

# Zimbabwe Rising Public Debt: How to Avoid a Stern Crisis?

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**Abstract** - Zimbabwe's debt has been considered unsustainable from within and outside the country. Public debt management is the backbone of any sovereign debt management entity. It is backed by a robust, well-functioning and user-friendly system that allows governments to strengthen their debt management environment. This manuscript aims to significantly contribute to the extant literature on aspects that a nation like Zimbabwe requires to bail itself from the prolonged public debt. Ideas and evidence will have derived from research findings and lesson and experiences from other governments and organisation. The manuscript will also bring out the theoretical aspect that can be practical applied to have a sound public debt management. The discussion will contain study findings and literature from past and present studies on public debt management systems. The target audience will be leaders of public enterprises, government officials from various ministry, the national budget workforce or taskforce, finance ministry and other business players that either directly or indirectly linked to national planning for debt management and economic strategies. Zimbabwe as nation have gone through many transformative stages since independence and some of the public debt have inherited from the colonial government. The study concludes that it is fundamental for a debt management system to meet the debt management office's evolving needs, while at the same time differentiating among functions and coverage that are mandatory, relevant, and desirable. This analysis derived from past and present studies suggests that current systems can handle the critical functions and instruments of debt management entities. However, if the nature of respondents' debt portfolios evolves over time, system limitations may present challenges. One clear takeaway is that those that are directly involved in national public debt management should consider the ability of their debt management system to interact with external (for example, financial management information system) information technology platforms as an essential characteristic of their information ecosystem.

**Keywords:** Public debt, Stern Crisis, information ecosystem, information technology platforms.

## I. INTRODUCTION

Zimbabwe has been in debt distress since the year 2000, when the country first defaulted on its external obligations to the International Financial Institutions (IFS). Public external debt is on the rise again in sub-Saharan Africa. Gono (2012) and Bayai and Nyangara (2013) established that almost 40% of countries in sub-Saharan Africa including Zimbabwe are in danger of slipping into a major debt crisis. The number of countries at high risk of debt distress has more than doubled since 2013, while eight countries are already in distress. Zimbabwe as a country has gone through many stages of economic transformation (Gono, 2012). Zimbabwe's economic has been exposed to many problems ranging from persistent drought, mismanagement and abuse of public funds, rampant corruption, non-adherence to good corporate governance, lack of trust in national currency and non-payment of debt before and after independence. It is therefore regarded if the country has supportive policies, foreign direct investment, utilisation of natural resources, and reduction in import and increase export of finished product, industrialisation, improvement in the gross domestic product, good corporate governance, creating conducive economic environment for lifting up of sanction, as well as addressing other economic fundamentals like employment and poverty reduction.

### Key Concepts defined

It is imperative to discuss on Zimbabwe's rising debt without defining the major terms involved in it. Muyeche and Chikeya (2014) defined debt as money borrowed by one country from another country and then misappropriated by national rulers. Killick (1998) define debt conditionality as actions, or promises of actions, made by recipient governments only at the insistence of aid providers; measures that would not otherwise be undertaken, or not within the time frame desired by the providers. A nation's debt becomes odious debt when government leaders use borrowed funds in ways that do not benefit or even oppress citizens (Bayai and Nyangara 2013). Some legal scholars argue that successor governments should not be held

accountable for odious debt incurred by earlier regimes, but there is no consensus on how odious debt should actually be treated (ibid).

## II. LITERATURE REVIEW

### Challenges in Debt management

The current debt management set up has its own challenges, mainly to do with consolidation, functional gaps and fragmentation, which might have contributed to the current debt crisis. Rightly so and in line with international trends in debt management, the Government sees an opportunity of improving debt management through consolidating the current fragmented debt management functions into a single debt management unit.

There is a growing consensus that while external causes, such as the lending policies of creditors, have contributed greatly to the debt crisis in many African countries, internal factors have been equally important (Matanga, 2012). Studies have shown that these internal factors include poor debt policies, weak institutional and legal frameworks and the lack of accountability, transparency and inclusiveness of the institutions involved in the loan contraction process (ZEPARU, 2018 and Matanga, 2012). In most countries, part of the policy and institutional framework for debt management is incorporated into the constitution underlining the importance of the current process to amend Zimbabwe’s supreme law.

### Tracking Zimbabwean Debt

Zimbabwe’s public debt is regarded as a highly unsustainable debt burden of US\$6.9 billion, of which 69.6% (US\$4.8 billion) is in arrears, the country faces immense challenges in accessing offshore finance for its developmental programs and projects (Chigumira, Mupunga and Chipumho, 2018). The country’s credit rating has been regarded as also fallen due to high default and country risk profile among other factors (Gono, 2012). Projects have either been suspended or canceled due to the accumulation of arrears and litigations by creditors have increased. In this regard, the Government of Zimbabwe (GoZ) is exploring ways of resolving this debt including reforming the debt management practices in the country. Gono indicated that whilst declining macroeconomic performance over the last decade is largely blamed for the debt crisis, weak debt management practices can be seen as an attendant contributor to the current debt crisis. Currently, the debt management function is dispersed across three offices, namely the Domestic and International Finance (DIF), the Accountant General’s department (ACCGEN), both in the Ministry of Finance (MoF); and the Reserve Bank of Zimbabwe’s (RBZ) External Sector and Financial Markets departments. Although, there is scope for the active participation of a legal department, the Attorney General’s Office (AG) role in the debt management set up, is limited to loan negotiation and dispute resolutions. In the figure below shows the how Zimbabwean Government debt service trends in Zimbabwe (1980-2015).

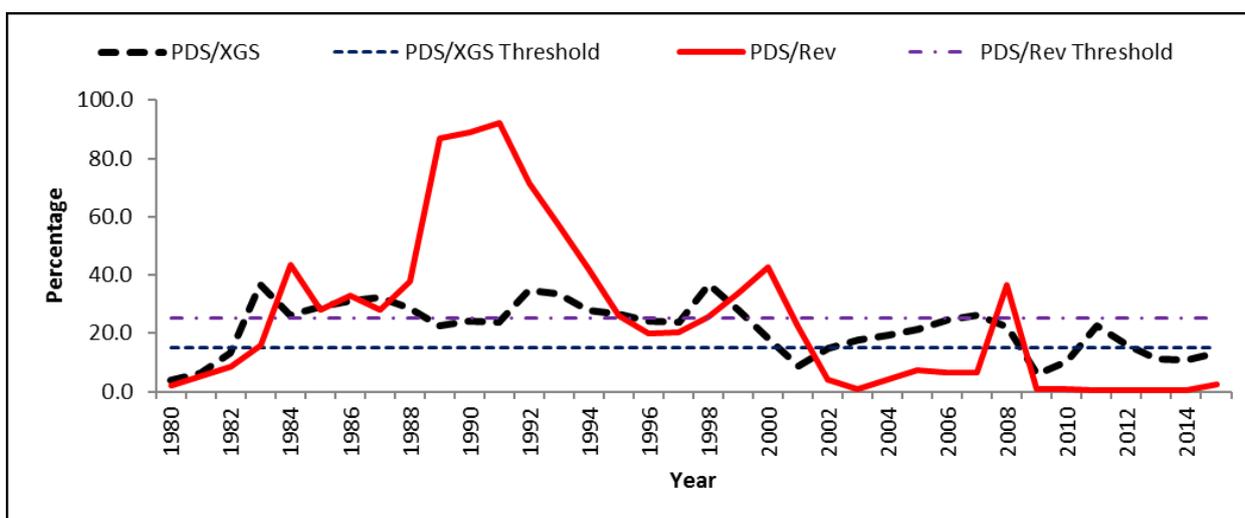


Figure 1: Government debt service trends in Zimbabwe (1980-2015)

Source: RBZ (2012); SADC Statistical Year Book 2016; World Development Indicators (2012) XGS = Exports of goods and services; PDS = Total public debt service; Rev = Government revenue

In Figure 1 above, from the period of 1983 through to 1998, Zimbabwe suffered from liquidity challenges as evidenced by public debt service-to-export of goods and services ratio and public debt service-to-government revenue ratios which were, on average (Saungweme and Odhiambo,2018), above the IMF/World Bank sustainability thresholds of 18 percent and 25 percent, respectively. Despite the increased debt servicing liabilities during this period, the government was still honouring both its domestic and foreign debt obligations. Contrariwise, the country, between 1998 and 2008, was incapacitated to make consistent service payments owing to the severe economic and financial problems that characterise the country during this period. As illustrated in Figure 1, the cumulative effect of the crises was a fall in public debt service, leading to the fall in the two ratios (SADC, 2016). In particular, in 2001, the Zimbabwe’s Minister of Finance alluded that “we are committed to fulfilling these obligations, but it’s clear that our economy is in no state to generate sufficient funds to clear the arrears...” (Bond, 2005, pp. 615). After 2009, the government started to make paltry debt payments, mainly towards arrears, using finances from the drawing down of special drawing rights or from new loans.

Saungweme and Odhiambo (2018) and IMF (2014) viewed that the failure by the public sector to honour its foreign obligations between 1998 and 2008 coupled with implementation of the indigenisation policy has a compounding chilling effect on foreign investment. Further to the above, the government of Zimbabwe initiatives on raising foreign exchange to services its debt during the period resulted in reforms in financial regulatory frameworks, that included the imposition of stern foreign exchange restrictions (IMF 2014:54). It was also characterised by inflationary environment, which stretched from 2003 to 2008, the government revenues were much higher than expenditures, permitting the government to redeem its entire domestic debt by February 2009 (MOFED,2009). However, in the multicurrency era, the insurance of treasury bills worth USD4417 million by 2014, with a total of US\$1102 million having matured and liquidated describes the upward turn in the government debt servicing indicators in Figure 1 (MOFED, 2017). Saungweme and Odhiambo (2018) noted that the “beginning 2014, the government had been making regular payments to domestic government debt holders and to the International Financial Institutions”. For instance, the government paid monthly installments of US\$150,000 to the IMF’s Poverty Reduction and Growth Trust, in addition to the quarterly payments of US\$900,000 and US\$500,000 to the World Bank and to the AfDB, respectively (RBZ, 2015).

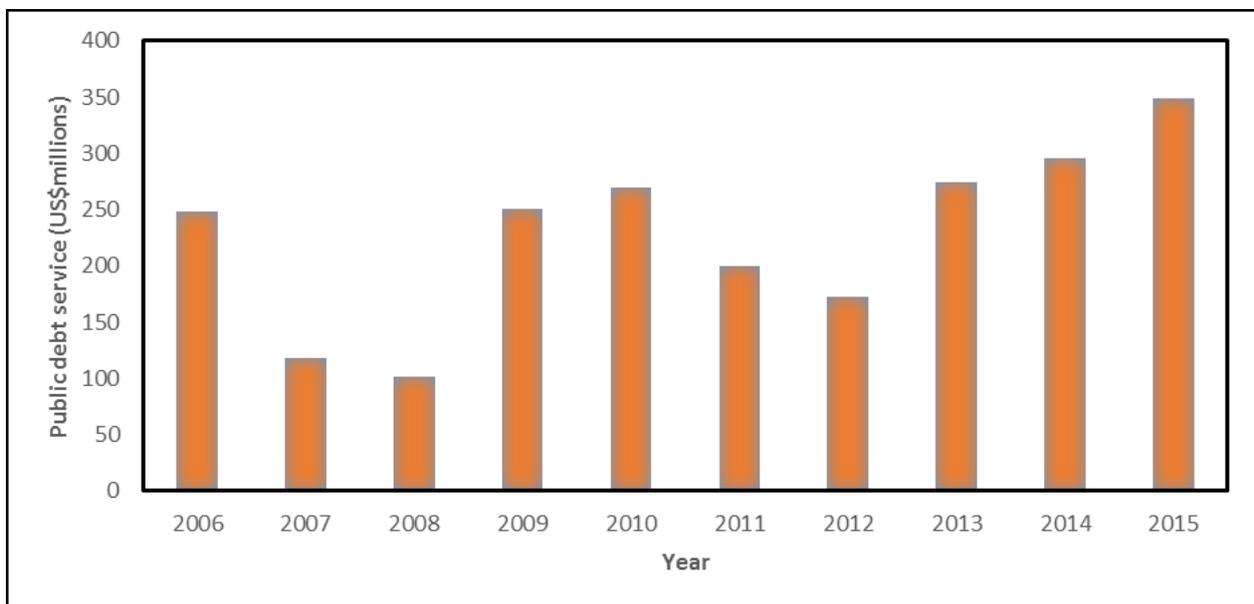


Figure 2: Public and publicly guaranteed foreign debt repayments in Zimbabwe (2005-2015)

Source: SADC Statistical Year Book (2016)

Financial Repression which is according to India’s Ministry of Finance (2008), debt management is relatively simple when financial firms are forced to purchase government bonds through financial repression. However, the effectiveness of financial repression declines as households tend to utilize less constrained components of the financial system. In the case of Zimbabwe the fact that the country is evolving towards market liberalization following the adoption of broad macroeconomic reforms in early 2009 under the Short Term Emergence Recovery Programme (STERP), makes the task of funding public debt more complex. However, since the adoption of multiple currencies in February 2009, the domestic debt market has not been

active, mainly due to cash budgeting framework being implemented and the liquidity position. Going forward, Government may consider reviving the domestic debt market; hence it is important to undertake institutional reform that strengthens debt management alongside the process of financial sector reforms that eases financial repression.

### **Violation of Solvency**

The projected violation of the solvency condition, as noted in the ZEPARU survey, even after the assumed debt restructuring in the short term implies that the country's public debt distress cannot be resolved by simply debt restructuring but needs a hybrid approach, which encompasses both debt restructuring and write-offs (Chigumira, Mupunga and Chipumho, 2018). In this regard, the Government must capitalise on provisions of engaging the Paris and non-Paris club to negotiate for debt write-offs to restore sustainability. Government also needs to pursue policies that support medium-term growth by promoting the growth of human and physical capital, and by increasing productivity to ensure strong and broad-based growth. This growth will enable the government to rebuild fiscal buffers, improve government balances, and anchor public debt. Government should also commit to firmly put its fiscal deficits within sustainable ranges by mobilizing revenues, rationalizing spending, and improve spending efficiency. The fiscal adjustment needs to be anchored on strong structural reforms, and adherence to fiscal rules that support potential growth. There is also need to put in place a proper institutional framework for borrowing to manage public debt prudently and avoid a recurrence of debt distress episodes, while adequately financing sustained future growth. This underscores the need for comprehensive capacity building initiatives in public debt management.

### **III. METHODOLOGY**

This analysis examines aspects of public debt management of Zimbabwe's economy since independence (1980 to 2020). Past and present from global, regional and national blueprints will be examined to discover ways how best public can be management deriving lessons from other nations, experiences and theories and findings from past and present studies. To that end both quantitative and qualitative data will be analyzed. Hence, a content analysis was appropriate for this analysis. The analysis also looked at the national budget and economic frameworks or blueprints initiated after independence.

### **IV. FINDINGS & DISCUSSION**

Zimbabwe suffers a persistent debt crisis and it is mostly evidenced by the debt service to export of goods and services ratio and public debt service to government revenue ratios which were on average above the IMF/World Bank sustainability thresholds of 18 % and 25 % respectively. Between 1983 and 1998, 28.8 percent of Zimbabwe's exports receipts, on average, were spent on public debt repayments, mostly foreign debt, – an indication of acute resource outflow (World Bank, 2012). More so, an average of 44.1 percent of the government's revenue was channelled towards debt and interest payments, a condition which could have contributed to a stern reduction in education, health and other social service expenditures in the 1990s (United Nations Development Programme, 2012, pp. 14). Zimbabwe stopped servicing its foreign public debts in 1999 perceiving them as being too costly in terms of the country's economic and social objectives (Gono, 2008, pp. 46). Thus, the servicing constraints during the period under review were generally a result of the poor performance of the economy and of the government's limited borrowing options. The latest National Development Strategy (NDS) has been developed for January 2021 to December 2025, whose theme is "Towards a Prosperous and Empowered Upper Middle Income Society by 2030." The NDS marks the end of the Transitional Stabilisation Programme (TSP) that was for 2018 to 2020. According to the NDS, Zimbabwe's total debt at the end of 2019 was estimated at ZWL\$ 143 billion, which was 80.8 percent of the country's Gross Domestic Product (GDP). The debt was more than the targeted Public Debt Management Act of 70 percent. Of this debt, domestic debt, including the Zimbabwe Asset Management Corporation ZAMCO's – ZW\$1.1 billion, stood at ZW\$11 billion.

Government debt repayment challenges for the local currency denominated debt have generally been concerted around poor economic performance, which had its origin in the late 1990s (AFRODAD, 2011). The perpetual economic crises, lack of foreign financing, adverse political environments and international economic sanctions that characterised the country in the second decade of political independence accelerated the rate of economic contraction, leading to the narrowing of the government's revenue base (GoZ, 2013). With increased maturity of domestic debt in 1999, the servicing burden skyrocketed, thus worsening the government's capacity to repay its debts (IMF, 2013). This trend has, however, been consistent with developments in other developing and emerging market economies where domestic debt is increasingly becoming more pronounced (Panizza, 2008; Presbitero, 2012). According to Panizza (2008), developing economies traditionally used the domestic debt market as a residual only when they did not have access to external resources or to sterilise aid flows. Recent

developments have, however, seen an increasing number of countries switching from external to domestic debts. This development poses the risk of trading a currency mismatch for a maturity mismatch since most developing economies find it difficult to issue long-term domestic debts at reasonable interest rates (Panizza, 2008). The composition of public debt has important implications for the government’s choice of an optimal public debt portfolio. The maturity profile of public debt in particular, is relevant for the analysis of possible liquidity problems.

In terms of currency composition, Zimbabwe’s public debt has been largely denominated in US dollar, which at the end of 2012 accounted for 30.8 per cent, and the Euro accounting for 29.47 per cent of the public debt. Other currencies accounted for the balance. The currency composition of Zimbabwe’s public stock from 2004 up to 2012 is shown in table 1 below.

**Table 1: Currency Composition of Zimbabwe’s Public Debt**

	2004	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>USD</b>	27.63	27.73	28.71	27.84	29.47	30.38	30.02	30.34	30.37	30.75
<b>Euro</b>	33.49	33.75	31.57	33.21	33.80	32.59	33.22	31.43	29.39	29.47
<b>Pound</b>	5.84	5.99	5.97	6.36	5.91	4.46	4.80	4.75	4.50	4.51
<b>SDR</b>	0.38	0.38	0.39	0.39	0.38	0.37	0.37	0.37	0.35	0.35
<b>Swiss Franc</b>	0.43	0.44	0.43	0.43	0.43	0.46	0.46	0.52	0.49	0.50
<b>Other</b>	3.51	3.66	3.72	3.75	3.65	3.58	3.58	3.84	6.78	7.53
<b>Yen</b>	5.30	5.16	5.37	5.00	4.76	6.04	5.83	6.71	6.88	6.07
<b>Multiple</b>	23.42	22.88	23.83	23.02	21.60	22.13	21.72	22.04	21.24	20.82
<b>Total</b>	100	100	100	100	100	100	100	100	100	100

Source: *World Development Indicators Database (2012)*

In the case of Zimbabwe, increasing the proportion of domestic debt may not be feasible under the multi-currency regime given the country’s limited ability to influence monetary aggregates. The market development can only become feasible if the country’s fiscal position strengthens, providing some scope to absorb the higher interest cost. The strategy of increasing the share of the domestic debt in public debt also requires the country to pursue prudent macroeconomic policies to help reduce the cost, by reducing the credit risk premium. There is also the need to create sufficient fiscal space to accommodate the higher costs. Mechanisms should also be put in place to ensure proper coordination between public debt management and other macroeconomic policies.

**Strategies for public debt management**

Dessbonet and Weitzenblum (2011), reveal the temptation by states to take on higher levels of debt as emanating from the need for short-run gains. These gains may come in the form of temporary reduction in the income tax rate, which in turn stimulates labor supply and generates an overshooting of interest rate. They allude to the fact that welfare gains are likely to be felt even when debt levels are way beyond the long run optimal levels (Ibid). Dessbonet and Weitzenblum (2011) view is in sharp contrast with Keynes (1936), argument that governments should solve problems in the short-run rather than waiting for market forces to do it in the long run.

**Global Trends of public debt management**

While countries such as China, India, Colombia, Thailand and the Republic of Korea have escaped the debt servicing problems by adopting efficient borrowing policies and by implementing prudent investment policies, which expanded their export base; the situation is, however, different in most sub-Saharan African (SSA) countries, Zimbabwe included (International Monetary Fund “IMF”, 2016, pp. 51). The government debts, mostly foreign, were rising exceptionally high in the SSA region since the early 1980s relative to the expansion in both industrial and export base – resulting in a cumulative regional public debt

servicing cost in excess of US\$10 billion in 1995 (World Bank, 2003, pp. 145-153). Despite progressive foreign government debt repayment initiatives by most SSA countries, including Zimbabwe, public debt servicing ability remained constrained by numerous factors. These include high stocks of government debt; low industrial and export competitiveness; rising levels of capital flight; (iv) depressed investor confidence; and severe liquidity constraints (IMF, 2016; United Nations, 1999). According to Ajayi (1997, pp. 5), the rising government debt servicing obligations in SSA in the 1980s and 1990s perpetuated the outflow of both financial and nonfinancial resources in the region.

### Regional and Zimbabwean Trend on debt management

The progression of public debt stocks and public debt repayments in Zimbabwe debts can be traced back to the early 1980s when the country generally adopted a development strategy that relied heavily on foreign financing (Mupunga & Le Roux, 2014). The resultant burgeoning fiscal imbalances racked up government debt with the consequence of increasing domestic interest rates (Southern African Development Community “SADC”, 2016). By 1990, Zimbabwe’s cost of public debt servicing constituted a significant proportion of government revenue (SADC, 2016). In 1999, the inexorable cost of public debt servicing began to erode the capability of the state to effectively fund human developmental programs and public sector investments (African Development Bank “AfDB”, 2005). A considerable amount of financial resources was diverted towards the payment of interest on both domestic and foreign public debt (AfDB, 2012). Consequentially, the mounting cost of public debt servicing in Zimbabwe brought about stern structural revenue reforms, in the form of economic and financial restructuring. These revenue reforms included the introduction of new taxes, increases in existing tax rates as well as the introduction of interest and exchange rate controls – which possibly crowded out private sector investment. The combination of shrinking economic base and rising public debt servicing costs inevitably constrained the economic growth prospects of Zimbabwe over the period under review (AfDB, 2012).

Between 2009 and 2015, the Zimbabwean government also instigated numerous revenue reforms, which included the enforcement of the presumptive tax to the informal sector, and the introduction of a monthly payment system for the presumptive tax, instead of the previously used quarterly system (MOFED, 2015 and Saungweme, and Odhiambo, 2018). These revenue reorganizations were envisioned to enhance the government’s capacity to honour its domestic financial dues by expanding the state’s revenue base. Other domestic public debt service reforms that were instituted by the government in the multicurrency era include: (i) putting a ceiling on total stock of arrears to domestic service providers, especially agricultural input suppliers, and on capital certificates; and (ii) putting a floor on protected social spending (GoZ, 2013).

Table 2: Historical debt service to export Ratios, 2009 – 2015

	2009	2010	2011	2012	2013	2014	2015
Debt Service- Government (US\$)	170	188	170	172	240	240	173.3
Capital (US\$)	131	154	142	136	156	156	130.4
Interest (US\$)	39	34	28	36	84	84	43
Exports of Goods and Services (US\$)	1591	3541	4771	4076	3849	4480	3841.9
Debt Service ratio (%)	16.6	7.7	9.2	13.0	15.6	12.4	15
Capital Service Ratio (%)	13	6	7	10	12	10	10
Interest Service ratio (%)	3	1	2	3	3	3	5

Source: World Development Indicators (WDI), (2016)

Apart from domestic public debt service reforms, the government also embarked on a chain of foreign public debt service reforms since independence. However, the government’s foreign debt service reforms between 2000 and 2008 were not so pronounced and only became sound during the era of the Government of National Unity (GNU) (SADC, 2016). Following the failure to honour its foreign debt arrears in 1999, the government sought sovereign debt restructuring from the Paris Club, the

AfDB and the Bretton Woods Institutions (GoZ, 2010, pp.69). According to Das et al. (2012, pp. 16), sovereign foreign debt restructuring “is an exchange of outstanding government debt, such as bonds or loans, for new debt products or cash through a legal process”. To spearhead the re-engagement negotiations with the creditor community, the government of Zimbabwe adopted the Zimbabwe Accelerated Arrears Clearance, Debt, and Development Strategy (ZAADDs) document. The ZAADDs policy was embraced to: (i) facilitate the restoration of economic relations with creditors, and ensure a financial re-engagement with the international community; and to (ii) recuperate investor confidence (GoZ, 2013, pp. 48). The ZAADDs also intended to set a framework for seeking (i) extension of contractual repayments period; (ii) rescheduling and restructuring of foreign public debts from the traditional lenders; and (iii) a reduction of interest rates on outstanding arrears and principal debts (RBZ, 2012).

It can be concluded that Zimbabwe’s public debt crisis is could be improved if proper principle and roles are taken into consideration with regards to debt management and a room for improvement is still available. It is critical to include all stakeholders in the management of Zimbabwe's public debt and there is also a need to consider future debt if the nation is to progress in the right direction.

## V. CONCLUSION & RECOMMENDATIONS

From the findings it could be noted that the recurrence and continuous Zimbabwe’s crisis is heavily necessitated by lack discipline in the use of local currency. The ultimate objective of public debt management is to minimise the expected long term cost of debt subject to a prudent degree of risk associated with government borrowing strategies (IMF, 2003). Most of the financial resources are channel to areas of priority and hence the allocated seems to misused.

### **Industrialisation of the economy**

Zimbabwe is one of the African that is very rich in mineral and other natural resources hence most of these are extracted in their raw state and exported to other countries mainly overseas. It is envisaged that there is need to process minerals like gold , copper, uranium and other to finished products or refined one and export them so that there can fetch better prices

### **Agricultural production**

Zimbabwe is mainly an agricultural nation where vast of its land is under farming, hence there is need for full utilisation of farms for export market to get foreign and improve currency reserves that can be used to pay the public debt. Corruption has been a major restraint on economic growth in Zimbabwe for years. Much of the farmland that was seized from white farmers ended up in the hands of army generals and the political elite, who knew next to nothing about agriculture. There is need to Revitalizing agriculture and the agro-processing value chain.

### **Cash Flow management**

The results show that the market development strategy may be desirable from a risk perspective if the stock-flow adjustments on exchange rate changes are taken into consideration. This result demystifies the notion that external concessional borrowing is always preferred to domestic borrowing. Given Zimbabwe’s sustained limited access to external concessional loans and the slow process of re-engagement with traditional creditors, the market development strategy could be re-evaluated, particularly if the country’s fiscal position strengthens, providing some scope to absorb the additional interest costs from domestic debt issuance. There is also scope for the country to develop its domestic debt market by taking advantage of captive investors such as insurance companies and pension funds. Engagement with bilateral and multilateral creditors to seek the way to reduce debt.

### **Transparency and accountability**

To make sure there is debt transparency, comprehensive public debt reports detailing the stock of public debt and its main features, would continue to be regularly published while the continuation of an Auction-Based treasury bills issuance regime would be based on an Annual Borrowing Plan and Issuance Calendar. This is so because the government is borrowing mainly short-term which is costly, so to reduce the cost of borrowing and deepen the capital markets, the finance ministry said during the NDS1 Period, it would target the issuance of medium to long term securities and listing of Bonds on the Securities Exchange Market.

## Cash injection

The government need to get a recovery kick-started is hard currency. Zimbabwe has not had a currency of its own since 2009, after hyperinflation killed off the old Zimbabwean dollar. Of late Zimbabwe introduced its currency after the restore of legacy but the Zim currency is being eroded by several forces that range from sanctions.

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