ZIMBABWE

MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDS)

(2022 - 2025)

MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

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MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT

The Medium-Term Debt Management Strategy (MTDS), covering the period 2022-2025 is produced in line with the provisions of Section 8 of the Public Debt Management Act, (Chapter 22:21.)

This MTDS is available on the Ministry of Finance and Economic Development (Zimtreasury) website - www.zimtreasury.gov.zw.

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FOREWORD

1. This Medium-Term Debt Management Strategy (MTDS), is a Framework developed by the Zimbabwe Public Debt Management Office (ZPDMO) to guide Government's borrowing operations and public debt management policy decisions, with the objective of ensuring debt sustainability in the long-term. The Framework guides Government in pursuing the desired structure of its public debt portfolio, which reflects cost and risk trade-offs preferences. The MTDS sets out Government's Debt Management Strategy over the period 2022-2025, with respect to the existing stock of public debt and the financing of the fiscal deficits.

2. The MTDS is underpinned by a prudent domestic borrowing plan and external debt arrears clearance to curb the rate of overall debt accumulation, in order to ensure that Zimbabwe achieves debt sustainability in the long-term. In addition, the MTDS has been prepared by evaluating the costs and risk trade-offs, of alternative financing options to determine the optimal financing strategy that is feasible under the prevailing and projected local and international economic and financial market developments. This will inform the sources of financing, including their risks and costs to guarantee Government's fiscal capacity to meet its social, developmental and debt obligations.

3. Fundamental to these considerations is the need to keep debt within sustainable levels and to minimize refinancing risks and costs. Hence, the continued publication of the MTDS is a demonstration of Government's commitment to transparency and accountability in public debt management. The MTDS will be reviewed annually, taking into account the developments and progress with the implementation of the Arrears Clearance, Debt Relief and Restructuring Strategy (ACDRRS).

4. The MTDS was developed by the Zimbabwe Public Debt Management Office (ZPDMO), in collaboration with Departments within the Ministry of Finance and Economic Development, the Reserve Bank of Zimbabwe (RBZ) and the Zimbabwe Statistical Office (Zimstat), with technical assistance from the Macroeconomic and Financial Management Institute of

Eastern and Southern Africa (MEFMI). I would like therefore, to extend my sincere appreciation to MEFMI for their continued support in providing technical assistance to our Public Debt Management Office.

G. T. Guvamatanga.
Chairman: External and Domestic Debt Management Committee (EDDC) and
Secretary for Finance and Economic Development

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EXECUTIVE SUMMARY

1. Zimbabwe's Medium-Term Debt Management Strategy (MTDS) is formulated to guide Government's borrowing in the short to medium-term, taking into account the costs and risk preferences, the country's fiscal and balance of payments positions. The framework compares alternative funding options available to Government, as it pursues the desired optimal structure of its debt portfolio. The MTDS therefore, provides a Framework within which Government can make informed choices on how best to meet its financing needs, at the lowest possible cost.

2. Following the expiration of the MTDS which covered the period 2017-2021, a new MTDS for the period 2022-2025 has been formulated. In line with the thrust of the National Development Strategy 1 (NDS1) -(2021-2025), the MTDS seeks to sustainably close the financing gap, with focus on both domestic and external central Government debt.

3. The MTDS has been formulated at a time when the global economy is reeling from the devastating effects of the COVID-19 pandemic and the geopolitical tensions in Eastern Europe. Resultantly, the fiscal position of most countries, including Zimbabwe, has worsened as a result of tax revenue shortfalls, the expenditure and supply shocks brought about by the Ukraine/Russia conflict. In the case of Zimbabwe, these developments have exacerbated Government's already huge financing needs, as the Government is committed to adequately fund projects and programmes to mitigate the effects of these shocks.

4. Zimbabwe is currently in debt distress, and the accumulation of external debt arrears has worsened the country's inability to access funding from external traditional sources and the international financial and capital markets. While Government will accelerate the implementation of the Arrears Clearance, Debt Relief and Restructuring Strategy (ACDRRS), the MTDS will largely focus on domestic financing, including the development and deepening of the domestic debt market, through introduction of medium to long-term debt securities, with a view to mitigate exposures of the debt portfolio to refinancing risk.

5. Given the country's limited access to external financing, during the period 2022-2025, Government will focus on mobilising resources for budget deficit financing mainly from the domestic financial and capital markets, while ensuring that refinancing risks on the public debt portfolio are kept minimal.

6. In this regard, the MTDS will be underpinned by a financing mix of 90 percent financing from the domestic financial and capital markets and 10 percent from external debt sources. The main focus of this Strategy is the development and deepening of the domestic financial and capital markets, through the introduction of medium to long-term bonds, with a view to minimizing the public debt portfolio's exposure to refinancing risk. To this end, the domestic financing is composed of 40 percent Treasury Bills and 60 percent Treasury Bonds (2-year, 5-year and 10-year). The development and deepening of these markets will also include bond issuances, which will be listed on the Victoria Falls Securities Exchange (VFEX).

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1. The objectives of public debt management as stated in the Public Debt Management (PDM) Act, Section 3, 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 the development and deepening of the domestic debt market.

2. The Medium-Term Debt Management Strategy (MTDS) has been prepared and published in fulfilment of the provisions Section 8 of the Public Debt Management (PDM) Act, Chapter [22:21], and takes into account the following factors:
    - The existing public debt portfolio especially (but not exclusively) the Government component of the public debt portfolio;
    - The macroeconomic framework;
    - The future borrowing requirements of Government;
    - Domestic and international economic and financial conditions; and
    - Other factors relevant for the development of the Medium-Term Debt Management Strategy, such as proposed guidelines or specific targets for acceptable debt levels and risks in the public debt portfolio.

3. The MTDS has therefore been developed on the back of the country's current medium-term macroeconomic policy framework (2022-2025), which is the backbone of the National Development Strategy (NDS1)- 2021 to 2025. It takes into account the cost and risk trade-offs in the setting of sustainable borrowing limits and ensures that debt service payments occur, without risk of default. The MTDS also allows for strong coordination between public debt management, fiscal and monetary policies.

4. The formulation of the MTDS followed the standard guidelines which include the following steps:
    - definition and identification of the objectives and scope of public debt management;
    - identification and analysis of the existing debt management strategy, the cost and risk characteristics of the existing debt portfolio;
    - identification of the potential and preferred funding options;
    - review of the medium-term macroeconomic framework and market risks;
    - identification of structural factors;

- analysis of the cost and risks of alternative debt management strategies;
- review of preferred strategies to ensure policy consistency; and
- approval by EDDC and dissemination of the debt management strategy.

5. The MTDS (2022-2025) is the second debt management strategy for Zimbabwe, succeeding the MTDS (2017–2021). The main thrust of the previous MTDS was to maximise external concessional funding, through the engagement and reengagement with the International Financial Institutions (IFIs), while seeking to borrow from the domestic market, through medium to long-term debt securities. The establishment of an Auction System for issuance of domestic Government securities was also one of the key objectives.

6. Progress achieved under the first MTDS has been moderate, partly due to the lack of progress in the clearance of external debt arrears to both the IFIs and bilateral creditors. Nonetheless, there has been renewed commitment to clear the longstanding debt arrears, through the Arrears Clearance, Debt Relief and Restructuring Strategy (ACDRRS), launched in April 2022. On the domestic front, Government re-introduced the Auction System for the issuance of Treasury Bills, which has provided the mechanism for price discovery of Government securities, through a yield curve.

7. This MTDS takes into account the impact of the COVID 19 pandemic, the Ukraine-Russia conflict and climate induced natural disasters, which have affected economic performance. This has resulted in increased health and social expenditures, against reduced revenues and grants, thus increasing Government’s gross financing needs and the level of public debt.

8. The MTDS was formulated by the Zimbabwe Public Debt Management Office (ZPDMO) in collaboration with other relevant Departments in the Ministry of Finance and Economic Development, the Reserve Bank of Zimbabwe and the Zimbabwe National Statistical Office (ZIMSTAT). The process benefited from technical assistance from the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI).

9. As stated earlier, the objectives of public debt management in Zimbabwe as guided by the provisions of the Public Debt Management (PDM) Act, Chapter [22:21], are as follows:

"to ensure 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."

Scope and Objectives of the MTDS

10. The specific objectives of the MTDS are as follows:

- To facilitate the raising of the required funding from an appropriate mix of sources and instruments, to meet Government's financing needs;
- To minimise the overall cost of funding, consistent with an acceptable degree of risk;
- To manage the sovereign debt profile through proactive liability management;
- To ensure that debt service obligations are met on time; and
- To develop the domestic debt market.

11. The MTDS comes at a time when the country is implementing the National Development Strategy 1 (NDS1) (2022-2025). The NDS1 seeks to achieve high, accelerated, inclusive and sustainable economic growth, as well as socio-economic transformation and development.

12. In line with the NDS1 2021-2025 thrust, this MTDS seeks to sustainably close the financing gap, with focus on both public and publicly guaranteed domestic and external debt.

13. To effectively implement this MTDS, an Annual Borrowing Plan has been developed, taking into account Government's cashflows, as well as reflecting the borrowing requirements contained in the three-year rolling National Budgets, starting with the 2022 National Budget.

SECTION 2: OVERVIEW OF EXTERNAL & DOMESTIC PUBLIC AND PUBLICLY GUARANTEED DEBT

Public and Publicly Guaranteed Debt Stock

14. The total Public and Publicly Guaranteed (PPG) debt as at **end December 2021** amounted to US$17.2 billion, comprising of external debt of US$13.4 billion (77.9%) and domestic debt of US$3.8 billion (22.1%) as shown in Table 1.

15. This total public debt stock includes Blocked Funds amounting to US$3.533 billion and an obligation of US$3.5 billion for the Compensation of Former Farm Owners.

Table 1: Total Public and Publicly Guaranteed Debt Stock end December 2021(US$ millions)

	Non-Guaranteed			Guaranteed			Grand Total
	DOD	Arrears	Total	DOD	Arrears	Total	
Total Public Debt (1+2)	**5,608**	**5,192**	**10,800**	**4,976**	**1,376**	**6,352**	**17,152**
External Debt	**1,808**	**5,192**	**7,000**	**4,976**	**1,376**	**6,352**	**13,352**
a. Bilateral Creditors	***1,452***	***3,334***	***4,786***	***22***	***824***	***846***	***5,632***
Paris Club	102	2,924	3,026	19	824	843	*3,869*
Non-Paris Club	1,350	410	1,760	3	-	-	*1,763*
b. Multilateral Creditors	***245***	***1,858***	***2,103***	**-**	***552***	***552***	***2,655***
World Bank	161	1,068	1,229	-	291	291	*1,520*
African Development Bank	30	595	626	-	85	85	*711*
European Investment Bank	13	169	182	-	176	176	*358*
Others	40	26	66	-	-	-	*66*
c. RBZ Assumed Debt (2015)	***111***	**-**	***111***	**-**	**-**	**-**	***111***
d. RBZ External Debt				***4,954***	**-**	***4,954***	***4,954***
RBZ External Debt				1,421	-	1,421	*1,421*
Afreximbank				*1,240*	-	*1,240*	*1,240*
Bank- to- Bank				*26*		*26*	*26*
Other Commercial Creditors				*155*		*155*	*155*
Blocked Funds				3,533	-	3,533	*3,533*
2. Domestic Debt (e+f+g+h)	**3,800**	**0**	**3,800**	**0**	**0**	**0**	**3,800**
e. Compensation of Former Farm Owners	3,500	-	3,500	-	-	-	3,500
f. Treasury Bills	140	-	140	-	-	-	140
g. Treasury Bonds	125	-	125	-	-	-	125
h. Domestic Arrears	35	-	35	-	-	-	35

Source: Zimbabwe Public Debt Management Office and the Reserve Bank of Zimbabwe

Notes: *Exchange rate as at end December 2021- US$1= ZWL$108*

DOD- Debt Outstanding and Disbursed

External Debt Portfolio Review

External Debt Stock

16. Zimbabwe's PPG external debt stock is estimated at US$13.4 billion (see Table 2) as at end December 2021. Of this amount, US$5.6 billion is owed to bilateral creditors, US$2.7 billion to multilateral creditors, US$111 million to creditors under the 2015 RBZ Debt Assumption Act and US$4.9 billion is external debt on RBZ's balance sheet.

17. Of the total bilateral external debt, US$3.9 billion is owed to the Paris Club bilateral creditors, and US$1.8 billion being owed to the non-Paris Club bilateral creditors. For the multilateral external debt, US$1.5 billion is owed to the World Bank Group, US$711 million to the African Development Bank Group and US$358 to the European Investment Bank. The remaining US$66 million is owed to other various multilateral creditors, which include Arab Bank for Economic Development in Africa (BADEA) and the International Fund for Agricultural Development (IFAD) among others. RBZ balance sheet external debt of US$4.9 billion is comprised of US$3.5 billion Blocked Funds, US$1.2 billion Afreximbank debt, US$26 million from foreign banks and US$155 million from other commercial creditors, which include Frontera Capital VBV (Netherlands), Germcorp (UK) and Trade and Development Bank (TDB).

Table 2: Public and Publicly Guaranteed External Debt by Creditor Type end December 2021 (US$ millions)

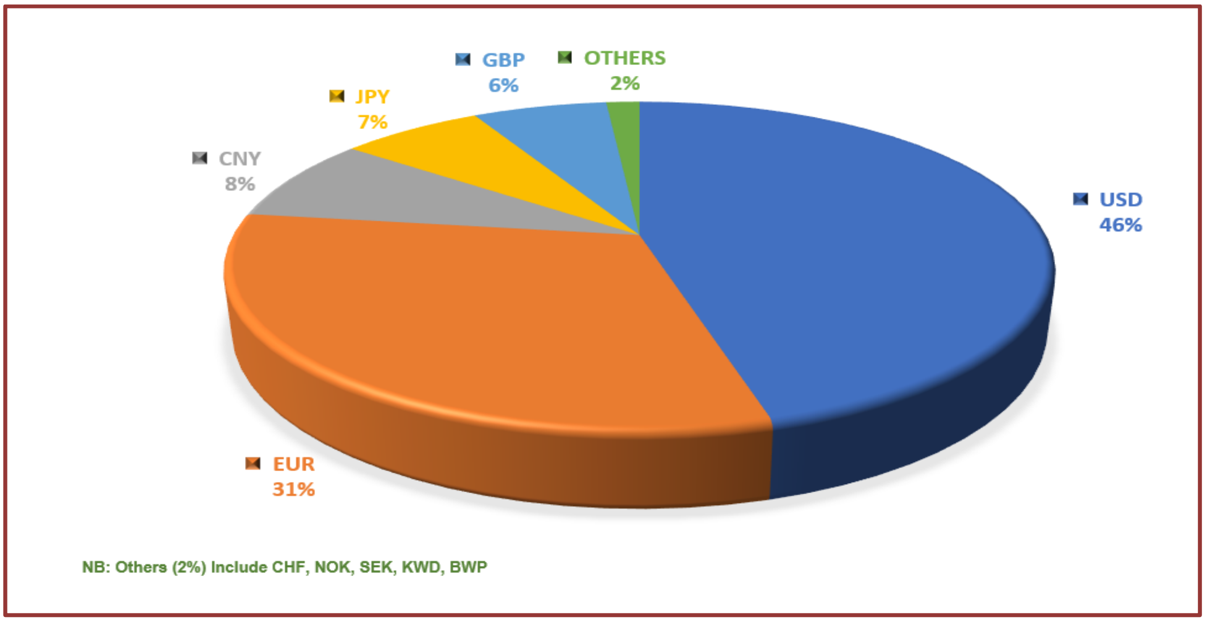
	Non-Guaranteed			Guaranteed			Grand Total
	DOD	Arrears	Total	DOD	Arrears	Total	
External Debt	**1,808**	**5,192**	**7,000**	**4,976**	**1,376**	**6,352**	**13,352**
a. Bilateral Creditors	***1,452***	***3,334***	***4,786***	***22***	***824***	***846***	***5,632***
Paris Club	102	2,924	3,026	19	824	843	*3,869*
Non-Paris Club	1,350	410	1,760	3	-	-	*1,763*
b. Multilateral Creditors	***245***	***1,858***	***2,103***	***-***	***552***	***552***	***2,655***
World Bank	161	1,068	1,229	-	291	291	*1,520*
African Development Bank	30	595	626	-	85	85	*711*
European Investment Bank	13	169	182	-	176	176	*358*
Others	40	26	66	-	-	-	*66*
c. RBZ Assumed Debt (2015)	***111***	***-***	***111***	***-***	***-***	***-***	***111***
d. RBZ External Debt				***4,954***	***-***	***4,954***	***4,954***
RBZ External Debt				1,421	-	1,421	*1,421*
Afreximbank				*1,240*	-	*1,240*	*1,240*
Bank- to- Bank				*26*		*26*	*26*
Other Commercial Creditors				*155*		*155*	*155*
Blocked Funds				3,533	-	3,533	*3,533*

Source: Zimbabwe Public Debt Management Office and the Reserve Bank of Zimbabwe

PPG External Debt by Currency Composition

18. The PPG external debt portfolio is dominated by debt contracted in USD, which accounts for 46 per cent of the total PPG external debt, followed by the EUR at 31 per cent. The Chinese Yuan (CNY) and the Japanese Yen (JPY) accounts for 8 per cent and 7 per cent, respectively. The dominance of the USD and EUR implies that any adverse fluctuations of these two currencies will elevate the country's debt and related risks. Figure 1 shows the currency composition of PPG external debt as at end December 2021.

Figure 1: Currency composition of PPG external debt as at end December 2021.



Source: Zimbabwe Public Debt Management Office

External Debt Flows

19. In 2021, Government resumed making token payments to the International Finance Institutions (IFIs) and to all the sixteen bilateral Paris Club creditors, as commitment to the engagement and re-engagement process with the international community. Treasury made payments in 2021 amounting to US$59.3 million, of which US$9.6 million was for token payments and US$49.7 million was paid to the creditors with active portfolios, in order to unlock financing for on-going projects. Table 3 shows the external debt payments made in 2021

Table 3: External Debt Service for the period January to December 2021 (US$ millions)

Creditor	Total
Active Portfolio	
China Exim Bank	18.00
Sinosure	10.37
India Exim Bank	3.96
OFID	4.63
BADEA	11.83
IFAD	0.41
Kuwait	0.50
Sub total	**49.70**
Token Payments	
World Bank	4.00
African Development Bank	2.00
European Investment Bank	0.40
Paris Club Creditors	3.20
Sub Total	**9.60**
Total	**59.30**

Source: Zimbabwe Public Debt Management Office

20. Total disbursements on external on-lent loans for the period January to December 2021 amounted to US$35.9 million. These were from the India Exim Bank for the Deka Pumping Station (US$3.9 million), China Exim Bank (US$24 million), for the Hwange 7 & 8 Thermal Power Station Project, and OFID (US$8 million) for the Poverty Alleviation, First Education and Smallholder Irrigation Revitalisation Projects. Disbursements on the Chinese loans have been affected by the accumulation of external debt arrears on projects such as Victoria Falls Airport (US$65.36 million), Netone Network Expansion Phase I & II (US$66.65 million) and Telone Natonal Broadband Expansion Project (US$8.0 million). Government is currently working with the Entities in default to ringfence resources for the clearance of these outstanding arrears. Table 4 shows the external loan disbursements for 2021.

Table 4: External Loan Disbursements for the period January to December 2021 (US$ millions)

Loan Facility	Borrower	Lender	Loan Amount	2021 Disbursement
ZPC Hwange 7 & 8 Thermal Power Station	**Government of Zimbabwe** (*On-lent to Zimbabwe Power Company (ZPC)*)	China Eximbank	998	24
ZPC Deka Pumping Station and River Water Intake System	**Government of Zimbabwe** (*On-lent to Zimbabwe Power Company (ZPC)*)	India Eximbank	28.6	3.9
Poverty Alleviation Project	Government of Zimbabwe	OFID	7.8	4.2
First Education Project	Government of Zimbabwe	OFID	20	1.3
Smallholder Irrigation Revitalisation Project	Government of Zimbabwe	OFID	15	2.5
Total				**35.9**

Source: Zimbabwe Public Debt Management Office

21. Projected external loan disbursements for 2022 to 2025 amounting to US$556.4 million, are for both direct budget expenditure and for projects implemented by State Owned Enterprises (SOEs). The disbursements to SOEs through on lent loans, will be towards the Hwange 7 and 8 Thermal Power Station (US$293 million), Deka Pumping Station (US$20 million), R.G. Mugabe International Airport (US$71 million), Netone Network Expansion Phase III (US$43 million) and the Bulawayo Thermal Power Station (US$82 million). Table 5 shows the disbursements made in 2021 and the 2022 to 2025 projections.

Table 5: 2020 and 2021 Disbursements and 2022 to 2025 Projected Disbursements (US$ millions)

Creditor	Borrower	Project Name	Loan Amount US$	Actual Disbursement (Millions)		Projected Disbursements			
				2020	2021	2022	2023	2024	2025
China Exim Bank	**Government of Zimbabwe** *(On-lent to ZPC)*	Hwange 7 & 8 Thermal Power Station Project	997.7	129.6	24.0	100	100	92.8	
China Exim Bank	**Government of Zimbabwe** *(On-lent to Civial Aviation Authority of Zimbabwe)*	Robert G. Mugabe International Airport	153	27.7		51	20		
China Exim Bank	**Government of Zimbabwe** *(On-lent to TelOne)*	TelOne Backbone Network and Broadband Access	98.6	5.51					
China Exim Bank	**Government of Zimbabwe** *(On-lent to Net*One)*	Net*One Network Expansion Phase III	71	21.3	-	27.6	15		
India Exim Bank	**Government of Zimbabwe** *(On-lent to ZPC)*	Deka Pumbing Station & River Water Intake System	28.6		3.9	10	10		
India Exim Bank	**Government of Zimbabwe** *(On-lent to ZPC)*	Bulawayo Thermal Power Station Project	87			20	30	32	
OFID	**Government of Zimbabwe**	Poverty Alleviation Project	7.8	1.73	4.2		-		
OFID	**Government of Zimbabwe**	First Education Project	20	3.35	1.3	-	-		
OFID	**Government of Zimbabwe**	Smallholder Irrigation Revitalisation Project	15	0.38	2.5				
IFAD	**Government of Zimbabwe**	Smallholder Agriculture Cluster Project (SACP)	35.7			10	10	10	3
Kuwait	**Government of Zimbabwe**	Zhove Irrigation Scheme	20			5	5		
Badea	**Government of Zimbabwe**	Urgent Response Operation to Fight Covid-19	5			5			
TOTAL			**1,539**	**190**	**36**	**229**	**190**	**135**	**3**

Source: Zimbabwe Public Debt Management Office

External Debt Arrears

22. Zimbabwe remains in debt distress due to the accumulation of external debt arrears. The country has been unable to meet its debt servicing obligations and has, therefore, been accumulating external debt arrears and penalties, which are estimated at US$6.6 billion, including penalties of US$2.01 billion, as at end December 2021.

23. Of the total external debt arrears, US$4.2 billion (63 per cent) is due to the bilateral creditors, while US$2.4 billion (37 percent) is due to the multilateral creditors. Table 6 shows the composition of external debt arrears and penalties as at end December 2021.

Table 6: Composition of external debt arrears and penalties as at end December 2021 (in US$ Millions)

Creditor Category	Arrears and Penalties
Bilateral Creditors	**4,158**
Paris Club	**3,748**
Germany	912
France	772
United Kingdom	434
Japan	400
USA	287
Others	943
Non-Paris Club	**410**
China	389
Others	21
Multilateral Creditors	**2,410**
World Bank	1,359
African Development Bank	680
European Investment Bank	345
Others	26
Total External Debt Arrears and Penalties	**6,568**

Source: Zimbabwe Public Debt Management Office

Domestic Debt Portfolio Review

24. Domestic debt stock as at end December 2021, amounted to US$3.8 billion (approximately ZWL$413 billion). Table 7 shows the composition of the domestic debt as at end December 2021.

Table 7: Composition of Domestic Debt end December 2021

Category	Amount (ZWL$ billions)	% of Total Domestic Debt
Compensation of Former Farm Owners	380	92
Treasury bills	15.2	4
Treasury Bonds	13.6	3
Domestic arrears to service providers	3.8	1
Total	**412.6**	**100**

Source: Zimbabwe Public Debt Management Office

Domestic Treasury Bills (TBs) Issuances

25. Domestic TBs issuances during 2021, for budget financing and cashflow smoothening, amounted to ZWL$39.17 billion (approximately US$321.6 million). The bulk of the issuances are of a short-term nature, with annual average interest rates ranging from 15 to 21 per cent. Table 8 shows the issuances of Treasury Bills by tenor and average coupon.

Table 8: Treasury Bills issuances by average interest rate

Tenor	Coupon (%)
90-day	15
180-day	17
270-day	19
365-day	21

Source: Zimbabwe Public Debt Management Office

26. In August 2021, Government began issuing long-term securities for budget financing, starting with a two-year bond issued at 18 per cent, per annum. Table 9 shows the TBs issuances during 2021.

Table 9: Domestic TBs Issuances during 2021 (ZWL$ millions)

	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Total	*% Share*
Auction	807	3,704	4,023	995	**9,529**	***24.33***
Private Placement	660	3,382	16,596	9,000	**29,638**	***75.67***
Total	**1,467**	**7,086**	**20,619**	**9,995**	**39,167**	
of which						
Bank (%)	*100.00*	*98.90*	*99.27*	*100.00*	*99.42*	
Non-bank (%)	-	*1.10*	*0.73*	-	*0.58*	

Source: Zimbabwe Public Debt Management Office

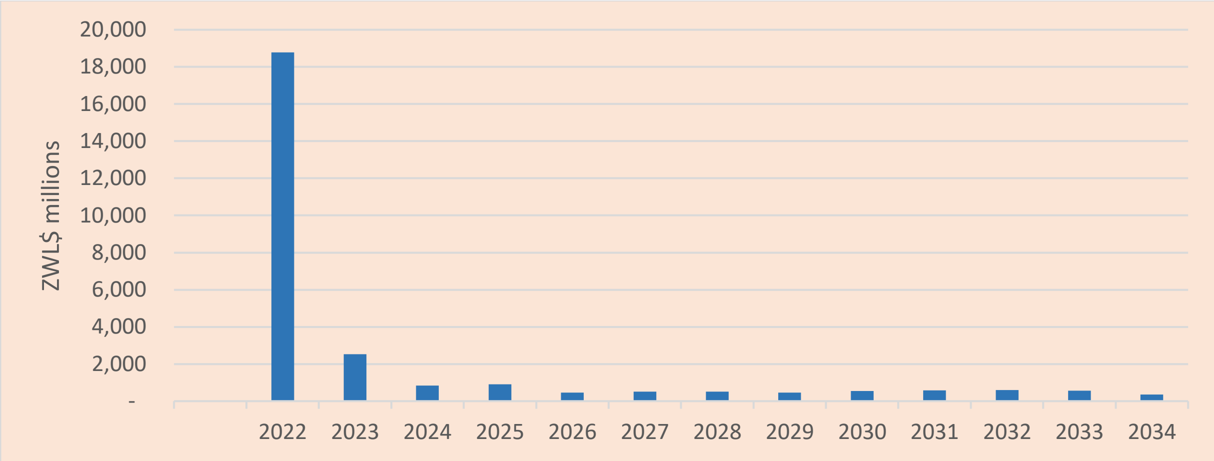
27. In September 2021, Government reintroduced the Auction System for the issuance of domestic securities, which has provided a platform for price discovery of these instruments. However, due to the COVID 19 pandemic which limited the participation of investors, some issuances of Government securities were done through private placements.

28. In addition, during 2021, Government continued with its policy of non-recourse to Central Bank financing, as part of its fiscal consolidation measures, as well as to reduce reserve money growth, through the monetization of the budget deficit.

Domestic Debt Maturity Profile

29. The domestic debt maturity profile reflects the short-term nature of the domestic debt securities, as investors have a preference for short term instruments to hedge against inflationary pressures. The maturity profile shown in Figure 2, reflects Government's refinancing risk, as ZWL$18.7 billion (65 per cent) of the outstanding domestic debt securities are maturing in 2022.

Figure 2: Domestic Debt Maturity Profile 2022-2034 for Existing Domestic Debt Stock as at end December 2021 (ZWL$ million)



Source: Zimbabwe Public Debt Management Office and the Reserve Bank of Zimbabwe

Cost and Risk of the Existing PPG External and Domestic Debt Portfolio

30. As at end 2021, the nominal total PPG external and domestic debt to GDP ratio is estimated at 56.9 per cent, which is within the limit of 70 per cent of GDP, prescribed in the Public Debt Management Act Section 11 (2). However, the present value of total debt to GDP ratio is estimated at 50.9 percent, against a threshold of 30 per cent of present value of debt to GDP ratio, prescribed under the *Low-Income Country (LIC) DSA Framework*, in which Zimbabwe is classified under. In line with the NDS1 (2021-2025) targets, the nominal public debt to GDP ratio is targeted at 64.7 per cent and 61.6 per cent as at end 2021 and 2025, respectively. Table 10 shows the respective public debt targets.

Table 10: Public Debt Limits

Nominal Total Public Debt to GDP Ratio (%)	2021 NDS 1 Target	PDM Act Debt Target	Performance- end December 2021	2025 NDS1 Target
	64.7	70	56.9	61.6

Source: Zimbabwe Public Debt Management Office

31. Table 11 shows the selected cost and risk indicators of the total external and domestic PPG debt.

Table 11: Existing Portfolio's Cost and Risk Indicators as at end December 2021

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of ZWD)		1,450,939	412,921	1,863,861
Amount (in millions of USD)		13,352	3,800	17,152
Nominal debt as percent of GDP		44.3	12.6	56.9
PV as percent of GDP		36.7	14.2	50.9
Cost of debt	Interest payment as percent of GDP	0.1	0.2	0.3
	Weighted Average. Interest Rate (percent)	0.2	1.1	0.5
Refinancing risk	Average Time to Maturity (years)	3.9	9.6	4.9
	Debt maturing in 1yr (percent of total)	46.6	7.8	39.9
	Debt maturing in 1yr (percent of GDP)	31.8	1.1	32.9
Interest rate risk	Average Time to Refixing (years)	3.9	9.6	4.9
	Debt refixing in 1yr (percent of total debt)	46.6	8.1	40.0
	T-bills (percent of total debt)	0.0	8.1	1.4
Foreign currency risk	Foreign debt (percent of total debt)			77.9

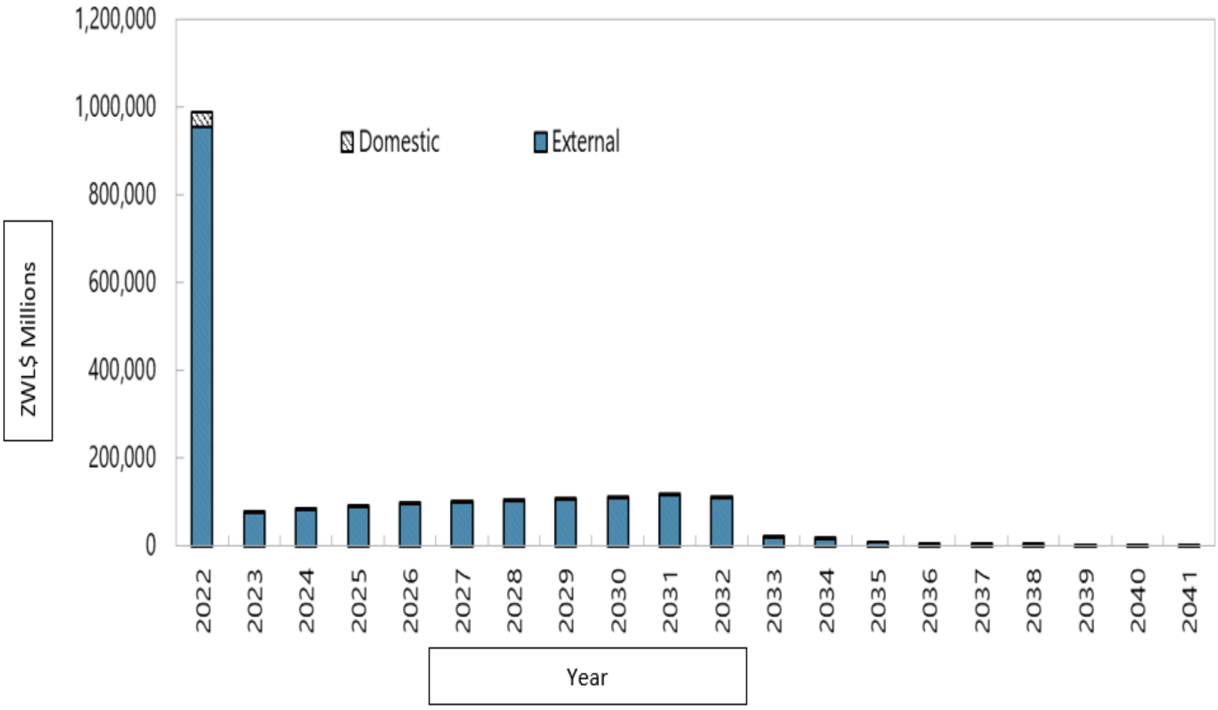
Nominal GDP at market prices 2021: ZWL$ millions- 3,273,365.38

Source: Zimbabwe Public Debt Management Office

32. The cost and risk indicators for external debt are being adversely affected by the continuous accumulation of external debt arrears and penalties. The Average Time to Maturity (3.9 years) and Average Time to Refixing (3.9 years), are relatively low, reflecting external debt arrears which are due and payable immediately, hence exposure of the debt portfolio to the refinancing risk. This is also reflected by external debt maturing in 1 year, as a percentage of total debt (31.8 percent) and debt refixing in 1 year as a percent of total debt of 46.6 percent. This points to heightened refinancing risk for the debt portfolio, due to the external debt arrears and penalties. However, the weighted average interest rate (0.2 percent) is relatively favourable.

33. The redemption profile shown in Figure 3 indicates high refinancing risk, as shown by the spike in 2022. The higher projected debt service in 2022, reflects the external debt arrears and penalties accumulated since 2000, as well as short-term domestic debt.

Figure 3: Redemption profile as at end December 2021



Sovereign Guarantees and Other Contingent Liabilities

34. Sovereign guarantees and other contingent liabilities pose risks to the fiscus and debt sustainability, if they are not properly managed. As at end 2021, external guaranteed debt amounted to US$6.4 billion (47.6 per cent of total debt). Of this amount, US$864 million is owed to the bilateral creditors, and US$552 million to the multilateral creditors. In addition, Government guaranteed debt contracted by the RBZ to the tune of US$4.95 billion, inclusive of blocked funds which was assumed through the Finance Act of 2021 as part of the 2022 National Budget Process. Table 12 shows the total RBZ external Debt Guaranteed by Government as at end 2021.

Table 12: Total RBZ external Debt Guaranteed by Government as at end 2021 (US$ Millions)

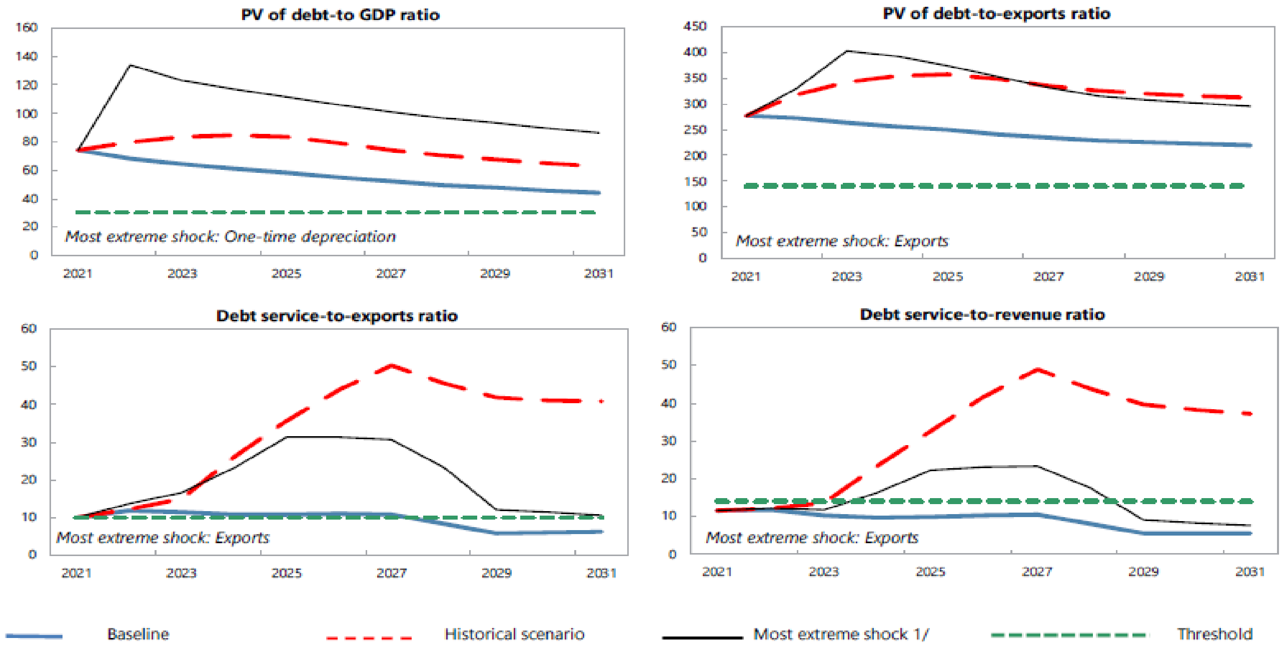
Creditor	Purpose	Date Signed	Approved Amount	Outstanding Balance
Afreximbank- US$1.4 billion Restructured Loan Facility	Strategic Imports	December 2020	1,275.80	1,179.78
Afreximbank-FBC	Strategic Imports	May 2020	60.00	60.51
Subtotal Afreximbank				**1,240.29**
Banco De Mocambique (Mozambique)	Deposit	June 2015	25.00	25.87
Frontera Capital VBV (Netherlands)	Savings Bond	September 2019	30.00	34.16
Germcorp (UK)	Strategic Imports- US$100 Million Revolving Facility	July 2019	345.00	95.00
TDB Bank/TBF	ZAMCO	November 2014	45.50	10.46
TDB Bank/PTA US$40 Million Gold Backed Facility	PTA US$40 Million Gold Backed Facility		40.00	4.43
ZEPRE (Kenya)	Term Deposit	December 2020	10.72	11.13
Blocked Funds			*3,533*	3533
TOTAL			**5,365.02**	**4,954.34**

Source: RBZ, Zimbabwe Public Debt Management Office

SECTION 4: 2021 IMF/WORLD BANK DEBT SUSTAINABILITY ANALYSIS FOR ZIMBABWE

35. Based on the 2021 IMF/World Bank Debt Sustainability Analysis (DSA), Zimbabwe is in external debt distress as at end-2021, due to the continued accumulation of external debt arrears and penalties. The solvency indicators (i.e., ratios of the present value of external debt to GDP and exports) were projected to remain significantly above their respective thresholds of 30 percent of GDP and 140 percent of exports during the projection period 2021 – 2031, under the baseline macroeconomic scenario (Figure 4). Shocks to the baseline macroeconomic scenario significantly worsen related debt vulnerabilities under the solvency indicators and liquidity indicators (ratios of debt service exports and revenues). Figure 4 below shows the results of the DSA as at end 2021.

Figure 4: Results of Zimbabwe's DSA as at end December 2021[1]



Source: IMF

[1] **The "historical" scenario:** this scenario assumes that real growth rates and primary balance ratios will return within three years to their long-run (mostly lower) historical average (here considered over 2012-21). The other main assumptions of the benchmark are kept unchanged. This scenario measures risks to the forward-looking assumptions of the benchmark, in particular the variables that are "unobserved" in practice (potential growth and the structural balance)

SECTION 5: MACROECONOMIC ASSUMPTIONS AND KEY RISKS

Recent Economic Performance

36. In line with the 2022 Mid-Term Fiscal Macroeconomic Framework Review, economic growth in 2021 recovered to 7.8 per cent, from two years of consecutive slumps. The economic slump during 2019 – 2020 was on account of the compounding effects of Cyclone Idai, drought and the COVID-19 pandemic. Despite the lingering effects of these shocks, the economy is estimated to have grown in 2021 on account of strong sectoral growths in agriculture (33.6 percent); electricity (34.3 percent); mining (5.5 percent); and construction (7.2 percent).

37. In the period 2022-2025, the economy is projected to grow at an annual average of 5.1 percent, underpinned by the continued recovery in agriculture, mining, manufacturing, construction, tourism and electricity activities. The sustained positive growth in the medium-term would also be supported by projected higher international mineral and commodity prices, domestication of some value chains, better containment of the COVID-19 pandemic, investments in infrastructure and implementation of climate proofing agriculture programmes. Table 13 shows the selected macroeconomic indicators from 2019 to 2025.

Table 13: Baseline Scenario Macroeconomic Framework: 2019-2025

	2019 Act	2020 Act	2021 Est	2022 Proj	2023 Proj	2024 Proj	2025 Proj
National Accounts (Real Sector)							
Real GDP at market prices (Million ZWL$)	87,412	177,520	191,381	200,192	210,177	221,553	233,101
Nominal GDP at market prices (Million ZWL$)	187,412	1,157,100	3,273,365	10,421,449	18,605,493	29,522,497	42,112,085
Real GDP Growth (%)	-6.1	-5.3	7.8	4.6	5.0	5.4	5.2
Inflation (Annual Average) %	255.3	557.2	98.5	166.7	100.7	50.2	33.4
Government Accounts							
Revenues (Million ZWL$)	22,971	183,039	489,592	1,560,395	2,791,907	4,473,914	6,451,831
% of GDP	12.3	15.8	15.0	15.0	15.0	15.2	15.3
Expenditures & Net Lending (Million ZWL$)	22,534	162,925	545,029	1,716,325	3,074,628	4,861,089	6,716,288
% of GDP	12.0	14.1	16.7	16.5	16.5	16.5	15.9
Overall Balance (Million ZWL$)	437	20,114	-55,437	-155,930	-282,721	-387,175	-264,457
% of GDP	0.2	1.7	-1.7	-1.5	-1.4	-1.3	-0.6
Primary Balance (Million ZWL$)	816	21,086	-53,950	-148,074	-258,592	-172,045	190,737
% of GDP	0.4	1.8	-1.6	-1.4	-1.4	-0.6	0.5
Balance of Payments							
Exports (Million US$)	5,267	5,263	6,575	7,782	7,632	7,648	7,850
Imports (Million US$)	5,398	5,907	8,104	9,312	9,609	10,087	10,422
Current Account Balance (Million US$)	921	678	348	350	-86	-567	-720
% of GDP	5.5	4.8	1.2	2.0	-0.4	-2.5	-3.4
International Reserves (Million US$)	256	169	1,010	934	2,402	2,522	2,606
Import Cover	0.6	0.3	1.5	1.2	3.0	3.0	3.0

Source: MoFED, RBZ, ZIMSTAT

Inflation Developments

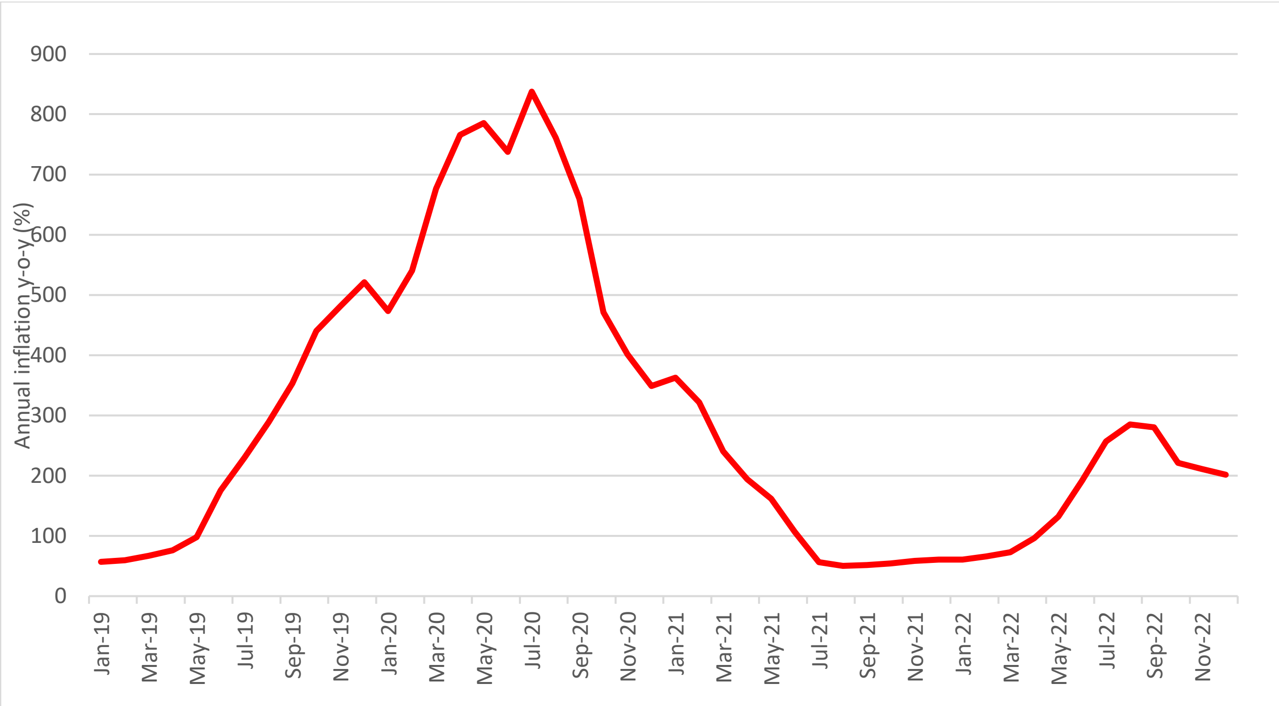
38. Inflation, which had peaked at 837.5 percent in July 2020, driven by parallel exchange rate depreciation, slowed down to 60.7 percent by December 2021. The sustained disinflation was on account of the introduction of tight reserve money growth targeting, coupled with prudent fiscal policy management.

39. However, the economy has been experiencing sustained inflationary pressures, especially during the first half of 2022, with the year-on-year inflation steadily accelerating to 280.4% in September 2022 and is projected to decelerate to 201.7% by end 2022, as shown on Figure 5. This has been driven partly by external factors, particularly the Ukraine - Russia conflict, which has impacted negatively on import prices of fertilisers, food and liquid fuels, as well as forward pricing and sustained depreciation of the parallel exchange rate, on the domestic front.

40. The economy is expected to continue to face headwinds on inflation driven by:

- Continued geopolitical tensions, driving the surge in international food, fertilisers and oil prices (imported inflation);
- Growth in broad money driven by excessive liquidity held by banks, this is despite reserve money being targeted at 0%; and
- Adverse inflation expectations.

Figure 5: Annual Inflation trends 2019-2022



Source: MoFED, RBZ, ZIMSTAT

41. Government will continue implementing tight monetary policy measures, including reserve and broad money targeting frameworks, as well as fiscal consolidation, to contain inflationary pressures. Year-on-year annual average inflation is, however, expected to reach 33.4 percent by 2025, which is above the SADC convergence criterion range of 3 - 7 percent.

Fiscal Developments

42. The Government has been implementing fiscal consolidation measures since 2018, aimed at achieving macro-economic stability. Revenue collection significantly improved in 2021, driven by new measures and enhancement of tax collection administrative processes. Rationalisation of subsidies, adherence to the cash budgeting principle and the abandonment of recourse to Central Bank borrowing, significantly assisted in containing the fiscal deficit.

43. Consequently, the fiscal deficit was reduced from 10.1 percent of GDP in 2017, to a deficit of 1.7 per cent of GDP in 2021. During the MTDS period, the fiscal deficit is projected to remain below 3 per cent of GDP, in line with the 2022 National Budget forecast and the SADC Macroeconomic Convergence Criterion.

Balance of Payments

44. The external sector position continues to perform favorably, with the current account registering surpluses of US$920.5 million and US$678.4 million in 2019 and 2020 respectively. The surpluses have been driven by improved export performance emanating from improved international commodity prices, coupled with a more competitive domestic environment. Remittance inflows which averaged US$1.3 billion between 2019 and 2021, have also contributed significantly to the favorable current account position.

45. In the outlook, the current account surplus is expected to narrow down from US$348.2 million in 2021, to a current account deficit of US$719.6 million by 2025, reflecting increased imports of capital goods, as the economy's growth momentum continues. Overall, the current account deficit is projected to average 1.1 per cent of GDP over the 2022-2025 period, which is within the target of 3 per cent of GDP in the medium-term.

46. Gross international reserves increased from 0.3 months of import cover in 2020 (US$256 million), to 1.5 months of import cover in 2021 (US$1 billion), as a result of the recent International Monetary Fund allocation of Special Drawing Rights (SDRs) of SDR 677 million, to Zimbabwe.

The gross official reserves are expected to stabilize at around 3 months of import cover by 2025, due to improvement in the current account.

Risks to the Macroeconomic Assumptions

47. Uncertainty over the COVID-19 pandemic's future path, as well as exchange rate volatility, may contribute to higher inflation and deviations to projected growth, revenues and expenditures. Depreciation of the exchange rate will significantly raise debt service costs and pose fiscal risks on the foreign currency-denominated debt.

48. The severity and frequency of climatic shocks beyond those already accommodated in the macroeconomic framework assumptions, may weigh down on GDP growth, revenues and exports, while raising government expenditures and food import requirements. The increased financing gap, may have a resultant effect on increased borrowing, thereby worsening the public debt dynamics.

49. The geo-political tensions between Russian and Ukraine have impacted negatively on the global economy, and the severity of the impact in developing countries is expected to be protracted, due to low resilience factors. The conflict has affected various supply chains and this has materialized in the form of soaring food, fertilizers and energy prices. In the case for Zimbabwe, the increased fuel import bill and negative supply shock on critical raw materials, is expected to result in inflationary pressures, and this will ultimately have a negative impact on the country's economic growth prospects and debt servicing capacity.

50. In order to mitigate the effects of these risks and to maintain macroeconomic stability, Government will continue to implement prudent fiscal, monetary and exchange rate policies, as well as continuing to re-engage the international community, to address the external debt arrears situation, which will unlock new financing.

SECTION 6: POTENTIAL SOURCES OF FINANCING

External Sources of Financing

51. In the absence of arrears clearance, Zimbabwe's external financing options remain limited. Currently, the country is accessing limited external financing from multilateral institutions, particularly OPEC Fund for International Development (OFID), the International Fund for Agricultural Development (IFAD), Arab Bank for Economic Development in Africa (BADEA), Afreximbank and from non-traditional bilateral creditors, which include China, India and Kuwait.

52. The potential sources of external financing during the MTDS 2022 to 2025 period, will largely be from concessional financing sources, mainly from the OPEC Fund, IFAD and BADEA, as well as grants and through Public Private Partnerships (PPPs). However, considering the country's current debt situation, where concessional external financing options are limited, semi and non-concessional borrowing from the current external financing sources which include China, and India, will continue to be critical.

53. Development support, through grants, averaging US$834 million until 2025, from various bilateral and multilateral Development Partners, will also be critical for the financing of Government projects and programmes. Table 14 shows the grants from Development Partners for 2021 and first half of 2022 and the total projections for 2022.

Table 14: Development Partner support 2021 and 2022

	2021 Actual Disbursement	2022 1st half Actual Disbursements	2022 Total Projection
Bilaterals			
USA	405.8	260.0	389.9
UK	60.6	-	63.1
European Union	69.8	6.8	31.1
Sweden	38.0	11.8	-
Japan	29.4	4.7	2.9
Others	32.5	4.7	25.1
Sub – total	**636.2**	**288.0**	**512.1**
Multilaterals		-	
Global Fund	177.2	35.5	197.0
World Bank	20.3	5.3	21.1
AfDB	17.7	9.2	35.6
UNICEF	7.5	2.7	6.7
UNDP	9.9	1.4	1.4
Others	28.8	4.8	16.1
Sub – total	**261.3**	**59.0**	**277.9**
GRAND TOTAL	**897.5**	**347.0**	**790.0**

Source: MOFED

54. Meanwhile, Government is making considerable efforts to unlock concessional funding through the engagement and reengagement process with the International Community and Development Partners. In order to show commitment to the engagement and re-engagement process, Government, in 2021, started making quarterly token payments of US$100 000 to each of the sixteen (16) Paris Club Bilateral Creditors and resumed the quarterly payments to the World Bank Group (US$1 million), African Development Bank Group (US$500 000) and the European Investment Bank (US$250 000).

55. Despite the tight external financing conditions, Government remains committed to mobilise resources to finance development projects and programmes. Government plans to issue a sovereign Bond of up to US$100 million in 2022, to be listed on the Victoria Falls Securities Exchange (VFEX). To enhance the credit structure and mitigate the foreign exchange risk on the bond, Government has identified and ring-fenced the USD denominated carbon tax revenue stream, for the principal and coupon repayment of the bond. This will be augmented by a guarantee on the bond by the Afreximbank.

56. The bond will be issued to complement Government resources needed for the rehabilitation of roads, upgrading and equipping public healthcare facilities, as well as for investments in irrigation infrastructure.

57. Furthermore, the bond will support the deepening Zimbabwe's capital markets, including the establishment of the Victoria Falls Offshore Financial Services Centre, aimed at attracting foreign capital.

Domestic Sources of Financing

58. During the period 2022-2025, Government will continue to rely on domestic sources for financing the budget deficit and its various infrastructure projects and programmes. Domestic debt issuances will be through the Auction System and private placements, guided by annual borrowing plans, for each respective year. Preference will be through the auction system, due to its conduciveness in the development of the domestic capital market and price discovery through the bidding process. Furthermore, transparency, a broader investor base, confidence and cost minimisation is achieved through issuing Government securities through the Auction System.

SECTION 7: ALTERNATIVE FINANCING STRATEGIES

59. Four (4) financing strategies were developed with a view to choose the preferred strategy for the MTDS (2022 – 2025). Table 15 presents the financing mix under alternative strategies.

Table 15: Financing Mix under Alternative Strategies

	S1: Baseline	S2: Developing Domestic Markets	S3: Engagement with the International Community	S4: Arrears Clearance and Sovereign Bond Issuance Strategy
External Borrowing	**10%**	**10%**	**50%**	**75%**
Concessional (OFID, IFAD, BADEA, China, India, Kuwait)	40%	40%	60%	40%
Bilateral creditors			20%	
Commercial (Afrexim Bank, inc Sovereign bond)	60%	60%	20%	60%
Total	100%	100%	100%	100%
Domestic Borrowing	**90%**	**90%**	**50%**	**25%**
T Bills (180-day, 270-day 365-day)	80%	40%	40%	40%
Tbond 3-year	20%	20%	20%	20%
Tbond 5-year		20%	20%	20%
Tbond 10-year		20%	20%	20%
Total	100%	100%	100%	100%

Strategy 1(S1) (Baseline)- Domestic Financing and Accumulation of External Arrears

60. The domestic financial and capital markets remain the major source of budget financing, as access to external financing remains constrained due to the accumulation of external debt arrears and penalties. In this regard, the baseline debt management strategy (S1) assumes the continuation of the existing financing structure where 90 percent and 10 percent will be financed through the domestic and external sources, respectively. The domestic financing will comprise of 80 percent short-term Treasury Bills and 20 percent long-term Treasury Bonds. The external financing consists of borrowing from concessional sources (40 percent) and non-concessional (60 percent).

Strategy 2 (S2)- Domestic Market Development

61. Strategy 2 is similar to Strategy 1, with 90 percent financing from the domestic financial and capital markets and 10 percent from the external market. However, the main focus of this Strategy is the introduction of medium to long term bonds with a view to minimizing exposure of the public debt portfolio to refinancing risk. In this regard, the domestic financing is composed of 40 percent short-term Treasury Bills (180-day, 270-day and 365-day) and 60 percent Treasury Bonds (2-year, 5-year and 10-year). The deepening of the capital markets will commence with the issuance of a foreign currency denominated bond which will be listed on the Victoria Falls Securities Exchange. The external financing consists of borrowing from concessional sources (40 percent) and non-concessional (60 percent)

Strategy 3 (S3)- Debt Resolution, Arrears Clearance and Debt Relief

62. Strategy 3 assumes debt resolution with arears clearance and debt relief, after re-engagement with the international community in the third year of the Strategy in 2024 and assumes 50 percent external and 50 percent domestic financing. This strategy assumes an increase in external financing from the 10 percent under Strategy 1 and 2 to 50 percent financing from development partners. External financing will mostly be from multilaterals creditors constituting 80 percent and the bilateral creditors, 20 percent. Financing from the domestic capital market will be composed of 40 percent short-term Treasury Bills (180-day, 270-day and 365-day) and 60 percent long-term Treasury Bonds (2-year, 5-year and 10-year).

Strategy 4 (S4)- Debt Resolution, Arrears Clearance, Debt Relief and Sovereign Bond Issuance Strategy

63. This Strategy assumes a combination of debt resolution arrears clearance and debt relief from the international community and the issuance of a Sovereign Bond during the strategy period. The mix of external and domestic financing is 75 percent and 25 percent, respectively. The external financing assumes the issuance of a foreign currency denominated Sovereign bond in 2024, with the other financing coming from concessional and semi-concessional sources. Domestic financing

mix will be composed of 40 percent short-term Treasury Bills (180-day, 270-day and 365-day) and 60 percent long-term Treasury Bonds (2-year, 5-year and 10-year).

Description of Shocks

64. This MTDS assumed a combination of extreme shocks on alternative financing strategies under the worst-case scenario, to test the robustness of each financing strategy, against adverse market conditions and observe the behavior of the respective risk and cost indicators. For the purpose of this MTDS, the exchange rate and interest rate shocks were assumed.

Exchange Rate Shocks

65. The exchange rate shock scenario assumes that the ZWL$ will further depreciate against USD in 2022 by 30% and will continue to depreciate, though at a lower rate of 6.8% in 2025.

Interest Rate Shocks

66. The interest rate shock assumes a 2.2% average positive interest rate shock in 2022. The results of the shock scenarios are shown in the Annexures.

SECTION 8: COST- RISK ANALYSIS OF ALTERNATIVE DEBT MANAGEMENT STRATEGIES

68. The performance of the four (4) debt management strategies was analysed in terms of their cost and risk under various exchange rate and interest shock scenarios. The relevant cost indicators are as follows:

- average time to maturity (ATM);
- average time to refixing (ATR); and
- ratio of foreign debt to total debt;

69. Table 16 illustrates the cost and risk indicators resulting from the four (4) alternative strategies at the end of the MTDS period (2025).

Table 16: Cost and Risk Indicators for the Strategies

Risk Indicators		2021	As at end 2025			
		Current	S1	S2	S3	S4
Nominal debt as percent of GDP		56.9	32.5	34.5	28.8	27.1
Present value debt as percent of GDP		50.9	30.0	32.4	22.1	21.4
Interest payment as percent of GDP		0.3	5.5	6.6	2.7	1.5
Implied interest rate (percent)		0.6	22.1	25.8	11.1	6.0
Refinancing risk	Debt maturing in 1yr (percent of total debt)	39.9	40.4	21.5	10.6	3.1
	Debt maturing in 1yr (% of GDP)	32.9	13.1	7.4	3.1	0.8
	Average Time to Maturity (ATM) External Portfolio (years)	3.8	11.5	11.1	13.2	12.0
	Average Time to Maturity (ATM) Domestic Portfolio (years)	2.1	1.7	3.8	3.9	4.0
	Average Time to Maturity (ATM)Total Portfolio (years)	4.9	5.0	5.8	10.8	11.3
Interest rate risk	Average Time to Refixing (ATR) (years)	4.9	5.0	5.8	10.8	11.3
	Debt refixing in 1yr (percent of total debt)	40.1	40.4	21.5	10.6	3.1
	T-bills (percent of total debt)	1.4	39.3	14.5	4.5	1.3
FX risk	Foreign currency debt as % of total	96.5	27.9	22.6	69.2	88.5

70. The outcome of the cost-risk analysis were as follows.

Strategy 1- Domestic Financing and Accumulation of External Arrears

71. Strategy 1 is more exposed to refinancing risk compared to all other strategies, as indicated by a higher debt maturing in 1 year (40.4 percent) and lowest domestic debt Average Time to Maturity (ATM) of 1.7 years, reflecting the dominance of short-term Treasury Bills. The Strategy is also exposed to interest rate risks, since it has a higher debt refixing in 1 year of 40.4 percent.

Strategy 2- Domestic Market Development

72. Strategy 2 has low exposure to exchange rate risk, relative to all other strategies as due to the foreign currency denominated debt, which accounts for 23 per cent of the total debt. However, the strategy has the highest cost indicators in terms of the ratio of interest payments to GDP (6.6 percent), as well as weighted average interest rate (25.8 per cent). The cost reflects the relatively higher interest rates for the medium-to long-term bonds.

Strategy 3 – Debt Resolution, Arrears Clearance and Debt Relief

73. Strategy 3 minimises exposure to external debt refinancing risk, relative to all other strategies, whereas ATM of external debt is the highest at 13.2 years. The Strategy, however, is highly vulnerable to exchange rate risk, as the ratio of short-term foreign currency denominated debt, to international reserves is the highest at 69.7%, relative to the other strategies.

Strategy 4- Debt Resolution, Arrears Clearance, Debt Relief and Sovereign Bond Issuance

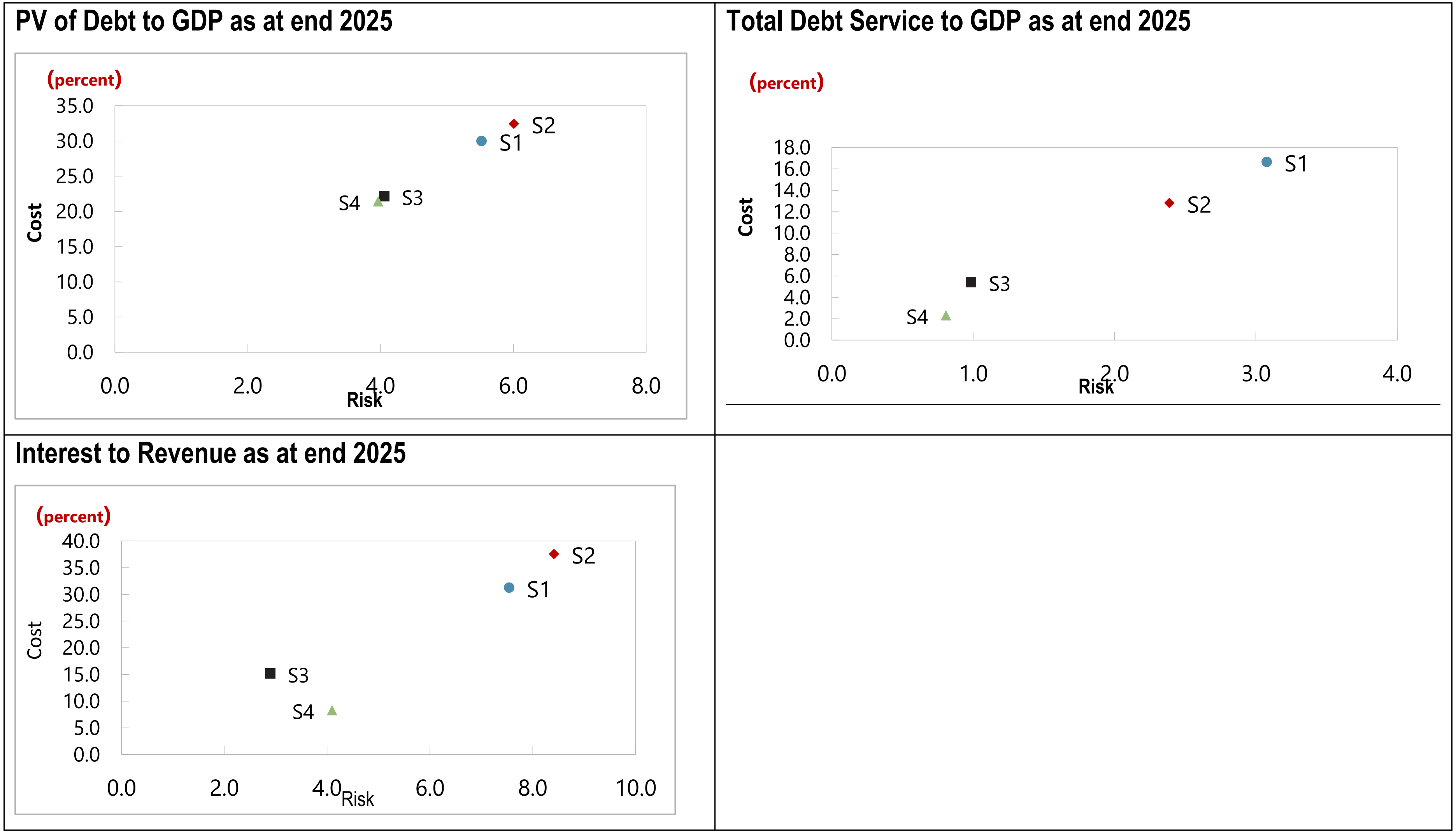
74. Strategy 4 has minimal costs and risks relative to all other strategies, except for the exchange rate risk exposure, where the proportion of foreign currency denominated debt is the highest at 88.5 percent, due to the issuance of a foreign currency denominated Sovereign bond. Strategy 4 has highest ATM for total debt portfolio of 10.4 years compared to the other 3 strategies.

75. Figures 6 and 7 (redemption profile and impact of shocks charts) show the cost and risk attributes for all the four (4) alternative strategies. Figure 6 shows that Strategy 1 and 3 have huge maturities

of domestic debt in 2022, which shows the short-term debt maturing in 2022, as the domestic debt portfolio mainly consists of short-term debt instruments, thus exposing the debt portfolio to refinancing risks. Strategy 2 reflects a smoother redemption profile, which is favourable in limiting bunching of maturities, hence reduces the debt portfolio's exposure to high refinancing risks. Strategy 4 has the most favourable cost and risk indicators. It is characterised by the lowest nominal debt to GDP ratio (27.1 per cent), lowest present value of debt to GDP ratio (21.4 per cent), longest average time to maturity (12 years). This reflects the country's ability to access concessional external financing, after the debt resolution, arrears clearance and debt relief process. Strategies 1 and 2 have the highest cost and risk indicators, which reflect that, in the absence of debt relief and arrears clearance, the country will not be able to access concessional external financing, resulting in high refinancing risks and high debt servicing costs.

Figure 6: Redemption Profiles for the Strategies

Figure 7: Impact of Shocks



SECTION 9: SELECTION OF THE APPROPRIATE STRATEGY AND POLICY RECOMMENDATIONS

Table 17: Comparison of Ranks of Cost and Risk Indicators of Various Strategies (1 indicates the best rank and 4 indicates the worst)

Indicator	Rank			
	S1	S2	S3	S4
Nominal debt as percent of GDP	3	4	2	1
Present Value debt as percent of GDP	3	4	2	1
Debt maturing in 1yr (percent of total debt)	4	3	2	1
Debt maturing in 1yr (% of GDP)	4	3	2	1
Average Time to Maturity (ATM) External Portfolio (years)	3	4	1	2
Average Time to Maturity (ATM) Domestic Portfolio (years)	4	3	2	1
Average Time to Maturity (ATM)Total Portfolio (years)	4	3	2	1
Average Time to Refixing (ATR) (years)	4	3	2	1
Debt refixing in 1yr (percent of total debt)	4	3	2	1
Interest payment as percent of GDP	5.5	6.6	2.7	1.5
Implied interest rate (percent)	22.1	25.8	11.1	6.0
Foreign currency debt as % of total debt	2	1	3	4
Short Term Foreign currency debt as % of reserves	1	1	4	1

Key: *Green= most favourable, Red= Worst*

76. As shown in Table 17, Strategy 4 has the most favourable cost and risk indicators. It is characterised by the lowest nominal debt to GDP ratio (27.1 per cent), lowest present value of debt to GDP ratio (21.4 per cent), longest average time to maturity (12 years). However, Strategy 4 is not be feasible to implement given Zimbabwe's inability to attract concessional external financing due to the accumulation of external debt arrears. Likewise, S3 which assumes largest amount of concessional borrowing, after arrears clearance and debt relief, as well as successful engagement and re-engagement with the international community, may be constrained due to delays in concluding the Arrears Clearance, Debt Relief and Restructuring negotiations.

77. Based on the above cost and risk analysis and feasibility of the proposed strategies, Strategy 2 is recommended as the optimal and realistic Strategy for implementation. Although it has the highest cost indicators in both nominal and present values of debt interest payments to GDP at 6.6 percent, as well as weighted average interest rates at 25.8 per cent, the selection of Strategy 2 is based on the country's external debt situation. The Strategy is also in line with the public debt management's objective of deepening the domestic debt market, by issuing medium-to long-term

instruments to minimize the public debt portfolio's exposure to refinancing risk. In addition, Strategy 2 has a smooth redemption profile compared to the other strategies.

78. Domestic borrowing is currently dominated by short-term instruments. In the medium-to-long term, Government will strive to lengthen the maturity profile of new domestic debt. This is feasible given that there is a prescribed asset status statutory requirement for pension funds and insurance companies to invest in Government securities. Furthermore, the traditional credit market for bank lending to the private sector is relatively riskier, given the financial challenges affecting the sector. Government securities, therefore, remain a safe haven for short-to-medium term investment.

79. During the implementation of the chosen Strategy 2, Government will also accelerate the arrears clearance process, under the broad framework of the Arrears Clearance, Debt Relief and Restructuring Strategy (ACDRRS). The ACDRRS outlines the Government's position and options for addressing the country's debt distress situation, including outlining the comprehensive Reform Agenda which underpins the process. The Reform Agenda is guided by the National Development Strategy 1 (NDS1) (2021-2025).

80. The need for strong and comprehensive re-engagement with Development Partners cannot be over-emphasised. With the support of the international community, IFIs and Development Partners, Zimbabwe needs to urgently clear its external debt arrears, be granted debt relief, which will help unlock new concessional development finance to sustainably grow the economy, create jobs and reduce poverty levels.

81. Zimbabwe has been exploring traditional debt relief options, including the Highly Indebted Poor Country (HIPC) Initiative, which provide maximum debt relief for beneficiary countries. If the window for the HIPC Initiative is availed, Zimbabwe is keen to participate in the HIPC Initiative process in order to benefit from maximum debt relief.

82. If the HIPC Initiative is not available to Zimbabwe, the alternative strategy entails a combination of using Zimbabwe's own resources (where feasible), and bridge concessional loans from bilateral development partners, who are willing to channel their excess resources to support Zimbabwe's

Arrears Clearance, Debt Relief and Restructuring Strategy. The process includes the following components:

i. *Arrears clearance to IFIs:*
   a) *Component 1: World Bank Group (US$1.3 billion);*
   b) *Component 2: African Development Bank Group (US$699 million); and*
   c) *Component 3: European Investment Bank (US$330 million).*

ii. *Bilateral creditors arrears clearance, debt relief and restructuring;*
   a) *Component 4: Paris Club Creditors*
   b) *Component 5: Non-Paris Club Creditors*

iii. *Rescheduling of outstanding and disbursed debt falling due after arrears clearance and debt relief.*
   a) *Component 6: Negotiate for rescheduling with bilateral creditors (Paris Club and Non-Paris Club).*

83. The clearance of arrears to the World Bank Group and the AfDB using some of Zimbabwe's own resources, will be very limited and is based on firm expectation that new resources will be disbursed by the International Financial Institutions and the international community. The support of the international community through the voluntary channeling of resources from the G7 and other developed countries to support Zimbabwe's arrears clearance road map, Covid-19 Pandemic recovery and achieve resilient and sustainable growth will, therefore be crucial.

84. The Arrears Clearance, Debt Relief and Restructuring Strategy critically hinges on, strengthening of and continuing with the Reform Program, stepping up re-engagement with all creditors and continuing cooperation with the IFIs, negotiating for arrears clearance, debt relief and restructuring with the IFIs, Paris Club creditors and non-Paris Club creditors.

85. Implementation of Strategy 2, will be conducted in-line with the following key initiatives:

External Financing

- Continue to prioritise concessional financing;
- Continue to limit non-concessional borrowing to economically viable projects;

- Accelerated implementation of the Arrears Clearance, Debt Relief and Restructuring Strategy; and
- Successful issuance and listing of the foreign currency denominated bonds on the VFEX.

Domestic Financing

- Restricting, where possible, the issuance of Treasury bills and bonds to the auction-based system, to encourage competitive price discovery and enhance the growth of the primary market and development of a market yield curve;
- No recourse to central bank financing;
- No accumulation of domestic debt arrears to service providers;
- Compilation of comprehensive public debt data, including SOEs payment arrears, domestic debt for local authorities, social security funds and public entities;
- Quarterly reconciliation of the RBZ monetary survey, to establish the amount of credit to Government, if any, to ensure compilation of comprehensive public debt data;
- Enhance the enforcement on compliance of prescribed asset status by Pension Funds and Insurance Companies; and
- Develop and deepen the secondary market to improve on liquidity and encourage investment in long-term bonds.

Government Guarantees

- Prudent management of Government guarantees and other contingent liabilities, through issuing partial guarantees only to credit worthy borrowers, in line with the Framework for Evaluating, Monitoring and Managing Guaranteed and On-lent loans;
- Comprehensive credit assessment of prospective beneficiaries of public and publicly guaranteed debt, and ensuring that all requests for borrowing pass through the approval processes of the External and Domestic Debt Management Committee (EDDC);
- Compilation and recording of all government guarantees;

- Strict monitoring on the performance of the guarantees during their lifespan and taking corrective measures before materialisation of called up guarantees; and
- Continue to set annual limits on new public borrowing and issuance of Government guarantees, in line with the provisions of the Public Debt Management Act Section 11 (2) and (3).

Borrowing Limits for 2022

86. In order to contain public debt contraction and taking cognisant of the statutory borrowing limit requirements, the current high debt overhang and debt sustainability analysis under the National Development Strategy 1 (NDS1), the 2022 overall annual borrowing limit was set at 5.75 per cent of GDP, including guarantees (2 per cent of GDP), which was derived from the budget deficit financing requirements, amortisation of loans and securities and public entities project financing. The following borrowing limit guidelines were applied as shown in Table 18.

Table 18: 2022 Borrowing Limits

Category	Borrowing Limit
Central Government, including borrowing for budget support	1.5 per cent of GDP
State-Owned Enterprises, including on-lending from Central Government	3 per cent of GDP
Local Authorities	10 per cent of their respective previous year's revenues with the overall borrowing limits of all local authorities limited to 0.25 per cent of GDP *(0.125 per cent guarantees, 0.125 per cent borrowing power authorities)*;
Guarantees to the private sector	1 per cent of GDP
Total Guarantees	2 per cent of GDP
Overall Total Public Debt Stock-end 2022 (NDS1)	61.6 per cent of GDP

87. Going forward, Government will continue to set annual borrowing and guarantee limits which will be prescribed for each financial year, in line with the provisions of the Public Debt Management Act Section 11 (2) and (3). Guarantees to the Private Sector will only be considered in response to both exogenous and endogenous shocks, to stimulate private sector growth.

Compliance on Public Debt Reporting by Line Ministries, Departments, Agencies, State Owned Entities (SOEs), Local Authorities and Submission of Annual Borrowing Plans

88. In order to ensure the comprehensive reporting of public and publicly guaranteed debt, which is critical for transparency and accountability in public debt management, all Line Ministries, Departments, Agencies, State Owned Entities (SOEs) and Local Authorities will be required to report on their outstanding debts on a monthly basis, in line with the Public Debt Management Act, Section 22 (5). Furthermore, all the above-mentioned stakeholders will be required to submit their annual borrowing plans during the annual budget formulation processes, to guide on the annual borrowing limits. Treasury will not consider requests for Borrowing Authority and Government Guarantees, outside the approved borrowing and guarantees limits.

89. Approvals for all Borrowing Authorities and Government guarantees will go through the mandatory due diligence process, evaluation, risk assessment and analysis. This is in line with the Framework for Evaluating, Monitoring and Management of Guarantees and On-lent Loans, which is used to assess the capacity of the beneficiaries to service their loans. In addition, all requests for borrowing by Line Ministries, Departments, Agencies, State Owned Enterprises, Local Authorities, and Private sector players, will be required to go through the approval processes of the External and Domestic Debt Management Committee (EDDC), in line with the Public Debt Management Act.

90. Furthermore, all guarantees issued will be recorded and monitored by the ZPDMO through periodic project site visits and submission of project performance reports, by the project implementing entity. The timely provision of information on the performance of the guaranteed loans, will facilitate implementation of corrective measures in cases where guaranteed entities are facing challenges to meet their obligations.

91. In order to effectively implement this MTDS, the ZPDMO will engage various Cooperating Partners for capacity building and technical assistance, with the objective of domestic debt market development/deepening and improving capacity for managing and evaluating contingent liabilities, within the Public Debt Management Office.

92. In order to achieve the objectives of this MTDS 2022 to 2025, Government will continue to implement the necessary policies to restore macro-economic stability, anchored on low, single digit inflation with the following key policy enablers:

- Fiscal consolidation targeting a fiscal deficit of 1.5 per cent of GDP;
- Tight monetary policy, anchored on tight reserve money and broad money growth; and
- Introducing a market determined exchange rate through the willing buyer - willing seller exchange rate system.

SECTION 10: CONCLUSION

93. The costs and risks of the existing debt as at end 2021 demonstrate the urgent need to implement the Arrears Clearance, Debt Relief and Restructuring Strategy. Going forward, Government will maximise financing through the issuance of domestic long-term securities and external concessional funding. To mitigate fiscal vulnerabilities from the domestic capital market, borrowing will continue to be informed by an annual borrowing plan and a Treasury Bills/Bond issuance calendar, which will be conducted, where possible, through the Auction System. During the period 2022-2025, Government will continue to prescribe limits for debt contraction, as well as on the issuance of Government guarantees, guided by the borrowing limits.

ANNEXURE 1

Cost-risk Indicators: Shock Scenarios

Debt stock to GDP ratio as at end of 2025

Compared to the baseline scenario, Strategy 2 (more financing from domestic sources) has the highest risk. The baseline value and the highest value out of the four shock scenarios (in case of the 30% exchange rate shock) differ by 8.4 percentage points and most of the values remain above the 30% (which is in fact a threshold for PV of external debt to GDP prescribed in the LIC DSF Framework). Strategy 4 (combination of external financing and Sovereign bond issuance) has favourable results even under shock scenario. This indicates that in the event of materialisation of these shocks without access to concessional external financing, the country continues to be vulnerable to debt distress.

Table 19: Debt stock to GDP ratio as at end 2025

Scenarios	S1	S2	S3	S4
Baseline	45.7	47.9	41.9	40.0
Exchange rate shock (30 percent)	53.7	56.3	49.1	46.9
Interest rate shock 1 (Moderate Shock)	47.2	49.5	42.5	40.9
Interest rate shock 2 (Extreme Shock)	48.7	51.1	43.2	41.9
Combined shock (15 percent depreciation and Interest Rate 1)	51.3	53.8	46.2	44.5
Maximum Risk	8.0	8.4	7.2	6.9

PV of debt to GDP ratio at the end of FY 2025

The debt-GDP ratio improves considerably when the PV amount of debt is taken into account instead of nominal amount. Again, risks of the four shock scenarios reflects that the PV of Debt to GDP remain above the 30% mark. Strategy 3 and 4 (both assume access to external financing) have the favourable ratios. However as indicated, the two Strategies are particularly sensitive to progress with the debt resolution, arrears clearance and debt relief process.

Table 20: PV of Debt to GDP Ratio as at end 2025

Scenarios	S1	S2	S3	S4
Baseline	42.1	44.7	33.4	32.3
Exchange rate shock (30 percent)	49.3	52.4	39.0	37.8
Interest rate shock 1 (Moderate Shock)	43.5	46.2	33.9	33.0
Interest rate shock 2 (Extreme Shock)	44.9	47.7	34.4	33.7
Combined shock (15 percent depreciation and Interest Rate 1)	47.2	50.2	36.8	35.8
Maximum Risk	7.2	7.7	5.6	5.5

Interest payment to GDP as at the end of FY 2025

Interest payments to GDP are above the 5% mark in any shock scenario for Strategy 1 and 2 (both have limited access to external financing). Historical data show that interest payments to GDP from 2018 to 2021 were less than 1%. This is mainly on account of limited fiscal space for Government to meet all its debt servicing obligations. However, interest payments under the shock scenarios for Strategy 1 and 2 remain a cause for concern.

Table 21: Interest Payments to GDP Ratio as at end 2025

Scenarios	S1	S2	S3	S4
Baseline	6.1	7.3	3.0	1.6
Exchange rate shock (30 percent)	7.2	8.6	3.5	1.9
Interest rate shock 1 (Moderate Shock)	6.8	8.0	3.3	2.0
Interest rate shock 2 (Extreme Shock)	7.5	8.9	3.5	2.4
Combined shock (15 percent depreciation and Interest Rate 1)	7.4	8.8	3.6	2.2
Maximum Risk	1.4	1.6	0.6	0.8

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