures including quasi-fiscal operations (QFOs) of the Reserve Bank of Zimbabwe (RBZ).

Central Bank Advised to Drop Quasi-fiscal Activities

At a press conference held on the 15th of February 2024, IMF's Wojciech Maliszewski said the country needs to address underlying sources of fiscal pressures, including amending the Reserve Bank of Zimbabwe (RBZ) Act to narrow its legal mandate to core functions. Currently, the RBZ's functions include "*contracting offshore resource-backed loans, subsidising machinery* *imports, subsidising imports of agricultural inputs, funding fuel imports, allocating foreign currency at sub-economic exchange rates, minting gold coins and selling below market rates and facilitating or funding imports of various foodstuffs or basic commodities*." These are the functions that the central bank has been advised to transfer to the Treasury. In 2022, renowned American economist Steve Hanke argued that the central bank's quasi-fiscal actions, which had added to the country's debt of more than $20 billion, were primarily responsible for the currency distortion observed in both the official and alternative FX markets. The World Bank has also advised the Reserve Bank of Zimbabwe to cease all quasi-fiscal operations and unbudgeted expenditures. The World Bank recently advised the RBZ to transfer US$3.6 billion of its total external liabilities to the Treasury as soon as possible, since it had only transferred US$1.8 billion.

More Loans- But At What Cost?

While Zimbabwe has had years of blocked prospects of future funding, this has not stopped the country from trying to outsource new loans from new creditors. According to one source, the government is negotiating a US$100 million loan from UK's Broughton Capital. Treasury is also speaking to Dinosaur Merchant Bank, another lower-tier UK investment bank, for another US$125 million. In early 2023, Soth African Banks, ABSA and Standard Bank, announced that they were to raise US$193 million for the construction of hospitals and clinics in Zimbabwe. This loan is expected to start coming through in 2024, with US$105 million to be disbursed. The loans will be used to pay UK infrastructure company NMS, which has already built two clinics in Cowdray Park Bulawayo and Stoneridge in Harare. Those two were paid for by the government under an initial US$25 million phase of the project.

The contraction of more loans by a country already in debt distress and experiencing debt overhang only perpetuates an unhealthy debt cycle. A closer analysis of the country's 2023 Public Debt Report shows that the primary drivers of public debt in Zimbabwe are arrears and penalties on already existing debts. Of the US$12.7 billion total external PPG debt, principal arrears (PRA), interest arrears (IRA), and penalties (PEN) alone constitute 54.9% (US$6.98 billion). From another angle, about 74% and 81% of bilateral and multilateral debt are interest and principal arrears and penalties, respectively.

In the context of existing 12.2% penalty rate imposed by the French COFACE, and the 10.5% penalty rate levied by the European Investment Bank, the government's insatiable appetite for more debt is clearly a sign of irresponsible and reckless borrowing tendencies. These are the highest penalty rates faced by Zimbabwe by bilateral creditors and multilateral creditors, respectively.

Overall Impact on Citizens

As debt woes continue to present as a contributing factor to Zimbabwe's current predicament of economic turmoil, the government has turned to domestic revenue raising measures through taxation. Among Zimbabwe's 2024 revenue raising measures are key changes in Value Added Tax (VAT) where meat, rice, bath & laundry soap, tooth paste & petroleum jelly have been standard rated at 15.0% (price increase looming). A whopping 5.0% withholding tax has been slapped on distribution to non-VAT registered & non-Income Tax registered persons. The citizens continue to be overtaxed and due to limited fiscal space, the final 2024 budget has failed to significantly increase budget votes for social protection programs.

Conclusion

It remains to be seen how the stakeholders to Zimbabwe's Arrears Clearance, Debt Relief and Restructuring Process (ACDRRP) will proceed as the Structured Dialogue Platform meetings are expected to resume sometime this year. Meanwhile, the AfSDJN calls upon the Zimbabwean government to curb its borrowing appetite and adopt responsible borrowing practices in order to arrive at a sustainable debt stock. International re-engagement remains important and can be achieved through a strong commitment to the proposed economic, governance, and land-related reforms.

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