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File 20
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8-410

Rcv: @1IM/5.07440 Line: 5

DEC 29 1986 0717
440040 FUND UI

RECEIVED
IMF CABLE ROOM

748440

1986 DEC 29 AM 8 03

ZBANK ZA41560

INTERFUND
WASHINGTON DC
29/12/1986
ATTN : ACQUAH

ORIG: AFR
CC: MR. ACQUAH

- 091
- A1 322
- A2 6.55 MILLION US DLR
- A3 K77.35 MILLION
- A4 14.20
- A5 6.00
- A6 12.14
- A7 141
- A8 4.08 MILLION USDLR
- A9 N.A
- A10 12.71
- A11 0.70 MILLION US DLR
- A12 0.53 MILLION US DLR
- A13 0.50 MILLION US DLR
- A14 1.00 " "
- A15 28

STOP REGARDS
TEST NO [REDACTED]
+KEYES
IMF REPRES.
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
ZBANK ZA41560

440040 FUND UI

ZBANK ZA41560

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REPLY VIA ITT

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Time: 07:30 12/29/86 ???
Connect Time : 109 seconds

TEST NUMBER:

CHECKS

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File ZA Auction

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DEC 22 1986 0807
440040 FUND UI

747781

1986 DEC 22 AM 8:36

ZBANK ZA41560

ORIG: AFR

INTERFUND
WASHINGTON DC
22/12/1986
ATTN : ACQUAH.
089

CC: MR. ACQUAH

	DEC. 13	DEC. 20
A1	333	310
A2	12.40	8.37 MIL US DOLLAR
A3	K171.63 MIL	K95.04 MIL
A4	16.00	13.77
A5	6.0	6.00
A6	10.89	10.91
A7	107	116
A8	4.03	4.04
A9	N.A.	N.A.
A10	<u>11.90</u>	<u>12.50</u>
A11	1.00	1.00
A12	0.50	0.50
A13	0.50	0.50
A14	1.00	1.00
A15	53	34

SECONDO: AS DISCUSSED TOOK TWO DAYS ANNUAL LEAVE ON DEC.8 AND 9
REQUEST APPROVAL ANNUAL LEAVE DEC. 24 AND 31 STP

REGARDS
TEST NO [REDACTED]
+KEYES
IMF RES. REPR.
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
ZBANK ZA41560

440040 FUND UI

ZBANK ZA41560

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REPLY VIA ITT

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ROUTING SLIP

DATE:

12/16/86

NAME

ROOM NO.

~~Mr. Muzondo~~

file 2A Auction

APPROPRIATE DISPOSITION

NOTE AND RETURN

APPROVAL

NOTE AND SEND ON

CLEARANCE

PER OUR CONVERSATION

COMMENT

PER YOUR REQUEST

FOR ACTION

PREPARE REPLY

INFORMATION

RECOMMENDATION

INITIAL

SIGNATURE

NOTE AND FILE

URGENT

REMARKS:

FROM:

G. Gebhart

ROOM NO.:

~~3112~~

EXTENSION:

34421

J-11-195

WORLDBANK MSS

~~SECRET~~

ZCZC E1SP7196 RCABB01
EA1SA FIELD
REF ; TCP1 NET

RCABB01
248423 WORLDBANK

ZCZCLUS0625
EA1SA
.IBROLUS
FROM INTBAFRAD LUSAKA DECEMBER 09, 1986.
FOR GEORGE GEBHART

AAA. RE OUR DISCUSSION YESTERDAY. A TOTAL OF 29 BIDS WERE REJECTED ABOVE THE STRUCK RATE OF K12.10. 15 OF THESE BIDS WERE FOR NCZ FOR VERY SMALL AMOUNTS. THE TOTAL VALUE OF THE REJECTED BIDS WAS USD 0.26 MILLION ONLY.

BBB. NCZ HAS NOT YET BEEN INFORMED OF THE REASON FOR REJECTING THEIR BIDS. IT IS PROBABLY SOME DOCUMENTARY REQUIREMENT.

CCC. MR. NGOMA, SENIOR DEPUTY GENERAL MANAGER, BOZ, SAYS THAT TAX CLEARANCE CERTIFICATES ARE STILL REQUIRED WITH THE BIDS.

DDD. WILL BE MEETING WITH MR. NGOMA TOMORROW TO DISCUSS THE NEED FOR PREVENTING SHARP CHANGES IN THE EXCHANGE RATE. BOTH THE GOVERNOR AND GENERAL MANAGER ARE AWAY.
PLEASE INFORM HAROLD. REGARDS, KHAN.

=12091159

NNNN

2A 110

21 NOV 86

TO: The Managing Director
The Deputy Managing Director

DATE: December 11, 1986

FROM: A. D. Ouattara

SUBJECT: Somalia - Briefing Paper

In reviewing the briefing paper for the mission to Somalia the Deputy Managing Director raised two issues. He asked whether a PFP, subject to later revisions could not be negotiated by the present mission. During the Bank's internal review process, the draft PFP was referred back to the Region in order to strengthen the structural and macro areas (the latter included the exchange system and public sector revenue measures). This reaction was influenced in part by the Bank's supplementary guidance note on PFPs, issued in the middle of November, that stressed the need for discussions on sources of and prospects for growth and for greater specificity in describing policies to be pursued. Since the briefing paper was sent to Management the staff has undertaken additional discussions with the Bank. We have now established a schedule with the Bank for the formulation of the revised paper and it should be ready by the end of the year; we do not have any difficulties with the Bank with respect to the policy recommendations and targets. We would then negotiate the PFP and the SAP program in early 1987. This schedule is satisfactory to us, subject to clearance of overdue obligations to the Fund.

With regard to the brief's proposal to establish a floor price as a back-up option for the unification of the exchange system, I agree with you that this could distort the auction and that the mission should, instead, focus its effort on addressing the institutional and other factors that contribute to the divergence of the auction and market exchange rates. Accordingly, I am instructing the mission to discuss with the authorities the adoption of measures that would ensure a "clean" auction; or alternatively, if a clean auction were not possible, the mission should negotiate a move to a fixed rate at a realistic level.

Mr. Beveridge is in agreement with this approach.

cc: Mr. Brown

CHRONOLOGICAL COPY



Rcv: @11M/7.02403 Line: 7
VMCI0625

File Auction
8-410
745862

RECEIVED
IMF CABLE ROOM

1986 DEC -8 AM 7:16

LUS0620
EAISA/EAIDR
.IBRDLUS
FROM INTBAFRAD LUSAKA DECEMBER 08, 1986.
FOR HAROLD MESSENGER
JOCHEN KRASKE

ORIG: MR. OUATTARA
CC: MR. PAUL ACQUAH

FOREIGN EXCHANGE AUCTION RESULTS FOR SATURDAY, DEC 06, 1986.

TOTAL BIDS	= 221
RANGE OF BIDS	= 6.0 - 18.0
BIDS ACCEPTED	= 130
AMOUNT DEMANDED	= 7.6 MILLION DOLLARS
ZIMOIL	= 4.1 MILLION DOLLARS
OTHER SPECIAL CATEGORIES	= 0.01 MILLION DOLLAR
S	
NET ALLOCATION FOR GENERAL IMPORTS	= 3.1 MILLION DOLLARS
ALLOCATION FOR BANKS' WORKING BALANCES	= 0.5 MILLION DOLLAR
RS	
ALLOCATION FOR LCS MATURED AFTER	
OCTOBER 04, 1985.	= 1.0 MILLION DOLLARS
RATE (K/DOLLAR)	= <u>12.10</u>

REGARDS, KHAN

12081034 VMCI0626

V
REPEATED TO MR PAUL ACQUAH OF IMF.
64111 IMF UW
Time: 05:39 01/03/86 ???
Connect Time : 37 seconds

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Rcv: @IIM/7.02403 Line: 7
VMCI0625

RECEIVED
IMF CABLE ROOM

1986 DEC -8 AM 7:16

745862

ORIG: MR. OUATTARA
CC: MR. PAUL ACQUAH

LUS0620
EAISA/EAIDR
.IBRD/LUS
FROM INTBAFRAD LUSAKA DECEMBER 08, 1986.
FOR HAROLD MESSENGER
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REGARDS, KHAN

12081034 VMCI0626

V
REPEATED TO MR PAUL ACQUAH OF IMF.
64111 IMF UW
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ZAMBIA



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DEC 06 1986 0148
440040 FUND UI

745816 Auction

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IMF CABLE ROOM

ZBANK ZA41560
INTERFUND
WASHINGTON DC
5/12/1986

745816

1986 DEC -6 AM 7: 22

ORIG: MR. OUATTARA

CC: MR. MUZONDO

ATTN : MUZONDO

ESTIMATE OF EXCESS NET COST TO BOZ OF AUCTION ARREARS IS K323 MILLION
AT CURRENT EXCHANGE RATE I.E. 1 US DOLLAR TO K15-25 STP REGARDS
+KEYES
IMF RES REPR.
BANK OF ZAMBIA LUSAKA

COL CKD+
PM
ZBANK ZA41560
440040 FUND UI

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Rcv: @IIM/5.06573 Line: 5

File 24 Archival

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DEC 03 1986 0759
440040 FUND UI

1986 DEC -3 AM 8:20

ZBANK ZA41560

745359

INTERFUND
WASHINGTON DC
3/12/1986
ATTN : MR W DANNEMANN

ORIG: STA
CC: AFR

THE FOLLOWING ARE THE EXCHANGE RATES FOR THE MONTH OF NOVEMBER, 1986

MG - ZM 0.06812
MF - ZM 12.29789
MH - ZM 0.08131

REGARDS
+E MWILA
DEPUTY DIRECTOR
RESEARCH
BANK OF ZAMBIA LUSAKA

8.410

COL CKD+
PM
ZBANK ZA41560

440040 FUND UI

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Rcv: @1IM/5.06475 Line: 5



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you have the key.

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744971

This is a repeat of previous auct
File 2A - Auction

1986 DEC -1 7:53

ZBANK ZA41560

ORIG: MR. OUATTARA

440040 FUND UI

CC: MR. ACQUAH

INTERFUND
WASHINGTON DC
1/12/1986
ATTN : ACQUAH
087

8.40

- ✓A1 271
- A2 623 MILLION USDLR
- A3 K87.01 MILLION
- A4 K16.52 → highest
- A5 K6.00 ← lowest
- A6 13.96 -
- A7 140 - Accepted
- A8 4.07
- A9 N.A.
- A10 K14.68 ←→
- A11 1.00 MILLION USDLR
- A12 ZERO
- A13 0.50 MILLION USDLR
- A14 1.00 "
- A15 16 "

~~15.25~~
15.25
14.68
+3

15.25
14.68
-57

REGARDS
TEST NO [REDACTED]
+KEYES
IMF RESPEE RES. REPRESENTATIVE
BANK OF ZAMBIA LUSAKA

COL CKD+P
PM
ZBANK ZA41560

440040 FUND UI

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Time: 07:50 12/01/86 EST
Connect Time : 250 seconds

TEST NUMBER: [REDACTED]

CHECKS

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12

CABLE ROOM

INCOMING CABLE/TELEX

PAA/CNC JMSA
ET



July 24
Auction

Rcv: @IIM/5.06431 Line: 5

NOV 28 1986 0919
440040 FUND UI

RECEIVED
IMF CABLE ROOM

1986 NOV 28 AM 9:35

ZBANK ZA41560
DR. TIMOTH R MUZONDO
AFRICAN DEPARTMENT
INTERFUND
WASHINGTON D.C.

744838

ORIG: AFR
CC: MR. MUZONDO

WE HAVE HAD PROBLEMS IN GETTING UP TO DATE FIGURES ON THE MONETARY SURVEY FOR OCTOBER 1986. WE ARE SENDING YOU THE FIGURES THAT ARE AVAILABLE TO US IN THE MEANTIME.

- A.3. 406.7
- A.4. 613.9
- A.6 3,078.0
- AA7 165.5
- A.8. NIL
- A.9. 1,965
- A.10 1,490
- A.11 TO BE FORWARDED WHEN AVAILABLE
- A.12. 956.4
- A.13. 24.5\$
- A.14 (1)30.61 (11) 23.78

8-410

REGARDS

DAVID CHITUNDU
DIRECTOR/MONETARY AND CREDIT AND ANALYSIS DIVISION
BANK OF ZAMBIA/LUSAKA
27TH NOVEMBER 1986
440040 FUND UI

ZBANK ZA41560
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File 2A Auction

NOV 25 1986 0250
440040 FUND UI

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ZBANK ZA41560
INTERFUND
WASHINGTON DC

744294

1986 NOV 25 11 7:49

ATTENTION: ACQUAH

PRIMO RE AUCTION 59

A	322	<i>no 7 bids</i>
A2	8.39	MILLION US DLR
A3	K134.36	MILLION
A4	15.17	
A5	6.00	
A6	12.61	
A7	122	
A8	4.083	
A9	N.A.	
A10	14.68	
A11	1.00	MILLION US DLR
A12	ZERO	
A13	0.50	MILLION US DLR
A14	1.00	MILLION US DLR
A15	15	

*Dollars demanded
Kwacha offered.
Highest bid
Lowest bid
Weighted average
no of successful bids
Dollars disbursed.
Kwacha collected.
Strike rate
Zimail
DATA
Working Bal
LCS B.C.
no of rejected bid 5.*

8.410

SECONDO: AT ALLOCATION OF 8 MILLION USDLR AT AUCTIONS 53-59 RATES WOULD HAVE BEEN 8.27, 9.02, 10.05, 11.40, 11.27, 13.20 AND 14.09

TERTIO: OCTOBER MONETARY DATA: NARROW MONEY K2,090 MILLION
QUASI MONEY K1,488 MILLION

*1860
Broad money K3348 million*

QUATTRO: TREASURY BILL RATE INCREASED FROM 24/1/2 PER CENT TO 28 PER CENT OVER LAST WEEK. WILL REACH 29/1/2 PER CENT BY END-WEEK.

KEYES
IMF RESIDENT REPRESENTATIVE
BANK OF ZAMBIA/LUSAKA
24/11/86
440040 FUND UI

3.456

ZBANK ZA41560
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*File
2-A Auction*

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Rcv: @IIM/5.06126 Line: 5

RECEIVED
IMF CABLE ROOM

NOV 21 1986 0844
440040 FUND UI

743888

1986 NOV 21 AM 9:18

ZBANK ZA41560
440040 FUND UI
ZBANK ZA41560
440040 FUND UI

ORIG: AFR
CC: MR. ACQUAH

8-410

INTERFUND
WASHINGTON DC
21/11/1986

ATTN : MR ACQUAH.

086 HERewith REVISED FIGURES ON REVALUATION RESERVE ACCOUNT
FOR PERIOD 1ST JAN, 1986 TO 22/09/1986 ✓

RE: EXCHANGE GUARANTEES ETC.

A. OPENING BALANCE 1/1/86 ZK1,678,561,483-44

B. DEBITS JAN-SEPT

- 1) IMF NO.1 ACCOUNT ✓ ZK5,638,973,955-75
- 2) IMF NO.2 ACCOUNT ✓ ZK15,747-77
- 3) IMF REPURCHASES ZK635,116,271-80
- 4) PIPELINE ITEMS ZK25,000,328-73
- 5) IMPORT L/C'S * 204,898,898-15
- 6) ZIMOIL 68,910,285-00
- 7) ZAMBIA AIRWAYS/IATA 127,067,758-37
- 8) TAZARA 11,837,864-41
- 9) BRIDGING LOANS 84,732,198-90
- 10) GRATUITY/EXPATRIATE
REMITTANCES 21,538,482-52
- 11) DIVIDENDS 6,665,484-10
- * 12) OTHERS/MISCELLENIOUS 48,847,622-06 *NAMBANDA*

C. CREDITS JAN- SEPTEMBER

- 13) IMF PURCHASES 549,359,519-05
- 14) PTA TRANSACTIONS 15,538,623-13
- 15) BRIDGING LOANS 17,965,716-10
- 16) OTHER/MISCELLENIOUS 39,553,214-13

CLOSING BALANCE 22/9/1986 K7,929,749,308-59
LESS OPENING BAL. 1/1/86 K1,678,561,483-44

NET DEBIT(JAN-SEPT) K6,251,187,825-15

REGARDS
+FOREIGN OPERATIONS
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
ZBANK ZA41560

TEST NO.

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86 NOV 21 AM 11:33
AFRICAN DEPARTMENT

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File 2A Auction



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1986 NOV 10 AM 9:41

Rcv: @1IM/3.01651 Line: 3

NOV 10 1986 0826

742124

440385 FUND UI

ZBANK ZA41560

ORIG: AFR

440385 FUND UI

CC: MR. ACQUAH

INTERFUND
WASHINGTON DC
10/11/1986
080
ATTN : ACQUAH
PRIMO RE AUCTION

8.410

- A1 493
- A2 12.20 MILLION USDLRS
- A3 K125.43 MILLION
- A4 K13.15
- A5 K6.00
- A6 K10.29
- A7 111
- A8 4.15 MIL USDLRS
- A9 N.A.
- A10 K12.30
- A11 1.00 MIL USDLRS
- A12 0.75 MIL USDLRS
- A13 0.5 " "
- A14 1.0 " "
- A15 37

SECUNDO

RE OTHER ITEMS NET OF COMMERCIAL BANKS, DETAILED EXAMINATION REVEALS NO UNUSUAL MOVEMENT IN THIRD QUARTER.

NET LIABILITIES END-JUNE K1.187 BILLION
 END-JULY K1.212 BILLION
 END-AUG K1.313 "
 END-SEP K1.354 "

NEITHER WERE THERE SIGNIFICANTLY CHANGES IN NET LIABILITIES NOR THEIR COMPONENT ITEMS OF TWO BANKS INVOLVED IN FOREX LENDING TO BOZ.

TERTIO:

AT PRESS CONFERENCE ON THURSDAY, MIN FIN ANNOUNCED DECONTROL OF PRICES FOR BREAKFAST MEAL AND CHIBUKU STRESSING TREASURY COULD NO LONGER SUPPORT SUBSIDY BURDEN. SUBSIDY ON ROLLERMEAL TO BE REVIEWED IN CONTEXT OF 1987 BUDGET. REMAINING SUBSIDY TO BE PAID DIRECTLY TO MILLERS. RE AUCTION MINISTER STATED REDUCED ALLOCATION WAS TEMPORARY MEASURE WITH ALLOCATIONS TO BE RAISED AFTER BACKLOG WAS CLEARED, HOPEFULLY BY END-DECEMBER.

RE DISCUSSIONS WITH IMF, MINISTER STATED IMF IMPRESSED WITH EFFORTS MADE SINCE JUNE TO BRING MAIN ELEMENTS OF

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PROGRAM BACK ON TRACK. HE CITED AS MAIN DISCUSSION AREAS (A) REDUCTION IN BUDGET DEFICIT THROUGH EXPENDITURE RESTRAINT, (B) IMPOSITION OF NEW REVENUE MEASURES, (C) LIBERALIZATION OF EXCHANGE AND TRADE REGIME AND ALLOCATION OF FOREX THROUGH AUCTION, (D) BOLSTERING TREASURY BILL MARKET FOR CONTROLLING CREDIT AND MONETARY EXPANSION (E) POLICY OF ECONOMIC PRICING, AND (F) QUICK AND EFFICIENT UTILIZATION OF DONOR RESOURCES.

TEST NO [REDACTED]

REGARDS

+KEYES

IMF RES REPRESENTATIVE

BANK OF ZAMBIA LUSAKA

COL CKD+

PM

ZBANK ZA41560

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TH/BA

Rcv: @1IM/5.05890 Line: 5

NOV 17 1986 0544
440040 FUND UI

File 2A Auction

RECEIVED
IMF CABLE ROOM

ZBANK ZA41560

743129

1986 NOV 17 AM 7:29

440040 FUND UI

INTERFUND
WASHINGTON DC
17/11/1986
ATTN : ACQUAH
083

ORIG: AFR
CC: MR. ACQUAH

- A1 409
- A2 12.79 MILLION USDLR
- A3 K167.84 MILLION
- A4 K14.41
- A5 K6.00
- A6 K11.59
- A7 118
- A8 5.71 MILLION DLRS
- A9 N.A.
- A10 K13.48
- A11 1.00 MILLION DLRS
- A12 0.50 MILLION DLRS
- A13 0.50 MILLION DLRS
- A14 1.00 MILLION DLRS
- A15 25

8.410

REGARDS
TEST N0440
+KEYES
IMF RES. REPRESENTATIVE
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
ZBANK ZA41560

440040 FUND UI

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RECEIVED
IMF CABLE ROOM

NOV 10 1986 0826

742124

1986 NOV 10 AM 9:41

440385 FUND UI

File 2A attached

ZBANK ZA41560

ORIG: AFR

440385 FUND UI

CC: MR. ACQUAH

INTERFUND
WASHINGTON DC
10/11/1986
080
ATTN : ACQUAH
PRIMO RE AUCTION

8-410

- A1 493
- A2 12.20 MILLION USDLRS
- A3 K125.43 MILLION
- A4 K13.15
- A5 K6.00
- A6 K10.29
- A7 111
- A8 4.15 MIL USDLRS
- A9 N.A.
- A10 K12.30
- A11 1.00 MIL USDLRS
- A12 0.75 MIL USDLRS
- A13 0.5 " "
- A14 1.0 " "
- A15 37

INCOMING CABLE/TELEX

SECUNDO
RE OTHER ITEMS NET OF COMMERCIAL BANKS, DETAILED EXAMINATION REVEALS NO UNUSUAL MOVEMENT IN THIRD QUARTER.

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END-JULY K1.212 BILLION
END-AUG K1.313 "
END-SEP K1.354 "

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AT PRESS CONFERENCE ON THURSDAY, MIN FIN ANNOUNCED DECONTROL OF PRICES FOR BREAKFAST MEAL AND CHIBUKU STRESSING TREASURY COULD NO LONGER SUPPORT SUBSIDY BURDEN. SUBSIDY ON ROLLERMEAL TO BE REVIEWED IN CONTEXT OF 1987 BUDGET. REMAINING SUBSIDY TO BE PAID DIRECTLY TO MILLERS. RE AUCTION MINISTER STATED REDUCED ALLOCATION WAS TEMPORARY MEASURE WITH ALLOCATIONS TO BE RAISED AFTER BACKLOG WAS CLEARED, HOPEFULLY BY END-DECEMBER.
RE DISCUSSIONS WITH IMF, MINISTER STATED IMF IMPRESSED WITH EFFORTS MADE SINCE JUNE TO BRING MAIN ELEMENTS OF



PROGRAM BACK ON TRACK. HE CITED AS MAIN DISCUSSION AREAS(A)
REDUCTION IN BUDGET DIFICIT THROUGH EXPENDITURE RESTRAINT,
(B) IMPOSITION OF NEW REVENUE MEASURERS, (C) LIBERALIZATION OF
EXCHANGE AND TRADE REGIME AND ALLOCATION OF FOREX THROUGH AUCTION,
(D) BOLSTERING TREASURY BILL MARKET FOR CONTROLLING CREDIT AND
MONETARY EXPANSION (E) POLICY OF ECONOMIC PRICING, AND (F) QUICK AND
EFFICIENT UTILIZATION OF DONOR RESOURCES.

TEST NO ~~123~~

REGARDS

+KEYES

IMF RES REPRESENTATIVE

BANK OF ZAMBIA LUSAKA

COL CKD+

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File 2A Auction



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1986 OCT 20 9 11

ZBANK ZA41560

440040 FUND UI

ORIG: AFR

CC MR. ACQUAH

INTERFUND
WASHINGTON DC
20/10/1986
ATTN : ACQUAH.

- A1 734
- A2 23.23 MILLION USDLRS
- A3 K192.79 MILLION
- A4 K10.25
- A5 K5.50
- A6 K8.45
- A7 125
- A8 2.07 MIO USDLRS
- A9 NA.
- A10 K9.35
- A11 0.5 MILLION USDLRS
- A12 ZERO
- A13 0.5 MILLION USDLRS
- A14 1.0 MILLION USDLRS
- A15 102

TEST NO [REDACTED]
REGARDS

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BANK OF ZAMBIA LUSAKA
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✓ Copy For T. Muzondo
file Zambia auct
Office Memorandum

copy to:
Mr. Quillora
Mr. Ikheba / Anfu
Mr. Kamera-shora
Az

TO: Mr. Acquah

October 14, 1986

10/14

FROM: Timothy R. Muzondo *TRM*

SUBJECT: Zambia - Auction Transactions held on October 11, 1986

Attached is a telex received today providing data on the auction held on October 11, 1986 and a table analysing the data in relation to agreed guidelines for the disbursement of foreign exchange at the auction.

The number of bids received (769), the amount of U.S. dollars demanded (US\$23.60 million), and the amount of kwacha offered all remain high. The total foreign exchange supplied was US\$4.9 million compared with the agreed amount of US\$5.5 million. However, the amount of foreign exchange supplied for general imports was US\$2.97 million or US\$970,000 more than the agreed amount. The amounts of foreign exchange disbursed for ZIMOIL (US\$500,000), IATA (US\$0.0) and for commercial banks working balances (US\$500,000) were all less than the agreed amounts. The number of bids that failed to meet documentation requirements were 105.

Despite the excess supply of foreign exchange the marginal bid that cleared the supply of foreign exchange was K 8.30 per U.S. dollar, up from K 7.26 per U.S. dollar at the previous auction.

Attachments

Zambia: Auction Transactions held on October 11, 1986

(In U.S. dollars)

	Agreed amounts	Actual amounts
ZIMOIL	1.0	0.5
IATA	1.0	0.0
Commercial banks working balances	0.5	0.5
Letters of Credit B and C	1.0	1.0
General imports including TAZAMA and TAZARA	2.0	2.97
Total	5.5	4.97

Sources: See attached telex.

KAA plus



Rcv: @1IM/5.04316 Line: 5

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737965

1986 OCT 13 7:44

INTERFUND
WASHINGTON DC
13/10/1986
ATTN : ACQUAH.
072 RE AUCTION 53
A1 769
A2 23.60 MILLION
A3 177.65 MILLION
A4 8.56
A5 5.50
A6 7.74
A7 128
A8 4.97 MILLION
A9 NOT AVAILABLE
A10 8.30
A11 0.5 MILLION ✓
A12 NIL
A13 0.5 MILLION
A14 1.0 MILLION
A15 105
STOP REGARDS
TEST NO [REDACTED]
KEYES
IMF REPRESENTATIVE
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
ZBANK ZA41560

ORIG: AFR
CC: MR. ACQUAH

8.410

440040 FUND UI
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FUND C-200
RCA4707

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736651
AFRICAN DEPARTMENT

1986 OCT -1 PM 3:24

248423 WORLD BANK
FROM INTBAFRAD LUSAKA OCT. 01, 1986
TO IMF - WASHINGTON

ORIG: AFR

CC: MR. ACQUAH

FOR PAUL ACQUAH

RECEIVED THE FOLLOWING TODAY FROM KHAN, BANK OF ZAMBIA.
QUOTE THE AUCTION 51 WAS HELD ON SEPTEMBER 27, 1986.

CODE	ITEM	
A1	NUMBER OF BIDS RECEIVED 1/	606
A2	DOLLARS DEMANDED 1/	20.12 MILLION
A3	KWACHA OFFERED 1/	136.86 MILLION
A4	HIGHEST BID	K8.00
A5	LOWEST BID	K5.10
A6	WEIGHTED AVERAGE BID	K6.80
A7	NUMBER OF SUCCESSFUL BIDS 1/	167
A8	DOLLARS DISBURSED 1/	6.51 MILLION
A9	KWACHA COLLECTED 1/	N.A
A10	EXCHANGE RATE	K7.09
A11	ALLOCATION TO ZIMBIL	US DOLLARS 1 MILLION
A12	ALLOCATION TO IATA	US DOLLARS 2.01 MILLION
A13	ALLOCATION FOR WORKING BALANCES	US DOLLARS 500,000
A14	ALLOCATION FOR CATEGORY B+C LCS	US DOLLARS 1 MILLION
A15	NUMBER OF BIDS REJECTED FOR FAILURE TO ACCORD WITH REGULATIONS	61

1/ EXCLUDING ALLOCATIONS FOR WORKING BALANCES AND CATEGORY
B+C LCS.

UNQUOTE
REGARDS KHAN.

=10011015

NNNN



cc PPA/TAG Res
L.C.

Rcv: @1IM/5.03723 Line: 5

RECEIVED
IMF CABLE ROOM

SEP 26 1986 1121
440040 FUND UI

735853

1986 SEP 26 AM 11:44

ZBANK ZA41560

ORIG: AFR

440040 FUND UI

CC: MR. ACQUAH

INTERFUND
WASHINGTON DC
26/9/1986

ATTN : P ACQUAH

YOUR TELEX DTD 24TH SEPT, 1986 REFERS STP INFOR REQUESTED
PROVIDED BELOW

DATA TO END AUGUST FROM FOREIGN OPERATIONS:

1) SHORT TERM AND OTHER BRIDGING LOANS (IN US DOLLARS)
BOZ SHORT TERM LOANS

LENDER	AMOUNT
BARCLAYS INTL,	USD LRS 5,000,000
STANDARD CHARTERED	USD LRS 59,641,870
B C CINTL,	USD LRS 7,650,000
MERIDIEN	USD LRS 60,000,000
EQUATOR	USD LRS 14,012,087
SWAZILAND	USD LRS 685,067
KUWAIT	USD LRS 51,282,051
P T A	USD LRS 938,151 (DR)

2) BALANCE OUTSTANDING ON OIL FACILITY WITH BANK OF AMERICA
OIL FACILITY

B O A USD LRS 75,584,588-17

3) JULY/AUGUST ADATA ON THE AMOUNT AND DATES OF RECEIPTS/
FOR AUCTION FROM PURCHASES

DATE	AMOUNT	FOREX A/C NO
3/7/86	USD LRS 229,540-00	6014
18/7/86	USD LRS 779,840-00	6013
18/7/86	USD LRS 1,906,780-00	7002
15/8/86	USD LRS 498,107-00	6022
27/8/86	USD LRS 6,000,000-00	6023

(B)

PURCHASES FROM G R Z

DATE	FOREX	RATE	ZK	FOREX A/C NO.
17/7/86	USD LRS 490,000	7.19385	3,524,986-50	7002
17/7/86	USD LRS 280,000	7.27345	2,036,566-00	7002
29/7/86	USD LRS 770,000	7.22370	5,562,249	6016
29/7/86	USD LRS 1,320,000	7.19385	9,495,883	6016
29/7/86	USD LRS 170,000	7.27345	1,236,487	6016
29/7/86	USD LRS 1,990,000	7.2834	14,493,966	6001
29/7/86	USD LRS 1,930,000	7.2237	13,941,741	6001
29/7/86	USD LRS 1,390,000	7.19385	9,999,451-50	6001
29/7/86	USD LRS 1,780,000	7.27345	12,946,741	6001
29/7/86	USD LRS 20,000	7.19385	145,877	6022
29/7/86	USD LRS 300,000	7.27345	2,182,035	6022
29/7/86	USD LRS 220,000	7.22370	1,589,214	6022
29/7/86	USD LRS 160,000	7.28340	1,165,344	6022
25/8/86	USD LRS 180,000	7.35305	1,323,549	6019
25/8/86	USD LRS 360,000	7.47245	2,690,002	6019
25/8/86	USD LRS 730,000	7.67145	5,600,158	6019
25/8/86	USD LRS 400,000	8.02965	3,211,860	6019
25/8/86	USD LRS 184,000	5.00485	920,892	6022
25/8/86	USD LRS 103,108	6.04960	623,108	6022

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25/8/86 USD LRS 473,000	4.98495	2,357,882	6022
25/8/86 USD LRS 410,000	5.32325	2,182,532	6022
25/8/86 USD LRS 1,040,000	7.47245	7,771,348	6015
25/8/86 USD LRS 502,003	''	3,751,192	6015

4) JULY/AUGUST BALANCES ON ZIMOIL FOREX A/C WITH BANK OF ZAMBIA

JULY USD LRS 852-83 K59,613,502
 AUGUST USD LRS 14,804,852-83 K92,678,378

+++

PLEASE TAKE NOTE:

KINDLY AD THE FOLLOWING SUPPLEMENT BELOW IN PAGE/1

BOZ SHORT TERM LOANS (SUPPLEMENT)

LENDER	AMOUNT
PUNJAB AND SIND BANK	USD LRS 1,120,119-80
SYNDICATE BANK	USD LRS 779,241-80
I B U INTERNATIONAL FINANCE	USD LRS 3,616,278-15
BANK OF BARODA	USD LRS 5,645,947-54
STATE BANK OF INDIA	USD LRS 6,003,670-77
BANK OF INDIA LONDON	USD LRS 10,606,296-50
CENTRAL BANK OF INDIA	USD LRS 5,621,208-06

STOP

+C SEKETI

DEPUTY DIRECTOR

FOREIGN OPERATIONS AND BUDGET

BANK OF ZAMBIA LUSAKA

CCL CKD+

PM

ZBANK ZA41560

440040 FUND UI

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Rcv: @1IM/S.01208 Line: 3

SEP 26 1986 1126
440385 FUND UI

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1986 SEP 26 AM 11:43

ZBANK ZA41560
MR PAUL ACQUAH
AFRICAN DEPARTMENT
INTERFUND
WASHINGTON DC
26/9/1986

ORIG: AFR
CC: MR. P. ACQUAH

AS PER YOUR CABLE MESSAGE OF SEPTEMBER 24TH, 1986 PLEASE FIND BELOW THE REQUESTED INFORMATION FOR THE END OF AUGUST 1986 COLON

- A. 1. 892.7
OF WHICH : COMMERCIAL BANKS : 505.5
- 2. 6.8
- 3. ASSETS : 505.5
LIABILITIES : 428.6
- 4. 2596.9
- 5. 1624.8
- 6. AA. 1732.6
- B. 1167.9

B+ TOTAL = 545.5 SDR/\$ = 0.836936
FOREX DENOMINATED 448.8
KWACHA DENOMINATED 96.7
TOTAL = 927.6
FOREX DENOMINATED 761.9
KWACHA DENOMINATED 165.7

C. I BELIEVE MR. SEKETI HAS ALREADY CABLED YOU THE DATA PERTAINING TO THIS SECTION
+END OF JULY 1986
BEST REGARDS
+E MWILA
DEPUTY DIRECTOR
RESEARCH (M C P A)
BANK OF ZAMBIA LUSAKA

COL CKD+
PM
ZBANK ZA41560

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3. AT AUCTION 42, ALL BIDS HIGHER THAN K8.07 TO A DOLLAR WERE ARBITRARILY EXCLUDED.
4. STARTING WITH AUCTION 43, EXCESS FUNDS WERE ALLOCATED TO GENERAL IMPORTS IN PRACTICALLY EVERY AUCTION.
5. IN PARTICULAR, DESPITE ASSURANCES GIVEN TO THE LAST IMF MISSION, (AUGUST AAAYAQL, AUCTIONS HAVE NOT BEEN "CLEAN":
 - (A) EXCESS FUNDS WERE PUT THROUGH AUCTIONS 45-49, AND
 - (B) REQUIREMENTS REGARDING OVERDRAFT AND 90 DAY LIMIT DESCRIBED ABOVE WERE NOT WITHDRAWN.
6. CONTRARY TO THE AGREEMENT WITH THE IMF AND THE AUCTION RULES, DISBURSEMENTS TO THE BIDDERS WERE NOT MADE IN THE SUCCEEDING WEEK, AND DISBURSEMENTS FOR AUCTIONS 47-49 AMOUNTING TO USD 32.5 MILLION HAVE NOT YET BEEN MADE.
7. THESE ARREARS OF AUCTION FUNDS ARE LESS THAN THE EXCESS ALLOCATIONS (USD 36.7). IN OTHER WORDS, THERE WOULD HAVE BEEN NO ARREARS IF NO EXCESS FUNDS WERE AUCTIONED.

8. THE EXCHANGE RATE HAS SUFFERED VERY SHARP FLUCTUATIONS (8.07 TO 5.01 TO 7.0 TO 5.64) DURING THE LAST TWO MONTHS DUE TO OFFICIAL INTERVENTION. THIS HAS SERIOUSLY DISTURBED THE MARKET (WHICH WILL PUT FURTHER PRESSURE ON THE EXCHANGE RATE) AND HURT THE EXPORT DRIVE.

RESULTS OF RECENT AUCTIONS

(USD M)

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DATE	AUCTION NO.	TOTAL ALLOCATION/1	ALLOCATION TO ZIMOIL/2	EXCESS ALLOCATION	RATE
JULY 12	40	3.97	0.20	0.3	8.07
JULY 19	41/B	4.41	2.5	-1.6	5.03
JULY 26	42/C	7.50	4.6	-0.6	6.08
AUG 02	43	20.77	3.8	13.5	5.01
AUG 09	44	10.25	1.7	5.1	5.35
AUG 16	45	5.95	1.1	1.4	5.76
AUG 23	46	3.84	0.2	0.1	6.26
AUG 30	47	8.80	1.1	4.2	6.87
SEPT 06	48	13.57	0.2	9.9	7.0
SEPT 13	49	10.15	2.3	4.4	5.64

- (A) EXCLUDING ALLOCATIONS FOR WORKING BALANCES OF COMMERCIAL BANKS AND B AND C CATEGORIES OF LCS.
- (B) DISBURSEMENT TO ZIMOIL, ZAMBIA AIRWAYS, TAZAMA, AND TAZARA WHICH ARE ESTIMATED TO CLAIM AN AVERAGE OF DOLLAR 4.0 MILLION WEEKLY.
- (C) THIS IS BASED ON A WEEKLY AUCTION ALLOCATION OF USD 9.0 MILLION AS FOLLOWS: 1.0 MILLION FOR B AND C CATEGORIES OF LCS, 0.5 MILLION FOR COMMERCIAL BANKS' WORKING BALANCES, AND 4.0 MILLION ZIMOIL ETC. WHICH AMOUNT IS SUPPOSED TO BE PROPORTIONATELY REDUCED IN CASE THEIR BIDS ARE NOT RECEIVED OR ARE UNSUCCESSFUL IN A GIVEN WEEK.
- (D) DOCUMENTARY REQUIREMENTS INTRODUCED WHICH REDUCED THE NUMBER OF QUALIFYING BIDS.
- (E) ALL BIDS ABOVE THE BIDDING RATE OF K8.07 DISQUALIFIED.

REGARDS, KHAN.

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6 10:30 - 12:30

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o 9. - 10:30

o [funcit -] 3:30 -

FROM INTRAFRAD LUSAKA SEPTEMBER 22, 1986.

FOR GEORGE GEBHART

COPY TO HAROLD MESSENGER

JOCHEN KRASKE

AAA. RESULTS OF THE FOREIGN EXCHANGE AUCTION HELD ON SATURDAY, SEPTEMBER 20, 1986, ARE AS FOLLOWS:

TOTAL BIDS	= 484
RANGE OF BIDS	= K4.50 - K7.83
BIDS ACCEPTED	= 121
BIDS REJECTED FOR LACK OF DOCUMENTATION	= 37
AMOUNT X DEMANDED (D/MILLION)	= 16.31
AMOUNT DISBURSED (D/MILLION)	= 3.09 (INCLUDING USD 1.0 MILLION FOR ZIMOIL)
ALLOCATION TO BANKS AS WORKING BALANCES (D/MILLION)	= 0.5
ALLOCATION TO RETIRE LCS MATURED AFTER OCTOBER 4 (D/MILLION)	= 1.0
RATE (K/DOLLAR)	= 6.37

BBB. TAKING INTO ACCOUNT THE ZIMOIL BID OF USD 1.0M (NO SUCCESSFUL BIDS FROM OTHER SPECIAL CATEGORIES) AND BUDGETED AMOUNT OF USD 3.5M FOR GENERAL IMPORTS, THIS WEEK'S AUCTION OF USD 3.09M HAS MEANT A SAVING OF USD 1.41M.

CCC. MR. RAHMAN INFORMS ME (HE LEARNT ABOUT IT TODAY) THAT BOZ HAS ISSUED TWO CIRCULARS. ONE CIRCULAR DATED SEPTEMBER 11 EXTENDED THE PERIOD FROM 90 DAYS TO 120 DAYS WITHIN WHICH IMPORTS ARE TO BE MADE FROM AUCTION FUNDS AND EVIDENCE ATTACHED TO NEW BIDS AND THE SECOND BOZ CIRCULAR DATED SEPTEMBER 16 HAS WITHDRAWN THE CONDITION THAT NO MORE THAN 20 OF FUNDS FOR A BID CAN BE FINANCED FROM AN OVERDRAFT. PLEASE INFORM PAUL ADQUAH ALSO. REGARDS. KHAN.

PAT/CVC/TM/ JBT/ Ruo
MK



Rcv: @1IM/5.03453 Line: 5

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734552

1986 SEP 22 AM 5:56

ZBANK ZA41560

ORIG: TRE

440040 FUND UI

CC: MR. MTEI

INTERFUND
WASHINGTON DC
22/9/1986

AFR

SERVICE MESSAGE

RYT NO. 728332 DATED 3/9/1986 AND OURS 063 DATED 20/8/1986 STOP
KINDLY FIND HERE BELOW HOW THE MESSAGE WAS AUTHENTICATED:-

AMOUNT ZK5,638,989,703-52	
FIXED NUMBER	320
DATE AND DAY	58
MONTH	95
AMOUNT 5 BILLION	25
6 HUNDRED MILLION	274
30 MILLION	72
8 MILLION	73
9 HUNDRED THOUSAND	246
80 THOUSAND	97
9 THOUSAND	20
7 HUNDRED AND	81
3	251

8-410

TOTAL 1612

+BANK OF ZAMBIA LUSAKA
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PM
ZBANK ZA41560

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ZBANK ZA41560

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1986 SEP 15 AM 7:23

IBRD ZA44530

ORIG: AFR
CC: MR. ACQUAH

FROM INTBAFRAD LUSAKA SEPTEMBER 15, 1986.
FOR MR. PAUL ACQUAH, AFRICAN DEPARTMENT, IMF

RE AUCTION NO. 49

CODE	ITEM	
A1	NO. OF BIDS RECEIVED	418
A2	DOLLARS DEMANDED	14.40 MILLION
A3	KWACHA OFFERED	104.66 MILLION
A4	LOWEST BID	K5.00
A5	HIGHEST BID	K8.01
A6	WEIGHTED AVERAGE BID	K7.32
A7	NO. OF SUCCESSFUL BIDS	369
A8	DOLLARS DISBURSED	11.66 MILLION
A9	KWACHA COLLECTED	NOT AVAILABLE
A10	EXCHANGE RATE	K5.64 PER DOLLAR
A11	ALLOCATION TO ZIMOIL	N USD 1.0 MILLION
A12	ALLOCATION TO IATA	1.01 MILLION USD
A13	ALLOCATION FOR WORKING BALANCES	0.52 MILLION USD
A14	ALLOCATION FOR CATEGORY B+C LCS	1.0 MILLION USD
A15	NO. OF BIDS REJECTED FOR FAILURE TO ACCORD WITH REGULATIONS	43

NOTE: EXCESS DISBURSEMENT WAS 4.36 MILLION USD

REGARDS. KEYES.

INCOMING CABLE/TELEX



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64111 IMF UW

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Office Memorandum

8-410.

PC

TO: The Managing Director
The Deputy Managing Director

September 11, 1986

FROM: G.E. Gondwe *[Signature]*

SUBJECT: Zambia: The Foreign Exchange Auction - Liquidity Problems

The Fund resident representative in Lusaka has informed the staff by telex that no disbursements of foreign exchange have been made to cover successful bids in the last four consecutive weekly auctions. Total cumulative sales over the period announced by the Central Bank amounted to US\$38.275 million, implying excess sale averaging US\$ 2.5 million per week in relation to the target consistent with the balance of payments projections for 1986. We understand that the external liquidity position has become even more precarious and we are expecting further details regarding these developments. In another development, Zambia drew on a special facility arranged with a commercial bank to make a payment of SDR 30.91 million today in partial discharge of its overdue obligations to the Fund, which stood at SDR 87.83 million prior to this payment.

cc: Mr. Brown
Mr. Kanesa-Thasan

5C 8-46



Rcv: @1IM/5.02898 Line: 5

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SEP 09 1986 1058
440040 FUND UI

732028

1986 SEP -9 AM 11: 17

File ZA - Acqui

ORIG: MR. OUATTARA
CC: MR. ACQUAH

FROM INTBAFRAD LUSAKA SEPTEMBER 9, 1986.
TO INTERFUND
WASHINGTON D.C.
FOR ACQUAH

FOLLOWING DATA INCLUDES ALLOCATIONS FOR WORKING BALANCES AND CATEGORY B AND C LCS. RE AUCTIONS 45-48 CUMULATIVE ALLOCATIONS TOTALLED DOLLARS 38.72 MILLION OF WHICH DOLLARS 2.55 MILLION FOR ZIMOIL, IATA ETC, DOLLARS 4.0 MILLION FOR CATEGORY B AND C, AND DOLLARS 2.56 MILLION FOR WORKING BALANCES. NO DISBURSEMENTS MADE EXCEPT FOR WORKING BALANCES. AM INFORMED THAT DISBURSEMENTS FOR AUCTIONS 45 AND 46, TOTALLING DOLLARS 11.79 MILLION WILL BE MADE BY END-WEEK. REGARDS. KEYES.

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Office Memorandum

Mr Acquah

TO: Mr. Kanesa-Thasan

September 8, 1986

FROM: Matthew Fisher MF

SUBJECT: Results of the September 6 Auction
for Foreign Exchange

In the attached telex, Mr. Keyes, who has just returned from home leave, reports the results of the latest auction for foreign exchange.

The marginal price struck at the auction was K7 per U.S. dollar compared to K6.87 per U.S. dollar in the auction held on August 30. This exchange rate was achieved only with the aid of excessive sales of foreign exchange. The volume of foreign currency exceeded the guideline by about US\$8 million. The overall demand for foreign exchange, at US\$22.8 million, remains disturbingly high.

I understand that in a telephone conversation this morning Mr. Keyes has been asked to investigate urgently the claim made by the World Bank's resident representative that no foreign exchange has been paid out to "successful" bidders for the last three weeks. We are awaiting his reply.

Attachment

cc: Mr. Acquah

9C 8-410



Rcv: @1IM/3.00945 Line: 3

SEP 08 1986 0928
440385 FUND UI

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1986 SEP -8 AM 10: 20

ZBANK ZA41560

INTERFUND
WASHINGTON DC
8/9/1986
ATTN : ACQUAH.

ORIG: MR. OUATTARA
CC: MR. ACQUAH

A1 674	No. of bids received
A2 22.82 MILLION	Dollars demanded
A3 164.97 MILLION	Kwacha offered
A4 7.99	Highest bid
A5 5.00	Lowest bid
A6 7.23	Weighted average bid
A7 571	No. of successful bids
A8 13.57	Dollars disbursed
A9 NOT AVAILABLE	Kwacha collected
A10 7.00	Exchange rate
A11 NIL	Allocation to Zimoil
A12 NIL	Allocation to IATA
A13 0.52 MILLION	Allocation for working balances
A14 1.00	Allocation for category B+C LCs
A15 73	No. of bids rejected for failure to accord with regulations

STOP
REGARDS
+KEYES
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1986 SEP -8 AM 10: 20

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ZBANK ZA41560

INTERFUND
WASHINGTON DC
8/9/1986
ATTN : ACQUAH.

ORIG: MR. OUATTARA

CC: MR. ACQUAH

- AI 674 *Non Bids*
- A2 22.82 MILLION *\$ limited*
- A3 164.97 MILLION *K ofered*
- A4 7.99 *high at bid*
- A5 5.00 *low at bid*
- A6 7.23 *weighted Av. Rate*
- A7 571 *Successful Bid*
- A8 13.57 *V of "disbursement"*
- A9 NOT AVAILABLE *IC - collected*
- ✓ A10 7.00 *Exchange Rate*
- A11 NIL *IATd*
- A12 NIL *Zairia*
- A13 0.52 MILLION *Woluy balances*
- A14 1.00 *L/C (B+C)*
- A15 73 *No domestication*

STOP
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440385 FUND UI

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Office Memorandum

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file 2A - Auction

TO: Mr. Kanesa-Thasan

September 4, 1986

FROM: Matthew Fisher

MF

SUBJECT: Zambia: Results of the August 30 Auction

You may be interested in the attached telex from Zambia which gives the results of the latest auction held on August 30.

The marginal exchange rate was K6.87 per U.S. dollar compared to K6.25 per U.S. dollar in the previous week and K8.07 in the last of the "clean" marginal price auctions held on July 14.

The volume of sales of foreign exchange was about US\$2.4 million higher than the agreed guideline for weekly sales. Unfortunately, the telex does not allow us to estimate the exchange rate which would have emerged had the appropriate volume of funds been sold.

The value of foreign currency demanded, US\$20.42 million remains very high. This probably reflects the public's lack of confidence in the sustainability of the current exchange system which has led bidders to attempt to get foreign exchange whilst it is still available. It may also reflect fears regarding the prospects for the interruption of the normal pattern of regional trade.

The number of bids rejected because of their failure to meet the documentary requirements was 56 this week compared to 91 last week. This fall presumably reflects (i) bidders are increasingly able to provide the necessary documentation and (ii) bidders who do not have the required papers may not be submitting bids to the auction, but may be channeling their demands through the parallel market.

Attachment

cc: Mr. Acquah

Rcv: @1IM/7.00767 Line: 7

1110 09/03
64111 IMF UW

730718

IBRD ZA44530

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FROM INTBAFRAD LUSAKA SEPTEMBER 03, 1986.
FOR MR. PAUL ACQUAH, AFRICAN DEPARTMENT, IMF

FOREIGN EXCHANGE AUCTION 47 WAS HELD ON AUGUST 30, 1986.
THE POSITION IS AS UNDER:-

CODE	ITEM	
-----	-----	
A1	NO. OF BIDS RECEIVED	690
A2	DOLLARS DEMANDED	20.42 MILLION
A3	KWACHA OFFERED	136.66 MILLION
A4	HIGHEST BID	<u>K7.75</u>
A5	LOWEST BID	<u>K5.00</u>
A6	WEIGHTED AVERAGE BID	K6.70
A7	NO. OF SUCCESSFUL BIDS	288
A8	DOLLARS DISBURSED	<u>8.80MILLION</u>
A9	KWACHA COLLECTED	NOT AVAILABLE
A10	EXCHANGE RATE	<u>K6.87 PER DOLLAR</u>
A11	ALLOCATION TO ZIMOIL	USD ONE MILLION
A12	ALLOCATION TO IATA	NIL
A13	ALLOCATION FOR WORKING BALANCES	USD 52 MILLION
A14	ALLOCATION FOR CATEGORY B+C LCS	USD 1.0 MILLION
A15	NO. OF BIDS REJECTED FOR FAILURE TO ACCORD WITH REGULATIONS	56

REGARDS, MBANEFO

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64111 IMF UW

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Mr. Acquah
8-4/86

Rcv: @IIM/7.00767 Line: 7

1110 09/03
64111 IMF UW

730919

IBRD ZA44530

FROM INTBAFRAD LUSAKA SEPTEMBER 03, 1986.
FOR MR. PAUL ACQUAH, AFRICAN DEPARTMENT, IMF

FOREIGN EXCHANGE AUCTION 47 WAS HELD ON AUGUST 30, 1986.
THE POSITION IS AS UNDER:-

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REGARDS, MBANEFO

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RCA0509

248423 WORLD BANK

YOUR REF SVC-110/09

REPETITION OF TELEX NOS. 444, 448 AND 449.

ZCZCLUS0444

EA1SA

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FROM INTBAFRAD LUSAKA SEPTEMBER 03, 1986.

FOR MR. HAROLD MESSENGER

OUR TELEX AND ONE TELEPHONE LINE ARE BACK IN SERVICE. ALSO URGENT MESSAGES CAN BE PHONED TO ME AT HOME IN THE EVENINGS, LUSAKA TIME. EYE TRIED SEVERAL TIMES LAST NIGHT TO PHONE YOU, BUT COULD NOT GET THROUGH. EYE SHALL TRY AGAIN TONIGHT. SECONDLY, PRESIDENT KAUNDA HAS ANNOUNCED THAT EIGHTY MILLION KWACHA WAS BEING MADE IMMEDIATELY AVAILABLE FOR INTEREST-FREE LOANS TO SMALL FARMERS REGISTERED WITH COOPERATIVES AND LINTCO, AND APPROVED (OR SCREENED) BY LOCAL PARTY OFFICIALS. THE INTEREST-FREE LOANS ARE DESIGNED TO HELP SMALL FARMERS COPE WITH PROPOSED FERTILIZER PRICE INCREASE. BEST REGARDS, MBANEFD.

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*This is a
my copy
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*M.D
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ZCZC E1SF6602 WUI946
EAISA EAPSA GSICB
REF : TCF HC

See Mem. file

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EAISA EAPSA

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FROM INTBAFRAD LUSAKA SEPTEMBER 15, 1986
FOR HAROLD MESSENGER AND RIDWAN ALI

CC: ARNDT UHLIG - RMEA.

FURTHER TO MY TELEX OF SEPTEMBER 12, 1986 RE REVISION OF
AGRICULTURAL PRE-PLANTING PRODUCER AND INPUT PRICES ANNOUNCED
BY GENERAL K. CHINKULI, MINISTER OF AGRIC. AND WATER
DEVELOPMENT:

THE NEW PRODUCER PRICES WITH OLD ONES IN BRACKETS ARE AS FOLLOWS:

90 KG MAIZE Z 7 7

K55), 50KGSUNFLOWER K70 (K41.95), 90KG

SODYABEANS K148 (K112.10) 90KG WHEAT K111(K84.40), 90KG SORGHUM
K74 (K52.25) AND COTTON PER 1KG K1.60 (K.97 NGWEE).

PRICES FOR SHELLED GROUNDNUTS, CHALIMBANA 80KG BAG K162
(K131.35), MAKULU RED 80KG BAG K109 (K90.45). UNSHELLED GROUND-
NUTS, CHALIMBANA 80KG BAG K41 (K32.85, MAKULU RED 80KG BAG
K27 (K25.10).

PADD Y RICE 80KG BAG XXX K83 (K55.57), MILLET 90KG BAG
K74 (K42.80), 1KG CASSAVA 70 NGWEE (60 NGWEE), VIRGINIA
TOBACCO PER 1KG K6.25 (K5.12), BURLEY TOBACCO PER 1KG K5.10
(K3.50) AND CASHEW NUTS PER 1KG K1.20 (K1.00).

THE PRICE OF MAIZE IS BASED ON THE COST OF PRODUCTION OF
IMPROVED OX-HIRE FARMERS OF K62 PER 90KG BAG, AND OF COMMERCIAL
FARMERS INCLUDING A 25% RATE OF RETURN ON INVESTMENT, OF K78
PER X 90KG BAG. EXCEPT FOR THE PRICE OF MAIZE WHICH IS FIXED,
THE NEW PRICES ARE FLOOR PRICES I.E. PRICES BELOW WHICH A
FARMER MUST NOT SELL BUT ABOVE WHICH HE MAY NEGOTIATE AND SELL
DEPENDING ON THE ADDITIONAL COSTS HE MAY INCUR IN DOING SO.

*What is an
"improved
ox-hire
farmer"*

FERTILIZER

WITH EFFECT FROM 1987/88, THE PRICES OF FERTILIZERS BOUGHT BY COMMERCIAL FARMERS AND COOPERATIVE UNIONS WILL NOT BE SUBSIDISED BY THE GOVERNMENT, THEY WILL HAVE TO PAY THE MARKET PRICE OBTAINING AT THAT TIME. HOWEVER, THE FERTILIZER BOUGHT BY SMALL SCALE FARMERS WOULD CONTINUE TO BE SUBSIDISED. INFORMATION IS NOT YET AVAILABLE ABOUT THE DEFINITION OF SMALL SCALE FARMERS FOR THIS PURPOSE OR ABOUT THE LIKELY EXTENT OF THE SUBSIDY TO SMALL SCALE FARMERS.

THE NEW RETAIL PRICES PER 50KG BAG OF FERTILIZERS BY TYPE ARE: COMPOUNDS D R X AND C - K80; COMPOUND V - K78, AMMONIUM NITRATE - K56, UREA -K53. THEY HAD PREVIOUSLY BEEN PRICED AT K48 PER 50KG BAG. OTHER TYPES OF FERTILIZERS NOT MENTIONED ABOVE WILL BE PRICED AT 83% OF THEIR RESPECTIVE LANDED COST. THE PRICES HAVE BEEN DIFFERENTIATED TO REFLECT THE ACTUAL COST OF EACH TYPE OF FERTILIZER. THE COMPOUNDS PRICED AT K80 PER 50KG BAG ARE DERIVATIVES OF MINERALS LIKE POTASH, POTASSIUM AND PHOSPHATES, THE PRICES OF WHICH HAVE REMAINED HIGH COMPARED TO THE RECENT DECLINES IN THE PRICES OF PETROLEUM PRODUCTS FROM WHICH TOP DRESSING LIME AMMONIUM NITRATE AND UREA ARE DERIVED. THE AVERAGE LANDED COST OF IMPORTED FERTILIZER IS ABOUT K90 PER 50KG BAG AND THE AVERAGE EX-FACTORY PRICE OF LOCALLY PRODUCED FERTILIZER IS K93 PER 50KG BAG. THE SUSPENSION IMPOSED ON THE SALE OF FERTILIZER SOME TWO WEEKS AGO, HAS BEEN LIFTED AND NAMBOARD AND THE COOPERATIVE UNIONS HAVE BEEN URGED TO MOVE QUICKLY IN GETTING THE FERTILIZERS OUT TO THE FARMERS BEFORE THE ONSET OF THE RAINS IN LATE OCTOBER/EARLY NOVEMBER. THE MINISTER ALSO SAID THAT MAINTAINING THE AVERAGE RETAIL PRICE OF FERTILIZERS AT K48 PER 50KG BAG WOULD REQUIRE A SUBSIDY OF K135 MILLION - SOME 90% ABOVE THE BUDGETTED FERTILIZER SUBSIDY OF XXXX K15 MILLION.

SEED

What market price?

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THE PRICES OF CROP SEEDS HAVE ALSO BEEN INCREASED. THE HIGHEST PRICE INCREASE IS THAT OF MAIZE VARIETY MM601 WHICH HAS RISEN FROM K136 TO K325 PER 50KG BAG. THE NEW PRICES OF OTHER MAIZE VARIETIES WITH THE OLD ONES IN BRACKETS ARE AS FOLLOWS: MM752 K242(K113) PER 50KG, MM604/603 K126 (K82) PER 50KG, MM504 K146 (K82), MM600 K128(K73), MM400 K136(K73) AND BR52 K109(K99) PER 50KG.

PRICES FOR OTHER CROP SEEDS ARE: SUNFLOWER COMPOUND K84 (K54) PER 25KG, SUNFLOWER HYBRID K146(K99) PER 25KG, SOYABEANS HERNON K128(K75) AND OTHER SOYA VARIETIES K118(K75) PER 50KG.

SORGHUM SEEDS K86(K47) PER 50KG, CHALIMBANA GROUNDNUTS K150(K140) WHILE THE PRICES OF SEEDS FOR OTHER GROUNDNUT VARIETIES HAVE BEEN REDUCED TO K120 FROM K140 PER 40KG.

SUGARBEAN SEEDS K295(K230) PER 50KG, MALAWI FAYA RICE K58(K38) AND COMPEAS SEED WHOSE PREVIOUS PRICE WAS NOT INDICATED HAS BEEN PEGGED AT K240 PER 50KG.

CONSUMER ITEMS

WITH REFERENCE TO CONSUMER PRICES: THE MINISTER ALSO ANNOUNCED THE WITHDRAWAL OF SUBSIDIES ON BREAKFAST MEALIE MEAL AND MAIZE USED FOR MAKING STOCKFEED AND BEER TO XXXX ENABLE THE GOVERNMENT TO RAISE K140 MILLION NEEDED BY AFC AND ZADB TO LEND TO FARMERS. THE PRECISE IMPLICATIONS OF THE SUBSIDY WITHDRAWALS FOR CONSUMER PRICES AND THE TIMING OF THE WITHDRAWALS HAVE NOT BEEN ANNOUNCED.

BEST REGARDS MBANEFO

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Rcv: @IIM/7.00608 Line: 7

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1986 AUG 25 AM 10:06

64111 IMF UW

IBRD ZA44530

ORIG: AFR

CC: MR. ACQUAH

FROM INTBAFRAD LUSAKA AUGUST 25, 1986.
FOR MR PAUL ACQUAH, AFRICAN DEPARTMENT, IMF, WASHINGTON

FOREIGN EXCHANGE AUCTION 46 WAS HELD ON AUGUST 23, 1986.
THE POSITION IS AS UNDER :

<u>CODE</u>	<u>ITEM</u>	
A1	NO. OF BIDS RECEIVED	621
A2	DOLLARS DEMANDED	18.23 MILLION
A3	KWACHA OFFERED	111.27 MILLION
A4	HIGHEST BID	K6.85
A5	LOWEST BID	K5.00
A6	WEIGHTED AVERAGE BID	K6.10
A7	NO. OF SUCCESSFUL BIDS	173
A8	DOLLARS DISBURSED	3.84 MILLION
A9	KWACHA COLLECTED	NOT AVAILABLE
A10	EXCHANGE RATE	K6.26 PER DOLLAR
A11	ALLOCATION TO ZIMOIL	NIL

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A12	ALLOCATION TO IATA	NIL
A13	ALLOCATION FOR WORKING BALANCES	(USD .52 MILLION
A14	ALLOCATION FOR CATEGORY B+C LCS	USD 1.0 MILLION
A15	NO. OF BIDS REJECTED FOR FAILURE TO ACCORD WITH REGULATIONS	91

REGARDS, MBANEFO

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Mr. Acquah
8-46
2A Auction



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1986 AUG 18 AM 10:50

IBRD ZA44530

ORIG: AFR

CC: MR. ACQUAH

FROM INTBAFRAD LUSAKA AUGUST 18, 1986.
FOR MR PAUL ACQUAH, AFRICAN DEPARTMENT, IMF WASHINGTON
FOLLOWING ARE THE RESULTS OF FOREIGN EXCHANGE AUCTION HELD ON
AUGUST 16, 1986.

CODE	ITEM	
A1	NO. OF BIDS RECEIVED	542
A2	DOLLARU DEMNDED	15.40 MILLION
A3	KWACHA OFFERED	89.39 MILLION
A4	HIGHEST BID	K6.85
A5	LOWEST BID	K4.50
A6	WEIGHTED AVERAGE BID	K5.76
A7	NO OF SUCCESSFUL BIDS	220
A8	DOLLARS DISBURSED	5.95 MILLION
A9	KWACHA COLLECTED	NOT AVAILABLE
A10	EXCHANGE RATE	K5.76 PER DOLLAR
A11	ALLOCATION TO ZIMOIL	USD1.0 MILLION
A12	ALLOCATION TO IATA	NIL
A13	ALLOCATION FOR WORKING BALANCES	USD1.0 MILLION
A14	ALLOCATION FOR CATEGORY B+C LCS	USD1.0 MILLION
A15	NO OF BIDS REJECTED FOR FAILURE TO ACCORD WITH REGULATIONS	125

REGARDS, KHAN.

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WITHDRAWAL NOTICE

THIS DOCUMENT IS IN THE COURSE OF A PUBLIC DISCLOSURE REVIEW PROCESS

Department/Division/ African Department Records
Collection:

Series/Subseries: AFR Division Country Desk Files

Box number: A54101-329

File number: 6

ADLIB ref. number: 62511

File title & dates: Zambia - Foreign Exchange Auction, 1984-1986

Doc. title & dates: Foreign Exchange Auction 44 Held on August 9, 1986- Review, August 12, 1986

Doc. Classification: Confidential



Rcv: @1IM/5.01052 Line: 5

JUL 31 1986 0503
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1986 JUL 31 AM 8:52

ZBANK ZA41560
INTERFUND
WASHINGTON DC
31/7/1986
ATTN : ACQUAH.

ORIG: MR. OUATTARA
CC: MR. ACQUAH

RE DUTCH AUCTION SECTION III SUBSECTIONS 11 AND 12 OF GUIDLINES FOR OPERATIONS ARE CANCELLED AND REPLACED BY FOLLOWING:

- 11. "THE FOREIGN EXCHANGE MANAGEMENT COMMITTEE WILL CONTINUE TO DETERMINE THE MARGINAL BID RATE AT EACH AUCTION. THE MARGINAL BID RATE WILL BE THE RATE DETERMINED BY THE LOWEST BID WHICH FULLY EXHAUSTS THE AMOUNT OF FOREIGN EXCHANGE OFFERED AT THAT PARTICULAR AUCTION. SUCH MARGINAL BID RATE STRUCK AT THE AUCTION WILL BE THE RULING EXCHANGE RATE GOVERNING ALL THE FOREIGN EXCHANGE TRANSACTIONS CONDUCTED DURING THE WEEK FOLLOWING THE AUCTION. THE ONLY SALES TO BE TRANSACTED AT DIFFERENT RATES WILL BE THOSE RELATING TO THE SALE OF FOREIGN EXCHANGE TO THE SUCCESSFUL BIDDERS AT THE AUCTION.
- 12. "SUCCESSFUL BIDDERS AT EACH AUCTION WILL COMPRISE OF ALL APPLICANTS WHOSE BID PRICE EXCEEDS THE MARGINAL BID RATE. THE FOREIGN EXCHANGE ALLOCATED TO THE SUCCESSFUL BIDDERS WILL BE SOLD AT THE ACTUAL PRICE INDICATED IN EACH INDIVIDUAL BID. WHERE THE APPLICANT'S BID PRICE IS EQUAL TO THE MARGINAL BID RATE, THE APPLICANT WILL PURCHASE THE FOREIGN EXCHANGE AT THE MARGINAL RATE. IN AN EVENT OF MORE THAN ONE APPLICANT'S BID BEING SUCCESSFUL AT THE MARGINAL RATE, EACH APPLICANT WILL RECEIVE A PRO-RATED AMOUNT OF FOREIGN EXCHANGE REQUESTED FOR."

ALL THE OTHER PROVISIONS OF THE ABOVE REFERENCED AD CIRCULAR REMAIN UNCHANGED.

REGARDS
+KEYES
IMF RESIDENT REPRESENTATIVE
BANK OF ZAMBIA LUSAKA
COL CKD+
PM
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CORRECTION:

- 12. "SUCCESSFUL BIDDERS AT EACH" ETC.

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THE INTERNATIONAL MONETARY FUND ARCHIVES

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ARCHIVAL REF. NUMBER	62511
FILE TITLE & DATES	110 - Zambia - Foreign Exchange Auction, 1984-1986.

FONDS	African Department Records. 1961-1989.
SOUS-FONDS	African Department Division Records, 1959-1989.
SERIES	AFR Division Country Desk Files, 1959-1989.
BOX NUMBER	A54101-329
FILE NUMBER	6

DATE REVIEWED	2025-11-19
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DETAILS OF WITHDRAWN MATERIAL	
DATE	1986-07-28
TYPE	Newspaper
PUBLICATION	Times of Zambia.
TITLE	Consolidated list of BIDS for Auction 42 of 26 th July, 1986.
AUTHOR	Bank of Zambia
NO. PAGES	1
LANGUAGE	English



THE INTERNATIONAL MONETARY FUND ARCHIVES

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ARCHIVAL REF. NUMBER	62511
FILE TITLE & DATES	110 - Zambia - Foreign Exchange Auction, 1984-1986.

FONDS	African Department Records. 1961-1989.
SOUS-FONDS	African Department Division Records, 1959-1989.
SERIES	AFR Division Country Desk Files, 1959-1989.
BOX NUMBER	A54101-329
FILE NUMBER	6

DATE REVIEWED	2025-11-19
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DETAILS OF WITHDRAWN MATERIAL	
DATE	1986-07-11
TYPE	Newspaper
PUBLICATION	Times of Zambia.
TITLE	Duty Free Imports Flood Zambia.
AUTHOR	Times Reporter
NO. PAGES	1
LANGUAGE	English



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FILE TITLE & DATES	110 - Zambia - Foreign Exchange Auction, 1984-1986.

FONDS	African Department Records. 1961-1989.
SOUS-FONDS	African Department Division Records, 1959-1989.
SERIES	AFR Division Country Desk Files, 1959-1989.
BOX NUMBER	A54101-329
FILE NUMBER	6

DATE REVIEWED	2025-11-19
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DETAILS OF WITHDRAWN MATERIAL	
DATE	1986-07-10
TYPE	Newspaper
PUBLICATION	Times of Zambia.
TITLE	Modify ' Forex' Bids- DG
AUTHOR	Times Reporter
NO. PAGES	1
LANGUAGE	English



Rcv: @IIM/3.00994 Line: 3

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RECEIVED
IMF CABLE ROOM

RCA JUL 30 0704
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1986 JUL 30 AM 7:30

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MINFIN ZA42221

ORIG: AFR
CC: MD
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MR. MTEI
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MR. R. BROWN

MOST URGENT

MR J DE LA ROSIERE
MANAGING DIRECTOR
INTERFUND

TO ALLAY GREAT UNCERTAINTIES DISTURBING FOREX MARKET AND
TO AVOID UNDERMINING OF CONFIDENCE IN AUCTION SYSTEM
WE FEEL THAT WE CANNOT AVOID ANNOUNCING INTRODUCTION OF DUTCH
AUCTION FORTHWITH STOP THIS SYSTEM WILL APPLY TO NEXT AUCTION
TO BE CONDUCTED ON AUGUST 2 STOP WE WILL UNDERSTAND IF FUND UNABLE
TO ACCORD PRIOR APPROVAL STOP THIS APPROVAL COULD BE DEFERRED
UNTIL FUND HAS HAD OPPORTUNITY TO ASSESS ADEQUACY OF COMPREHENSIVE
PACKAGE STOP WOULD LIKE TO ASSURE YOU THAT DUTCH AUCTION
SYSTEM WILL BE IMPLEMENTED WITHOUT ANY ADMINISTRATIVE
RESTRICTIONS STOP REGRET NEED TO TAKE THIS ACTION WITHOUT PRIOR
APPROVAL BUT TRUST YOU APPRECIATE COMPELLING CIRCUMSTANCES STOP

HIEGHEST REGARDS

BASIL R. KABWE
MINISTER OF FINANCE AND
NATIONAL COMMISSION FOR
DEVELOPMENT PLANNING
=====

30TH JULY 1986

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FROM INTBAFRAD LUSAKA
TO IMF - WASHINGTON

JUL 29 1986
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1986 JUL 28 11 7:39

ORIG: AFR
CC: MR. ACQUAH

FOR ACQUAH
RE AUCTION 42. 602 BIDS SUBMITTED OF WHICH 157 SUCCESSFUL
148 BIDS REJECTED FOR LACK OF DOCUMENTATION, 254 FOR
EXCEEDING CUTOFF OF K8.07 AND 43 FOR FALLING BELOW NEW RATE
OFK6.08 FUNDS REQUESTED INCLUDING BANK ALLOCATIONS
TOTALLED DOLLARS 23.66 MILLION, OF WHICH DOLLARS 9.96
MILLION EXCEEDED K8.07 CUTOFF. FUNDS ALLOCATED TOTALLED DOLLARS
9.51 MILLION, OF WHICH 1 MILLION FOR WORKING BALANCES,
1 MILLION FOR CATEGORY B AND C, LCS 4.26 MILLION FOR ZIMOIL,
ZAMBIA AIRWAYS ETC AND 3.25 MILLION FOR GENERAL PARTS.
REGARDS KEYES

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ORIG: AFR
CC: MD
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MR. MTEI
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MR. BROWN

TO: MR DE LA ROSIERE
MANAGING DIRECTOR
INTERFUND

FM: HON. BASIL R KABWE, MP
MINISTER OF FINANCE
LUSAKA
ZAMBIA

YOUR TELEX NO. OCRB4860 STP

AA. WE CONFIRM THAT ARRANGEMENTS IN HAND TO EFFECT PAYMENTS IN RESPECT OF REPURCHASE OBLIGATIONS IN THE SUM OF US DOLLARS 37.5 MILLION STP A FURTHER SUM OF US DOLLARS 15 MILLION WILL BE PAID IN TEN DAYS AFTER AND THE BALANCE BEFORE 20TH AUGUST , 1986 STP WE WILL THEN BE CURRENT STP

BB. WE FURTHER CONFIRM HAVING TAKEN FOLLOWING MONETARY MEASURES AIMED AT CONSTRAINING THE GROWTH IN LIQUIDITY IN THE ECONOMY STP

1. INSTITUTED WITH IMMEDIATE EFFECT AN ACTIVE INTEREST RATE POLICY WHICH WILL RESULT IN THE RISE IN INTEREST RATE WITH EFFECT FROM TUESDAY 29TH JULY TO MANAGE MORE FLEXIBLY THE TREASURY BILL MARKET:

2. CREATED SPECIAL DEPOSITS AT BANK OF ZAMBIA FOR ZCCM SURPLUS COMA K200 MILLION HAS ALREADY BEEN MOPPED UP IN THIS WAY:

3. IN THE PROCESS OF RE-ADJUSTING UPWARDS STATUTORY RESERVE REQUIREMENTS:

CC. FOLLOWING FISCAL MEASURES HAVE BEEN APPROVED:

I. INCREASE IN PRICE OF BREAKFAST MEALIE MEAL:
II. ELIMINATION OF PRICE SUBSIDY ON MAIZE FOR CHIBUKU AND STOCKFEEDS:

III. INCREASE IN PRICE OF FERTILIZER
IV. INCREASE IN PRODUCER PRICE OF MAIZE

(INCREASES IN (C) (I) - (IV) ARE OF THE ORDER OF MAGNITUDE DISCUSSED WITH LAST MISSION):

V. 15% ECONOMIC DEVELOPMENT LEVY ON IMPORTS WHICH WOULD OTHERWISE ESCAPE TAX:
VI. INCREASE ON DUTY ON LUXURY GOODS TO 100%
VII. SELECTED INCREASES IN DUTIES IMPORT COMPETING GOODS:
VIII. COLLECTION OF 5% IMPORT LICENCE LEVY ON ' NO FUNDS INVOLVED ' IMPORT LICENCES:

INTERNATIONAL MONETARY FUND



Rev: @IIM/3.00893 Line: 3

RCA JUL 28 1345
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1986 JUL 28 PM 2:35

MINFIN ZA42221

ORIG: AFR
CC: MD
DMD
MR. MTEI
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MR. BROWN

TO: MR J DE LAROSIERE
MANAGING DIRECTOR
IMF

FM: HON. BASIL R KABWE MP
MINISTER OF FINANCE AND NCDP
LUSAKA
ZAMBIA

FURTHER TO MY OTHER TELEX OF TODAY IN WHICH I BRIEFED YOU ON MEASURES WE ARE TAKING TO RESOLVE THE FISCAL AND MONETARY PROBLEMS WHICH HAVE ARISEN COMA I WISH TO REQUEST FOR A WAIVER TO ENABLE ZAMBIA TO INTRODUCE THE DUTCH AUCTION SYSTEM AS A TEMPORARY MEASURE STP THIS MATTER HAS BEEN DISCUSSED INFORMALLY WITH THE IMF MISSIONS WHICH VISITED ZAMBIA MAY/JUNE 1986 STP

COMPELLING REASONS FOR THE INTRODUCTION OF THE DUTCH AUCTION SYSTEM ARE AS FOLLOWS:

- I. TO MODERATE THE PERSISTENT TENDENCY OF THE KWACHA TO FALL IN VALUE AS EVIDENCED BY THE RAPID DEPRECIATION FROM K6.00 TO K8.00 PER DOLLAR:
- II. TO DISCOURAGE SPECULATIVE TENDENCIES WHICH PUSH THE RATE ABNORMALLY LOW:
- III. TO STEM THE INFLATIONARY PRESSURES CURRENTLY PREVALENT UNDER THE PRESENT ARRANGEMENTS AND THUS REDUCE PRESSURES FOR LARGE WAGE INCREASES STP
- IV. TO ACHIEVE ORDERLY MOVEMENTS IN THE EXCHANGE RATE COMA THIS IS NECESSARY FOR MAINTAINING POSSIBLE CONFIDENCE IN THE SYSTEM AND OBTAINING NEED FOR ADMINISTRATIVE ACTIONS:
- V. TO MOP SOME EXCESS LIQUIDITY OFFERED BY SOME BIDDERS STP THIS EXCHANGE GAIN WILL ACCRUE TO SUPPORT THE BUDGET STP

I WISH TO REASSURE YOU THAT MY GOVERNMENT IS COMMITTED TO THE AUTOMATIC ALLOCATIVE NATURE OF THE AUCTION SYSTEM FREE OF UNDUE ADMINISTRATIVE MEASURES STP FURTHERMORE COMA WE WILL ENSURE THAT THE DUTCH AUCTION SYSTEM DOES NOT IMPAIR OUR EXPORT DRIVE STP

THERE IS NEED FOR US TO ACT ON THE MATTER URGENTLY COMA I THEREFORE LOOK FORWARD TO YOUR RESPONSE OVER THE NEXT FEW DAYS WHEN WE MAY EXPECT TO IMPLEMENT THE MEASURE STP

CC. GOVERNOR
BANK OF ZAMBIA

28.7.86

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File - June 86 million

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0608 07/28
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FROM INTBAFRAD LUSAKA
TO IMF - WASHINGTON

JULY 28 1986
724310

1986 JUL 28 11 7:39

ORIG: AFR
CC: MR. ACQUAH

FOR ACQUAH
RE AUCTION 42. 602 BIDS SUBMITTED OF WHICH 157 SUCCESSFUL
148 BIDS REJECTED FOR LACK OF DOCUMENTATION, 254 FOR
EXCEEDING CUTOFF OF K8.07 AND 43 FOR FALLING BELOW NEW RATE
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1 MILLION FOR CATEGORY B AND C, LCS 4.26 MILLION FOR ZIMOIL,
ZAMBIA AIRWAYS ETC AND 3.25 MILLION FOR GENERAL PARTS.
REGARDS KEYES

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MINFIN ZA42221

TELEX MESSAGE FROM BASIL R KABWE MINISTER OF FINANCE
TO JOCHEM KRASKE DIRECTOR COUNTRY PROGRAMME DEPARTMENT
EASTERN AND SOUTHERN AFRICA REGION WORLD BANK

I AM IN GRATEFUL RECEIPT OF TELEX EA 1 SA 3 DATED 23RD JULY 1986 AC
KNOWLEDGE RECEIPT
RPTD ACKNOWLEDGE RECEIPT OF US DOLLARS 1,774.678.34 VALUE DATED
FRIDAY 18, 1986 AND RECEIPT OF US DOLLARS 22,053.35 VALUE DATED
THAT SAME DATE TO COVER PAYMENT DUE MAY 15 ON CREDIT 863,913.19
AUTHORITY IS GIVEN TO APPLY PART OF IT FOR SETTLEMENT OF THE RE-
MAINING AMOUNT DUE ON MAY 15 1986 AND THEN TO APPLY THE BALANCE
IN PARTIAL SETTLEMENT OF THE AMOUNTS DUE ON JUNE 1 1986 STP
ATTEMPTS ARE BEING MADE FOR SETTLEMENT OF US DOLLARS 4.7 MILLION
AND US DOLLARS 10.6 MILLION OVERDUE 52 DAYS AND OVER DUE 9 DAYS
RESPECTIVELY STP ZAMBIA IS PROGRAMMING PRIORITIES FOR DEBT SERVICE
TO BE COMPLETED SOON BEFORE 29TH JULY AND ACTION TO BE TAKEN ACCORD-

INGLY STP

GRATEFUL FOR YOUR TELEX TX 1 REFERENCE EA1 SA OF 23RD JULY 1986
STP YOUR MESSAGE ON MEASURES GREATLY APPRECIATED COMA ITS TONE AND
APPROACH ALSO APPRECIATED REFLECTING YOUR GENUINE CONCERN FOR
ZAMBIA'S PROGRAMMES STP THE SPIRIT OF CONTACT AND DIALOGUE
ESSENTIAL STP NOTE THAT MEASURES DO NOT OVER LOOK IMPORTANCE OF
USE OF MONETARY INSTRUMENTS AND OUTSTANDING SCARCE RESOURCE
ALLOCATION REQUISITE FOR A LIBERAL MANAGEMENT REGIME FOR RESTRU-
CTURING THE ECONOMY STP MESSAGE RECEIVED OF YOUR DISCUSSIONS
WITH GOVERNOR CHIVUNO MINISTER OF STATE NSINGO WHO SPOKE HIGHLY
OF YOUR WELL MEANING AND CONSTRUCTIVE ADVICE STP REITERATE
INCOME TAX CLEARANCE CERTIFICATE IS GIVEN ONCE FOR ONE YEAR AND
CANNOT THEREFORE CONTINUOUSLY INFLUENCE THE RALATIONSHIP BETWEEN
ECONOMIC REALITIES AND EXCHANGE RATE STP COMPANIED ARE USING
SCARCE RESOURCES AND NOW IMPROVING THEIR REVENUE EARNINGS MUST
CONTRIBUTE TO THE TREASURY TO LESSEN GOVERNMENT RECOURSE TO
BANKING SYSTEM WHICH IS INFLATIONERY AND EXCERBATES LIQUIDITY
PROBLEMS INFLUECING RATE STP

NON PAYMENT OF INCOME TAX PLACES PROGRAMME IN JEOPARDY STP
EVIDENCE EXISTS OF TAX ARRERAS EQUIVALENT TO HALF THE PROJECTED
DEFICIT ARISING FROM SUSIDY LEVELS OF K337 MILLION AND DISCIPLINE
BNGTKTMJCHBMGCANNOTBBENALLOWEDBTTOOBORRWEINDIRECTLY FROM GOVERNMENT
OR LEASE THIS
EXCESS LIQUIDITY WILL RENDER EXCHANGE RATE OUT OF GEAR WITH REALITIE
S

INFLUENCING VALUE OF FOREIGN EXCHANGE TO BE LESS EXPENSIVE THAN IT
SHOULD BE ATP WHILE AWAITING REVISION OF TAX LAW TO GO TO
PARLIAMENT TIME FAST RUNNING OUT FOR RECOVERING ENDRMOUS SUMS
THAT CAN GO A LONG WAY TO IMPROVE OUR BUDGET POSITION STP AS SOON
AS THE SITUATION IS NORMALISED IN 60 DAYS TIME MEASURES TO BE
REVIEWED STP EQUALLLY NEW APPROACHES TO UTILISE FOREIGN EXCHANGE
UTILISATION UNDERWAY FOLLOWING EVIDENCE OF PEOPLE KEEPING MONEY
OUTSIDE IN ANTICIPATION OF FUTURE INCREASES IN RATE OF EXCHANGE
WHILE ACTIVATING MONETARY INSTRUMENTS TO CONTROL MOENY BASE WHICH
IS ESSENTIAL TO CONTROL IN ORDER TO MEET JULY 31ST DEAD LINE COMA SO

AS TO BE ON COURSE WITH THE PROGRAMME WE HAD TO TAKE THE MEASURES
TO LIMIT OVERDRAFT FACILITIES WHICH HAD RANGED BETWEEN 34 AND 52
IN THE LAST 41 AUCTIONS STP SERIOUSLY ACTIVATING TREASURY BILL MARK
ET BUT DESPERATELY NEEDED
RPTD MARKET BUT DESPERATELY NEEDED ADDITIONAL MEASURE STP PLEASE
NOTE THAT ZAMBIA HAS SUFFICIENT CAPACITY TO INJECT DISCIPLINE IN THE

ECONOMY. IT NOW APPEARS THERE IS NO SINGLE DECISION THAT CAN BE
TAKEN BY ZAMBIA INDEPENDENTLY EVEN WHERE THE SPIRIT BEHIND SUCH
DECISIONS HAD THE GOOD INTENTIONS OF DEMONSTRATING TO THOSE WHO
ARE HELPING IMPROVE OUR ECONOMY SO AS TO HAVE ACCESS TO GREATER
ASSISTANT STP THE LAST EXCHANGE RATE IS NOT A TRUE REFLECTION
OF FINAL EFFECTS OF MEASURES BECAUSE NOT ALL IMPORTERS WERE READY
TO COMPLY SINCE SOME OF THE BIDS HAD BEEN PLACED IN PIPELINE
BEFORE MEASURES STP THIS SITUATION IS TO BE STABILISED IN THE NEXT
AUCTION STP

EVIDENCE EXISTS THAT 94 OF FOREIGN EXCHANGE SECURED DURING EACH
AUCTION WAS TAKEN UP BY ONLY 100 BIDDERS THIS TIME 82 BIDDERS
SUCCEEDED THEREFORE--THERE WAS NO ALARMING EXCLUSION OF PEOPLE STP
CAREFUL ANALYSIS HAD BEEN DONE OF SUCCESS RATES AND MOST (99) OF
BIDDERS WERE AROUND 8 KWACHA PER DOLLAR STP LET US CONTINUE THE
DIALOGUE AFTER ONE MORE AUCTION AND LET US ALSO GIVE A LEE-WAY
TO SEE IF IT IS TRUE THAT PEOPLE ARE BEING EXCLUDED THROUGH
— DELIBERATE MANIPULATION STP WE ARE THE LAST PEOPLE TO DO ANYTHING
THAT WILL PLACE THE ECONOMY ON A DIFFICULT POSITION BY FAILING
TO SECURE ADDITIONAL ASSISTANCE MEANING THEREFORE THAT THERE MUST
BE PROFOUND REASONS FOR TRYING THESE TEMPORARY MEASURES STP

BASIL R KABWE
MINISTER OF FINANCE NCDP
=====

WDIAL

REF : EA1SA

OINFO

-SUBJECT: FOREIGN EXCHANGE AUCTION

-DRAFTED BY: GGBHART:GG/BT

EXT. 74025

-AUTHORIZED BY: JOCHEN KRASKE, DIRECTOR, EAIDR

-CW AND CC: MR. MESSENGER (EA1SA)

-CC: MESSRS. JAYCOX (ESAVP)(O/R); WYSS, SANDSTROM (EAPDR);

- ZAMBIA COUNTRY TEAM

965 42221 =

-MINISTRY OF FINANCE

-LUSAKA, ZAMBIA

-(FOR THE HONORABLE MINISTER KABWE)

965 41560 =

-BANK OF ZAMBIA

-LUSAKA, ZAMBIA

-(FOR GOVERNOR CHIVUNO)

IBRD/LUS

-INTBAFRAD

-LUSAKA, ZAMBIA

-(FOR KHAN)

BT

WASHINGTON, DC 23-JULY-86

ADDRESSED FINANCE, LUSAKA, ZAMBIA (FOR HONORABLE MINISTER KABWE). COPIED BANK OF ZAMBIA, LUSAKA, ZAMBIA (FOR GOVERNOR CHIVUNO) AND INTBAFRAD, LUSAKA, ZAMBIA (FOR KHAN). RE FOREIGN EXCHANGE AUCTION. WE ARE VERY CONCERNED, MR. MINISTER, ABOUT THE ADDITIONAL DOCUMENTATION REQUIREMENTS AND RESTRICTIONS THAT WERE PLACED THIS PAST WEEK ON THOSE WISHING TO BID IN THE FOREIGN EXCHANGE AUCTION. I REFER TO THE REQUIREMENT THAT BIDDERS PRESENT AN INCOME TAX CLEARANCE CERTIFICATE, EVIDENCE OF UTILIZATION OF FOREX SECURED MORE THAN 90 DAYS PRIOR TO THE CURRENT AUCTION, AND A CERTIFICATE OF CLEARANCE OF CUSTOMS AND SALES TAXES FOR THOSE WHO ARE LIABLE TO PAY THEM. I REFER ALSO TO THE LIMIT OF 20 PERCENT PLACED ON OVERDRAFT FINANCING OF BIDS. IN OUR VIEW, WHICH I CONVEYED TO GOVERNOR CHIVUNO AND THE MINISTER OF STATE DURING MY RECENT VISIT TO LUSAKA, THESE MEASURES ARE LIKELY TO UNDERCUT THE VERY OBJECTIVES OF THE AUCTION AND JEOPARDIZE THE COUNTRY'S RECOVERY AND DIVERSIFICATION EFFORT. THEY GIVE RISE TO DISTORTIONS IN THE BIDDING FOR FOREIGN EXCHANGE BY REINTRODUCING ADMINISTRATIVE CONTROLS OVER THE FOREIGN EXCHANGE ALLOCATION WHICH WAS A MAJOR CONSTRAINT TO EFFICIENCY THAT THE AUCTION WAS INTENDED TO OVERCOME. BY ARTIFICIALLY LIMITING ACCESS TO THE AUCTION THEY WILL RESULT IN AN EXCHANGE RATE WHICH ONCE AGAIN INADEQUATELY REFLECTS THE SCARCITY OF FOREIGN EXCHANGE RESOURCES. THIS WILL PUT EXPORTERS AT A DISADVANTAGE AND ENCOURAGE IMPORTS AS OPPOSED TO DOMESTIC PRODUCTION OF GOODS AND SERVICES AND CONTRIBUTE TO THE CAPITAL AND IMPORT INTENSITY OF CONSUMPTION AND PRODUCTION. IN OTHER WORDS, MR. MINISTER, INTRODUCTION OF THESE MEASURES REPRESENTS A NEGATION, PARTIAL AT LEAST, OF THE REFORMS INTRODUCED EARLIER BY YOUR GOVERNMENT. OF PARTICULAR CONCERN TO US ARE THE REHABILITATION AND INDUSTRIAL REORIENTATION CREDITS AND THE PROSPECTIVE RECOVERY CREDIT, THE FUNDS FROM WHICH ARE BEING OR ARE TO BE DISBURSED THROUGH THE AUCTION. IF THE PURCHASE OF FOREIGN EXCHANGE THROUGH THE AUCTION DOES NOT OCCUR FREELY AND EFFICIENTLY THE BASIS ON WHICH THE FUNDS WERE PROVIDED IS COMPROMISED AND THE ESSENTIAL PRODUCTION RESPONSE WILL NOT BE ACHIEVED. WE STRONGLY URGE YOU, THEREFORE, TO RECONSIDER THESE MEASURES AND ONCE AGAIN ALLOW BIDDERS TO ENTER THE AUCTION ONLY ON THE BASIS OF REGISTRATION OF THEIR PROPOSED IMPORT. REGARDS JOCHEN KRASKE, DIRECTOR, COUNTRY PROGRAMS, EASTERN AND SOUTHERN AFRICA REGION.

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ORIG: AFR

CC: MR. MTEI

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TO: A.D. OUTTARA,
DIRECTOR
INTERFUND

FROM: BASIL R. KABWE, M.P.
MINISTER OF FINANCE
LUSAKA

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YOUR MESSAGE NO. OCRB4490 OF 22 JULY 1986 RECEIVED STOP THERE IS AN OBVIOUS MISUNDERSTANDING STOP YOUR CONCERN HOWEVER APPRECIATED:-

(1) - REQUIREMENT FOR INCOME TAX CLEARANCE ARISES OUT OF THE FACT THAT TAX YEAR 1985 TO 1986 ENDING MARCH 1986 WAS DOMINATED BY EARNINGS ARISING OUT OF THE AUCTION REGIME STOP CAPACITIES OF PRODUCTION IMPROVED STOP TURNOVER IMPROVED CMA YET GOVERNMENT NOT RECEIVING TAX PLACING BUDGET UNDER UNDUE DIFFICULTIES THEREFORE AFFECTING IMF PROGRAMME STOP MEASURES UNDER TAX LAW NOT YIELDING RESULTS QUICKLY YET REVENUE IS REQUIRED URGENTLY FOR THE PROGRAMME STOP SINCE ARREARS IN TAX ARE TANTAMOUNT TO MONEY BORROWED FROM GOVERNMENT AND CREATE BASIS FOR EXCESS LIQUIDITY WHICH UNDER OUR AGREEMENT SHOULD NOT BE ALLOWED CMA ONCE CLEARANCE IS GIVEN IT IS NOT REQUIRED FOR THE REST OF TAX YEAR AND THEREFORE THERE IS NO BASIS TO FEAR THAT MEASURE TO CONTINUE AFFECTING EXCHANGE RATE STOP TAX DECLARATIONS IN LIGHT OF FOREIGN EXCHANGE RECEIVED NOT REFLECTIVE OF AMOUNTS BEING PAID STOP NEED TO LIMIT CAPITAL FLIGHT IS ALSO TARGET OF MEASURES STOP K92 MILLION IS TAX ARREARS BEFORE FYS 1984, 1985, 1986 YEAR WHICH BECOME SOURCE OF CONCERN STOP SALES TAX ARREARS OF TWO YEARS AND MORE ALSO BECAME SOURCE OF CONCERN STOP NO SUBJECTIVITY INVOLVED STOP EITHER ONE HAS PAID OR NOT PAID INCOME TAX STOP MEASURES ARE TEMPORARY UNTIL ADMINISTRATIVE RATIONALISATION OF TAX SYSTEM WHICH CANNOT BE ACHIEVED WITHIN TIME WE ARE REQUIRED TO STAY ON COURSE WITH IMF PROGRAMME STOP

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CERTIFICATE OF PAYMENT OF DUTY NECESSARY DUE TO SLIPPAGE IN REVENUE AWAITING PARLIAMENT APPROVAL OF SPECIAL LEVY ON COMPANIES UNDER PRIORITY STATUS NOW NOT PAYING DUTY BUT TIME RUNNING OUT TO PLACE PROGRAMME ON COURSE STOP AIM TO ENSURE THAT FOREIGN EXCHANGE IS UTILISED IN TIME OR ELSE THIS WOULD ENCOURAGE CAPITAL FLIGHT AND SLOW GROWTH STOP YOUR 3 AND 4 NON EXISTENT STOP YOUR SOURCE OF INFORMATION NOT KNOWN STOP ACTIVE MONETARY POLICY PURSUED ACCORDING



TO UNDERSTANDING BUT OVERDRAFT FACILITIES REACHING INTOLERABLE
 LEVELS CREATING UNREALISTIC EXCHANGE RATES WHICH IS EQUALLY YOUR
 CONCERN STOP MEASURES CLEARED WITH IMF REPRESENTATIVE WORLD BANK
 ADVISOR AT THE MINISTRY STOP WE APPRECIATE REQUESTS OF CLARIFICA-
 TIONS AND ADVICE RATHER THAN THREATS STOP ZAMBIA CMA SOVEREIGN YET
 WILLING TO HOLD CANDID BUT CORDIAL RELATIONS STOP

(x)
#

CC: MR. E.I. MTEI ED
 IMF

24/7/86
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MINFIN ZA42221

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MINFIN ZA42221

MR RICHARD D ERB
ACTING MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON D C

DEAR MR ACTING MANAGING DIRECTOR

REFERENCE IS MADE TO YOUR TLX OF 7 JULY 1986 IN WHICH YOU
INTIMATED THAT A SUM OF SDR 44,063,857 IN RESPECT OF QUARTERLY
REPURCHASE CHARGES FAILING DUE
UNTO 6/13/86 ARE OUTSTANDING STOP

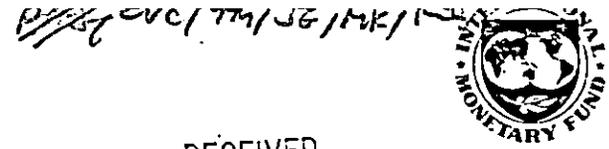
I WISH TO ASSURE YOU THAT IT IS NOT DUE TO ANY DELIBERATE ACT ON
OUR PART THAT WE HAVE NOT TIMELY DISCHARGED OUR OBLIGATIONS TO
THE FUND BUT IT IS DUE TO SCARCE RESOURCES AVAILABLE TO US STOP

I WOULD LIKE TO ASSURE YOU THAT EVERYTHING POSSIBLE
IS BEING DONE TO MEET THESE OBLIGATIONS STOP
MEET THESE OBLIGATIONS STOP MEAN WHILE WE ARE ACTIVELY LOOKING INTO
WAYS AND MEANS TO MEET THE PAYMENTS WE SHALL REVERT TO YOU SOONEST

THE FINANCIAL RELATIONS BETWEEN THE FUND AND MY GOVERNMENT
ARE GOOD AND MUST CONTINUE TO BE SO STOP IT WOULD CERTAINLY NOT
BE IN ZAMBIA'S INTEREST IF YOU ISSUED A COMPLAINT TO YOUR BOARD
WHICH ACTION WOULD BE UNFORTUNATE INVIEW OF OUR MAJOR EFFORTS
UNDERTAKEN LAST YEAR TO CLEAR THE THEN OUTSTANDING ARREARS STOP
BANK OF ZAMBIA IS IN CONSTRAINT TOUT WITH ME AS EVERY EFFORT
IS BEING MADE TO CLEAR THE ARREARS AND BECOME CURRENT STOP

B R KABWE

GOVERNOR OF IMF FOR ZAMBIA
MINISTER OF FINANCE AND NCP



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1986 JUL 23 11:15

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CC: MD
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MR. MTEI
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MR. BROWN

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CC DR L D CHIVUNO
GOVERNOR BANK OF ZAMBIA AND ALTERNATE GOVERNOR OF THE FUND
23/7/86

248331B IMF UR

MINFIN ZA42221

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INTERNATIONAL MONETARY FUND

Rec

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July 23, 1986

To: Mr. Ouattara
Mr. Tait
Mr. Artus
Mr. Brau

Re: Zambia - IBRD Telex

You will find of interest the attached draft telex to the Minister of Finance. It strongly urges the authorities "to reconsider (the newly introduced restrictive) measures and once again allow bidders to enter the auction only on the basis of registration of their proposed import."


Paul A. Acquah

TELEX

TO: FINANCE, LUSAKA, ZAMBIA (FOR HONORABLE MINISTER
KABWE)

COPIED: BANK OF ZAMBIA, LUSAKA, ZAMBIA (FOR GOVERNOR CHIVUNO)
INTBAFRAD, LUSAKA, ZAMBIA (FOR KHAN)

WE ARE VERY CONCERNED, MR. MINISTER, ABOUT THE ADDITIONAL DOCUMENTATION REQUIREMENTS AND RESTRICTIONS THAT WERE PLACED THIS PAST WEEK ON THOSE WISHING TO BID IN THE FOREIGN EXCHANGE AUCTION. I REFER TO THE REQUIREMENT THAT BIDDERS PRESENT AN INCOME TAX CLEARANCE CERTIFICATE, EVIDENCE OF UTILIZATION OF FOREX SECURED MORE THAN 90 DAYS PRIOR TO THE CURRENT AUCTION, AND A CERTIFICATE OF CLEARANCE OF CUSTOMS AND SALES TAXES FOR THOSE WHO ARE LIABLE TO PAY THEM. I REFER ALSO TO THE LIMIT OF 20 PERCENT PLACED ON OVERDRAFT FINANCING OF BIDS. IN OUR VIEW, WHICH I CONVEYED TO GOVERNOR CHIVUNO AND THE MINISTER OF STATE DURING MY RECENT VISIT TO LUSAKA, THESE MEASURES ARE LIKELY TO UNDERCUT THE VERY OBJECTIVES OF THE AUCTION AND JEOPARDIZE THE COUNTRY'S RECOVERY AND DIVERSIFICATION EFFORT. THEY ARE BOUND TO CREATE QUESTIONS IN THE MIND OF THE BUSINESS COMMUNITY AND THE PUBLIC AT LARGE AS TO THE INTEGRITY OF THE AUCTION PROCESS AND GIVE RISE TO DISTORTIONS IN THE BIDDING FOR FOREIGN EXCHANGE. THEY REINTRODUCE AN ELEMENT OF ADMINISTRATIVE CONTROL OVER THE FOREIGN EXCHANGE ALLOCATION WHICH WAS ONE OF THE MAJOR CONSTRAINTS TO EFFICIENCY THAT THE AUCTION WAS INTENDED TO OVERCOME. BY ARTIFICIALLY LIMITING ACCESS TO THE AUCTION THEY WILL RESULT IN AN EXCHANGE RATE WHICH ONCE AGAIN INADEQUATELY REFLECTS THE SCARCITY OF FOREIGN EXCHANGE RESOURCES. THIS WILL PUT EXPORTERS AT A DISADVANTAGE AND ENCOURAGE IMPORTS AS OPPOSED TO DOMESTIC PRODUCTION OF GOODS AND SERVICES AND CONTRIBUTE TO THE CAPITAL AND IMPORT INTENSITY OF CONSUMPTION AND PRODUCTION. IN OTHER WORDS, MR. MINISTER, INTRODUCTION OF THESE MEASURES REPRESENTS A NEGATION, PARTIAL AT LEAST, OF THE REFORMS INTRODUCED EARLIER BY YOUR GOVERNMENT AND ON THE BASIS OF WHICH THE DONOR COMMUNITY AGREED TO PROVIDE EXCEPTIONAL SUPPORT AT THE TWO CONSULTATIVE GROUP MEETINGS LAST YEAR. WE STRONGLY URGE YOU, THEREFORE, TO RECONSIDER THESE MEASURES AND ONCE AGAIN ALLOW BIDDERS TO ENTER THE AUCTION ONLY ON THE BASIS OF REGISTRATION OF THEIR PROPOSED IMPORT. WE SHARE YOUR CONCERN ABOUT THE GROWING FISCAL AND MONETARY IMBALANCES IN THE ECONOMY, WHICH WERE EVIDENT IN THE RESULTS OF THE FIRST HALF YEAR. THESE IMBALANCES, OF COURSE, HAVE HAD AN EFFECT ON THE EXCHANGE RATE. THEY SHOULD BE ADDRESSED, HOWEVER, DIRECTLY THROUGH REVENUE GENERATING AND EXPENDITURE REDUCTION MEASURES, AND THROUGH MONETARY POLICY ACTIONS, RATHER THAN BY IMPOSING RESTRICTIONS ON BIDDERS IN THE AUCTION. THIS LATTER, IN OUR VIEW, WILL ONLY WORSEN THE PROBLEM. REGARDS
JOCHEN KRASKE, DIRECTOR, COUNTRY PROGRAMS, EASTERN AND SOUTHERN AFRICA REGION.

CW AND CC: MESSENGER (EAISA)

CC: JAYCOX (ESAVP) o/c; WYSS, SANDSTROM (EAPDR); ZAMBIA CT.



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FROM INTBAFRAD LUSAKA
TO IMF - WASHINGTON

JULY 22, 1986

ORIG: MR. OUATTARA

CC: MR. ACQUAH

FOR ACQUAH
HAVE HAD EXTENSIVE DISCUSSIONS WITH GOVERNOR CHIVUNO AND
MINISTER OF STATE NSINGO RE. THOSE ADMINISTRATIVE
REQUIREMENTS GOVERNING ACCESS TO FOREX AUCTION THAT EYE
TELEXED YESTERDAY. RECOGNIZING DESIRABILITY OF ALLAYING
FEARS OF ADMINISTRATIVE OBSTRUCTIONISM, MINISTER OF STATE AGREED
AND SO INFORMED GOVERNOR, THAT PRIOR COMPLIANCE WITH
ADMINISTRATIVE REQUIREMENTS SHALL NOT PER SE EXCLUDE BIDS FROM
CONSIDERATION IN DETERMINING RATE. INSTEAD, HOWEVER, SUCCESSFUL
BIDDERS WILL BE GIVEN A PERIOD OF TEN DAYS OR TWO WEEKS AFTER
NOTIFICATION OF AUCTION RESULT TO PRESENT EVIDENCE OF COMPLIANCE.
NO FOREIGN EXCHANGE SHALL BE RELEASED TO BIDDER UNTIL THIS IS
DONE.
REGARDS KEYES

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WASHINGTON D.C.
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FROM C/O INTBAFRAD LUSAKA JULY 21, 1986.
ATTENTION: ACQUAH

ORIG: MR. OUATTARA

CC: MR. ACQUAH

URGENT, URGENT

COMMENCING FOREX AUCTION OF JULY 18 FOLLOWING ADMINISTRATIVE REQUIREMENTS IMPOSED. PRIMO INCOME TAX CLEARANCE CERTIFICATE. SECUNDO OVERDRAFT FINANCING OF BIDS MAY NOT EXCEED 20 PER CENT OF BIDS. TERTIO DOCUMENTARY EVIDENCE IS REQUIRED OF UTILIZATION OF FOREX FUNDS SECURED IN ANY AUCTION PRIOR TO 90 DAYS BEFORE CURRENT AUCTION. QUATTRO FOR COMPANIES LIABLE TO PAY CUSTOMS AND SALES TAX, A CERTIFICATE THAT ALL OUTSTANDING TAX LIABILITIES ARE MET IS REQUIRED.

GREAT DIFFICULTY ENCOUNTERED IN MEETING DOCUMENTARY REQUIREMENT FOR JULY 18 AUCTION. HENCE, OUT OF 396 BIDS SUBMITTED, ONLY 82 WERE DEEMED SUCCESSFUL AND A RATE OF K5.03 WAS STRUCK COMPARED WITH K8.07 AT PREVIOUS ACUTION. BIDS WERE IN RANGE OF K9.51 TO K5.00 PER DOLLAR 1.00. ASSUMING NO BIDS REJECTED AND ALLOCATION OF DOLLARS 3.5 MILLION FOR GENERAL IMPORTS, FUNDS WOULD HAVE BEEN EXHAUSTED AT RATE OF K8.75.

GENERAL MANAGER INFORMED ME THAT FUND COULD EXPECT SETTLEMENT OF OVERDUE OBLIGATIONS TODAY MONDAY 21 JULY. SOURCE OF FUNDS IS BANK OF CREDIT AND COMMERCE WHOSE ADVANCE WILL, IN PRACTICE, BE GUARANTEED BY LOANS BEING PROVIDED BY MERIDIEN BANK IN TANDEM WITH SALOMON BROTHERS. THIS ARRANGEMENT IS FOR DOLLARS 175 MILLION, OF WHICH 100 MILLION IS REPAYABLE OVER 10 YEARS, 45 MILLION OVER 7 YEARS AND 30 MILLION OVER THREE YEARS. 60 MILLION DRAWDOWN OF THIS LOAN IS IMMINENT BUT 40 MILLION WILL BE APPLIED IMMEDIATELY TO SETTLE OUTSTANDING OBLIGATIONS TO MERIDIEN.

REGARDS, KEYES.

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TO IMF - WASHINGTON

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1986 JUL 29 AM 7:39

ORIG: AFR

CC: MR. ACQUAH

FOR ACQUAH
RE AUCTION 42. 602 BIDS SUBMITTED OF WHICH 157 SUCCESSFUL
148 BIDS REJECTED FOR LACK OF DOCUMENTATION, 254 FOR
EXCEEDING CUTOFF OF K8.07 AND 43 FOR FALLING BELOW NEW RATE
OF K6.08 FUNDS REQUESTED INCLUDING BANK ALLOCATIONS
TOTALLED DOLLARS 23.66 MILLION, OF WHICH DOLLARS 9.96
MILLION EXCEEDED K8.07 CUTOFF. FUNDS ALLOCATED TOTALLED DOLLARS
9.51 MILLION, OF WHICH 1 MILLION FOR WORKING BALANCES,
1 MILLION FOR CATEGORY B AND C, LCS 4.26 MILLION FOR ZIMOIL,
ZAMBIA AIRWAYS ETC AND 3.25 MILLION FOR GENERAL PARTS.
REGARDS KEYES

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= File 2A Auction

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FROM INTRAFRAD LUSAKA DECEMBER 08, 1986.
FOR HAROLD MESSENGER
JOCHEN KRASKE

FOREIGN EXCHANGE AUCTION RESULTS FOR SATURDAY, DEC. 06, 1986.

TOTAL BIDS	= 221
RANGE OF BIDS	= 6.0 - 18.0 /
BIDS ACCEPTED	= 130
AMOUNT DEMANDED	= 7.6 MILLION DOLLARS
AMOUNT ALLOCATED	= 4.1 MILLION DOLLARS
ZIMDIL	= 1.0 MILLION DOLLARS
OTHER SPECIAL CATEGORIES	= 0.01 MILLION DOLLARS
NET ALLOCATION FOR GENERAL IMPORTS	= 3.1 MILLION DOLLARS
ALLOCATION FOR BANKS' WORKING BALANCES	= 0.5 MILLION DOLLARS
ALLOCATION FOR LCS MATURED AFTER OCTOBER 04, 1985.	= 1.0 MILLION DOLLARS
RATE (K/DOLLARS)	= 12.10

REGARDS, KHAN.

=12080957

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file 110

file 24 110

To: Mr. Foot May 23, 1986
From: Paul A. Acquah
Subject: Zambia - Foreign Exchange Auction

Thank you for your memorandum of April 24. I thought you might be interested in the attached detailed confidential report prepared by the World Bank staff.

Attachment

SUBJECT COPY

OFFICE MEMORANDUM

DATE: April 29, 1986

TO: Mr. Francisco Aguirre-Sacasa, Division Chief, EAPID

FROM: Daniel Kaufmann, EAPID

EXTENSION: 75781

SUBJECT: ZAMBIA -- Auction of Foreign Exchange: Its Impact and
Related Policy Issues

A. Introduction

1. In the wake of important changes in the Cabinet, President Kaunda has requested from his advisors an urgent review of the functioning of the foreign exchange auction mechanism, with particular importance to be given to alleged abuses and problems with the auction. The first part of this note presents an analysis of the available information and concludes that the alleged abuses and problems are not supported by the evidence. However, overall resource allocation, which has already improved significantly since the auction began, is still far from optimal, largely due to remaining policy and institutional inefficiencies which are not related to the auction. The second part of the note analyzes the impact of the revamped policy framework on resource allocation, and points to the policy areas where changes are still required to further improve resource allocation and support the ongoing process of economic restructuring.

I. THE AUCTION

B. Auction of Foreign Exchange: Some Common Perceptions

2. Five common perceptions will be discussed: (i) the auction is allocating significant resources to non-essential goods, particularly luxury items; (ii) some large bidders are more successful in obtaining auction resources and are driving the auction rate up by bidding irresponsibly; (iii) changing the present auction mechanism to a "Dutch auction" system (where each successful bidder would pay the rate that he offered) would help keep the exchange rate down and significantly increase Government revenues; (iv) the auction is fuelling inflation; and (v) the auction-determined rate is too volatile. The evidence reviewed does not appear to support any of these perceptions.

- (a) Does the auction allocate significant resources to the non-essential goods, particularly luxury items? The evidence suggests the contrary. On the basis of information from 12 auctions, an average of 18.6 percent of the auction resources were allocated to consumer goods. This constitutes about 6 percent of the total import bill, well below the 15 percent share of (equivalent categories of) consumer goods in total imports during the 1970-81 period. ^{1/} Furthermore, only a small portion of the auctioned foreign exchange used to import consumer goods is being channeled to luxury goods. Luxury items coming in under the beverages, tobacco, soap and detergents categories are estimated to be between 3 to 5 percent of the auction resources (prior to the inclusion of oil into the auction, i.e. about US\$200,000 per auction).

The perception of significant auction resources being used for the purchase of luxury cars is also unfounded. Although 10.8 percent of auction resources are used to bring in transport equipment, only a small fraction is being utilized for the purchase of luxury cars. Detailed review of all pro-forma invoices for two auctions reveals that, on average, 3.8 percent of total auction disbursements was used for passenger cars and spares, of which only 1.1 percent went to cars averaging US\$7,250 per vehicle (seven Japanese vehicles and one Mercedes Benz CKD purchased at US\$10,000). More significantly, the remaining 2.7 percent was utilized for the purchase of spares for the existing vehicle fleet (clearly a desirable outcome of the auction).

In sum, a smaller share of foreign exchange is being used for consumption items compared with past years, and a higher share is accruing to the productive sectors. Luxury imports financed by auction resources are limited: they do not appear to exceed US\$250,000-300,000 per auction. There is some evidence, however, that some luxury imports may be financed by non-auction resources, through "no-funds required" (or own funds) imports. These imports do not appear to come in at the expense of productive inputs since its alternative use is holding these funds in foreign accounts. Possible concerns regarding the social implications of luxury consumption in Zambia would point to the need to establish higher excise taxes for such products, rather than altering the functioning of the auction itself.

- (b) Are large bidders more successful in securing auction resources, and are they driving the rate up by bidding irresponsibly? The evidence does not support these claims. First, successful bidders do not submit larger bids than unsuccessful ones. Analysis of one typical recent auction indicates that the average successful bid was US\$22,471, i.e., 15 percent below the average unsuccessful bid (US\$25,926). Second, among successful bidders, virtually all (96 percent) were concentrated

^{1/} No comparable data for the 1982-84 period is available.

in a very narrow range: Kw6.75 to 7.10 to the US\$. Only 11 bidders (out of a total of 304) submitted bids higher than 7.1 (up to 7.5), and their average bid amount was only US\$12,350, i.e. only one-half the average for all bids. Similar results emerge from a detailed review of bids of four other auctions. Thus, successful bids are not large, are highly concentrated in a very narrow range, and bids at the higher price end are few and for small amounts of foreign exchange.

A variant of the above issue is the perception that the Kwacha has depreciated too much as a result of the collusion by the commercial banks which have "agreed" to bid at a rate around Kw7 to the US\$. This perception lacks any logic. First, even if the commercial banks could collude, it would be in their benefit to lower the rate below a competitive market clearing rate, rather than raising the rate. Second, collusion is virtually impossible when the ultimate bidders are large numbers of consumers and producers in the economy. "Agreement" by the banks on a rate which is too low (or too high) would immediately create an excess demand (or supply) situation, and the weekly foreign exchange allocated to the auction would not suffice (or too much would remain undisbursed).

- (c) Would a change of the present auction mechanism to a "Dutch Auction"^{2/} system keep the exchange rate down and significantly increase Government revenues? Neither assertion is correct. The highly compressed range of bids (about 85 percent of all bids were concentrated between Kw6.5 and 7 in a recent auction when the auction rate was Kw6.75) suggests that: (i) bidders would not bid differently if they had to pay the actual bid prices rather than the marginal rate ^{3/}; and (ii) the additional Kwacha revenue collected by BOZ would be very small. A simulation on the basis of actual data from a recent auction indicates that a Dutch auction would increase total Kwacha payments by no more than 2.6 percent. In addition, it should be noted that if the range of bids were widely dispersed, a Dutch auction would constitute a violation of IMF rules against multiple exchange rate practices, which only allow for a maximum 2 percent exchange rate differential.
- (d) Is the auction fuelling inflation? In the Zambia situation, the present level of the exchange rate reflects, inter alia, past domestic inflation higher than world inflation and is therefore a consequence, not a cause of inflation. Monetary and fiscal policy are the main determinants of the rate of inflation, and not the exchange rate regime (or level) per se. As expected, the transition from a very overvalued

^{2/} In a Dutch auction, each successful bidder pays his own bid price, rather than the marginal (equilibrium) bid as in the present auction.

^{3/} Under certain assumptions, it can be hypothesized that regardless of the actual compression in the bid structure, a rational bidder would bid the same price (somewhat below his reservation price) under either auction scenario; over time he would only adjust the quantity demanded. At any rate, the literature does not shed light on this issue.

(pre-auction) currency to an equilibrium exchange rate has been associated in Zambia with a sharp one-time price increase in many tradeable commodities. Whether these price increases do translate themselves into a higher rate of inflation depends, however, on the stability of monetary and fiscal policy, and on the expectations generated by the policies, and not on the performance of the auction. (This issue is important enough--and widely misunderstood in many Governments--to warrant a separate note addressing in detail the conceptual and empirical underpinnings of the relationship between the exchange rate and inflation).

- (e) Is the auction-determined exchange rate too volatile? Except for the initial adjustment period to the new economic regime, the exchange rate has been very stable. During the first three months, the rate fluctuated between Kw5 and 7. By late January the rate was Kw6.40, and the fluctuations have been minor ever since. The lowest rate stood at Kw6.36, and the highest at 7.06. The average weekly fluctuation has been about 2 percent, and the maximum weekly fluctuation was 3 percent. Over the past two months the volatility has further decreased: the rate has only fluctuated between Kw6.78 and 7.06. Fluctuations of the Kwacha have been below movements in major currencies (like the British Pound, US\$, Rand, etc., see Table 1 in Annex). Zambian industrialists indicated to our recent mission that they can now operate under significantly more certainty than in the past due to: (i) the knowledge that the value of the Kwacha, by being much more realistic, can only fluctuate within a relatively narrow band, whereas for some years prior to the auction unexpected large devaluations could take place at any time; and, more importantly, (ii) the knowledge that they can have assured access to foreign exchange (as long as they have the Kwacha to bid for it), clearly contrasting with the uncertainty as to when and how much foreign exchange they would be able to obtain under the previous system.

C. The Impact of the Auction on the Allocation of Foreign Exchange to the Productive Sectors.

3. Agriculture. The agricultural sector is purchasing very little foreign exchange. Since October 1985, 1.7 percent of total imports (5 percent of auction resources) have been channeled to agriculture, implying an annual amount of about US\$13 m. During 1980-1981 imported agriculture inputs and equipment was about US\$40-55 m. and constituted about 4 to 5 percent of total imports. The dramatic drop (in absolute and relative terms) is taking place at a time when an increased allocation of resources to agriculture is crucial for the success of the economic reorientation program. Seasonality explains in part the low demand for imported agricultural inputs, but other remaining policy and institutional bottlenecks appear to be playing an important role in precluding agricultural producer

prices to approach border prices, thus depressing the demand for agricultural inputs. Among others, this is the result of unresolved NAMBOARD (and subsidy) issues affecting maize prices; other monopsonistic institutions purchasing agricultural inputs, like ROP buying oilseeds; export restrictions on agricultural products, like milling companies using their influence to prohibit exports of wheat and soya beans, etc.

4. Industry. The manufacturing sector is receiving a similar amount and proportion of the foreign exchange available than immediately prior to the auction. The share of imports to industry has increased marginally from 17.7 percent before the auction to 17.9 percent after the auction was instituted (Table 2 in Annex). Industry is still importing significantly less, however, (in both relative and absolute terms) than in the early 1980s, when the share of imports to industry in total imports was almost one-quarter. This is a positive development, given the over-industrialization tendencies of the past.

5. Major changes are taking place in the allocation of foreign exchange within the industrial sector. The share of imports to the private sector has increased significantly, from less than 50 percent immediately before the auction to over 61 percent now, at the expense of parastatals (Table 2). Within parastatals, preliminary evidence suggests that the least efficient firms are purchasing smaller amounts of foreign exchange, whereas others are getting a higher share.

II. EFFICIENCY OF RESOURCE USE AND POLICY ISSUES IN INDUSTRY

D. The New Policy Regime and Industrial Performance

6. The auction system, with its market-clearing exchange rate level, and the major trade policy and financial reforms (elimination of all non-tariff import restrictions, freeing of interest rates), not only led to a significant change in the actual amounts of foreign exchange purchased by different sectors and subsectors but, as importantly, it is already having a positive impact on the efficiency of use of foreign exchange and other resources. In industry, a major shift in managerial attitudes is evident, and marked increases are already taking place in capacity utilization, productivity of capital and labor, efficiency of foreign exchange use and exports.

7. The differences in attitude on the part of parastatal and private sector management is striking when compared to earlier experiences. Since the changes in the economic and regulatory environment of October 1985, managers interviewed during our supervision mission emphasized efficiency, labor productivity, competition and the profitability of exports, in stark contrast to the "cost-plus" complacency of the past.

8. Capacity utilization in industry is estimated to have increased from 42 percent in early 1985 to 47 percent in 1986, the direct result of the significant rise in private sector capacity utilization from 38 to 54 percent (Table 3 in Annex). Capacity utilization has declined in the parastatal sector from 45 to 41 percent mainly as a result of the poor performance of five economically inefficient enterprises ^{4/} (while the rest of the parastatal sector is estimated to have increased capacity). Value added in industry is (preliminarily) estimated to have increased by at least 15 percent since the auction was instituted.

9. The productivity of capital in industry has increased by approximately 12 percent as a result of higher capacity utilization. Overall labor productivity has also increased significantly (by at least 15 percent) thanks to the higher production levels and reductions in the industrial labor force. Industrial parastatals, with few exceptions, have shed labor as a means to reduce costs, albeit often in the form of reinforced natural attrition.

10. Foreign exchange is also being utilized more efficiently. Based on actual data from all INDECO firms and a sample of private enterprises, we found that each unit of foreign exchange is generating about 10 percent more value added than before the auction, because: (i) foreign exchange is being purchased by more efficient producers in the sector; and (ii) firms have implemented productivity-improvement measures as a response to the higher cost of foreign exchange.

11. Exports in manufacturing are also increasing. A small survey of about twenty private firms indicates that exports for these firms are expected to increase this year ten-fold (to a still very small amount of over US\$2 m.). INDECO reports export increases as well. Manufacturing exports cannot be expected yet to play a prominent role in foreign exchange generation since its base is so small. However, if a high rate of export growth is maintained through the appropriate policies, manufacturing exports could become a significant contributor to the balance of payments by 1990.

E. Policy Issues in Industry

12. Following the establishment of the new exchange rate regime and other policy reforms, resource allocation has improved in the economy in general and in industry in particular. However, policy bottlenecks still remain in the industrial sector, where the efficiency of resource use, however improved, is still suboptimal. Some inefficient producers are still gaining access to significant resources, whereas some efficient firms are not receiving enough. These misallocations are the result of: (i) the

^{4/} They were found to be economically inefficient in our DRC study: "Efficiency Review of INDECO Enterprises" mimeo, July 1985, EAPID.

existence of some inefficient parastatals which will have to be restructured, phased out or privatized; and (ii) the current tariff structure, which still features significantly higher duties on final goods than on intermediate inputs, permits different firms to face different rates of duty for the same intermediate inputs (because of the old "priority-status" of some firms), and differentiates in a distortionary manner between PTA and non-PTA imports (resulting in negative protection for some Zambian intermediate goods producers). Some of these policy issues are being corrected under the ongoing Industrial Reorientation Project, and others will have to be addressed in the follow-up operation.

F. Conclusions.

13. The Foreign Exchange Auction. The auction of foreign exchange has been functioning effectively since October 1985. The abuses and distortions commonly attributed to the auction are not found to be supported by an analysis of the available evidence. The problem is one of perceptions, which, however misplaced, ought to be dealt with if the political commitment to the auction is to continue. The Bank of Zambia--with our assistance, if necessary--ought to institutionalize further the analysis of foreign exchange allocation and bid behavior, and make such analysis available to policy makers and to the general public to dispel any misconceptions based on lack of information.

14. Resource Allocation and Policy Changes. Resource allocation has already improved markedly, particularly within industry. However, it is still far from optimal, largely as a result of other policy and institutional inefficiencies, not related to the auction, which need to be addressed. In agriculture, where demand for foreign exchange has been very low, further institutional and policy changes may be required to ensure that producer prices received by farmers reflect border prices. In industry, the restructuring, phasing out and/or privatization of some inefficient parastatals is needed, and further reforms in the tariff structure are required--beyond what was contemplated in the ongoing Industrial Reorientation Project. The next round of policy-based operations in Zambia should address these remaining industrial policy issues.

Attachments

cc. Messrs. Penalver, Cacho, Hughes, Owen, EAPID
EAPID Economists

DKaufmann/ich

TABLE 1 : Exchange Rates

Currency per US \$	1985 (Monthly Average)				1986 (Weekly Rate)																Average Weekly Change Feb-April	Maximum Weekly Change Feb-April			
					January				February				March					April							
	Month	Sept.	Oct.	Nov.	Dec.	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	5th	1st	2nd			3rd	4th	
<u>IKwacha/US \$</u>																									
Level	2.17	5.25	5.85	5.75	5.76	5.86	6.01	6.40	6.36	6.51	6.68	6.78	7.01	6.90	6.75	6.91	6.85	6.87	6.98	7.06	6.98				
% Change	-4.11%	141.99%	11.29%	-1.72%	0.22%	1.74%	2.56%	6.49%	-0.63%	2.36%	2.61%	1.50%	3.39%	-1.57%	-2.17%	2.37%	-0.87%	0.29%	1.60%	1.15%	-1.13%	1.66%		3.39%	
<u>IPound Stg/US \$</u>																									
Level	0.73	0.70	0.69	0.69	0.69	0.69	0.70	0.72	0.71	0.71	0.71	0.69	0.68	0.69	0.68	0.67	0.67	0.65	0.68	0.66	0.65				
% Change	1.13%	-4.13%	-1.19%	-0.48%	0.18%	-0.64%	1.23%	2.98%	-1.24%	0.50%	-0.92%	-1.80%	-1.63%	1.31%	-1.16%	-2.14%	0.88%	-3.70%	4.47%	-2.77%	-0.85%	1.80%		4.47%	
<u>IRand/US \$</u>																									
Level	2.49	2.59	2.66	2.68	2.53	2.38	2.29	2.26	2.28	2.13	2.10	2.01	1.98	1.99	1.99	2.08	2.11	2.08	2.02	2.00	2.05				
% Change	0.07%	4.28%	2.34%	0.91%	-5.40%	-6.12%	-3.58%	-1.36%	0.87%	-6.71%	-1.57%	-4.31%	-1.09%	0.40%	0.10%	4.26%	1.26%	-1.14%	-2.83%	-1.20%	2.46%	2.17%		(-)	4.71%

Sources: IMF International Financial Statistics
Bank of Zambia

ANNEX

Table 2
ZAMBIA - IMPORTS TO INDUSTRY

	Average 1980-81	Pre- Auction ^{a/} 1985	Post- Auction ^{b/} 1986
<u>MILLIONS US\$</u>			
<u>Manufacturing Imported Inputs</u>	<u>181</u>	<u>112</u>	<u>127</u>
of which:			
Parastatal	105	56	47
Private	76	56	80
<u>Manufacturing Capital Imports ^{e/}</u>	<u>85</u>	<u>19</u>	<u>12</u>
of which:			
Parastatal	50	10	7
Private	35	9	5
<u>Total Manufacturing Imports</u>	<u>266</u>	<u>131</u>	<u>139</u>
of which:			
Parastatal	155	66	54
Private	111	64	85
<u>TOTAL IMPORTS</u>	<u>1,084</u>	<u>741</u>	<u>775</u>
<u>SHARES (%)</u>			
Share of Manufacturing ^{c/} in Total Imports (%)	24.5	17.7	17.9
Share of Manufacturing Inputs ^{d/} in Imports (%)	16.7	15.1	16.4
Share of Parastatal Imports in Manufacturing Imports (%) ^{c/}	58.3	50.4	38.8

^{a/} Annualized on the basis of January-September 1985.

^{b/} Annualized on the basis of October 1985-February 1986; when available 1986 projections were utilized as well.

^{c/} Imported Inputs and Capital Equipment.

^{d/} Excluding Capital Equipment.

^{e/} Includes spare parts for machinery and equipment in 1980-81; which are excluded for 1985 and 1986, when they were recorded as inputs. This classification inconsistency explains only part of the large drop in capital imports between 1980 and 1986. The aggregate category "total manufacturing imports" is consistent over time.

Sources: Annual Statements of External Trade; CSO Worksheets; INDECO Financial Statements; BOZ Auction Worksheets; IMF tables; Mission estimates.

ANNEX

Table 3
ZAMBIA - CAPACITY UTILIZATION IN INDUSTRY: PRELIMINARY ESTIMATES ^{a/}

	1980-81	Pre-Auction 1985	Post-Auction 1986
INDECO Parastatals	64	45	41
of which:			
Five Highly Inefficient Parastatals	N.A.	56	26
Others	N.A.	43	46
Private Sector	45	38	54
Manufacturing Capacity Utilization	<u>55</u>	<u>42</u>	<u>47</u>

^{a/} The preliminary nature of the estimates ought to be emphasized, since for 1985-1986 it is based on a sample of 20 firms for the private sector; and for INDECO the data available only permitted the calculation of simple averages (rather than weighted averages) for all firms and activities. These results are, therefore, subject to a margin of error. There is no prior, however, as to the direction of a possible bias.

Sources: INDECO Financial Statements; Supervision Mission Industrial Survey; "Zambia: Industrial Policy and Performance" World Bank Report No.4436-ZA, August 1984.

ACTION

PAPER

PAA on
return

Coordinator:

CVC

Deadline:

taken care of?

to y m

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6 1 2 > wife



Office Memorandum

TO : Mr Acquah

DATE: 24 April 1986

FROM : Michael Foot *MF*

SUBJECT : Zambia

100/101/10
→ CVC - for your
Comments.
Mr Foot of
OKEB's office
wants to
discuss
this next
week +
will call
to arrange
an appt.

I attach a paper on the operation of the Zambian auction system, which has been prepared in the Bank of England. I should be grateful if we could discuss it when you and any other staff members you wish to involve have had time to look at it.

BANK OF ENGLAND
Threadneedle Street
London
EC2R 8AH

23/10

RF
JK
DML

18 April 1986

M D K W Foot Esq
UKDEL
British Embassy
Washington DC 20008
USA

Dear Mr. Foot,

ZAMBIA: FOREIGN EXCHANGE AUCTION

1 The question of the operational system of the Zambian foreign exchange auction has been the subject of some debate recently. In particular, the fact that all bidders pay the marginal rate and that the difference (between the bid price and the marginal rate) is refunded. We had been in the process of forming the appropriate arguments for and against this arrangement when the exercise was given added impetus by the government reshuffle and the appointment of a new economic team which has been charged, among other things, to investigate the auction and its system.

2 In the circumstances, I thought you may care to see the attached note and would be grateful, in due course, for any general comments. Particular uncertainty appears to centre on the rationale for the IMF's apparent support of the present refunding arrangement.

3 I am copying this letter and attachment to Charles Cullimore, FCO, and Peter Mountfield, HMT.

Yours sincerely,
A J Humphryes

A J Humphryes

ZAMBIA: FOREIGN EXCHANGE AUCTION

Background

1 The foreign exchange auction was introduced on 11 October 1985 and led to an initial kwacha devaluation of 52% (from US\$1 = K2.43 to US\$ 1 = 5.01). The current rate (week beginning 7 April) is US\$1 = 6.788. The US\$5 mn originally on offer each week has now been increased to US\$9 mn to cover the inclusion of previously exempted items.

The present system

2 Bids are made by commercial banks on behalf of customers to a weekly foreign exchange committee chaired by the General Manager of the Bank of Zambia. Before the auction, customers state the amount of foreign exchange required, the number of kwacha they are prepared to pay per US\$, and for what purpose it is needed. At the same time, bidders deposit with their commercial bank cheques against the full kwacha value of their foreign exchange application. The bids are then arranged in order, starting with the bid of the highest kwacha value per US\$ and working down. By each of these is put the requested amount of foreign exchange that accompanied it. The marginal bid is the lowest bid which fully exhausts the amount of foreign exchange available for auction and it is this bid that determines the weekly exchange rate. Those whose bids were above the marginal rate are refunded the difference, in kwacha, between the marginal rate and their bid price.

Exemptions

3 On 19 February three previously exempted items were included in the auction: IATA obligations, oil imports and payments to the Tazama pipeline authority and to Tazara. Despite this, the list of exemptions to the bidding process remains long. Those

exempted account for perhaps as much as 70% of current account transactions and include:

- (i) The Party and the Government
- (ii) The Bank of Zambia
- (iii) Debt service payments
- (iv) ZCCM
- (v) Medical and education supplies
- (vi) "Specific projects or specific companies"

Presidential criticism

4 In recent weeks the Fund-inspired foreign exchange auction has suffered some high-level criticism. Reportedly, President Kaunda, although supporting the auction in principle, has voiced his concern at what he calls the "abuse of the system by greedy businessmen who are destroying the actual value of the kwacha", while following the government reshuffle, the new economic team (which appears less committed to reform than the former one) has been officially charged to deal with the "unacceptable" developments of the post-auction period (ie the importing of luxury items and the falling kwacha). This view contrasts with that recently attributed to the General Manager of the Bank of Zambia. He apparently argued that the fears initially expressed that the introduction of the auction would lead to a bias towards the importation of consumer items appear to have been unfounded, with less than 21% of auction money going into consumer goods.

Refunding the difference

5 One particular aspect of the system has been singled out as the root of the problem. There is widespread agreement among firms in Zambia that refunding the difference between the marginal rate and the bid price meant firms did not have to be so cautious in their bids. Among others, importers of finished goods who are not manufacturers and who have little to lose were therefore encouraged to bid high. This arrangement, it is claimed, consequently produced a lower exchange rate than need be the case. It was also suggested that the system was endorsed by the

IMF because a low kwacha supported its policies of promoting export growth.

6 To what extent does the present system affect the exchange rate?

(a) A more rapid depreciation may occur initially because high bids are not discouraged. But this would only be over the short term. Once the practice of over-bidding became well known, bidders would be unwilling to take the chance of having to pay the higher price.

(b) The practice of depositing cheques with the commercial banks against the full kwacha value of the foreign exchange applications provides an element of restraint. If local liquidity is tight, kwacha have to be borrowed - a cost that must be taken into account. If overbidding then became widespread, this cost would consequently rise. (This, of course, assumes that the cheques accompanying the bids are cleared, which is likely given the need to make partial refunds.)

(c) It is true to say that, working within the present system, the kwacha need not be so low. But that is not the fault of the system: although the Bank of Zambia publicly announces that up to US\$9 mn is available for auction every week, the actual allocation is an average of only US\$5.26 mn.

(d) Whatever the system however, the exchange rate is still, and will continue to be, substantially overvalued because of the 70% exemptions.

7 Why might the Fund support the present system?

(a) The present system produces a relatively stable, single exchange rate. This is approved of by the Fund which dislikes multiple exchange rates.

(b) A single exchange rate is necessary to allocate the foreign exchange presently exempted from the auction. (But a rate could equally be determined from the value-weighted mean.)

8 Luxury Imports

(a) A powerful argument against the present system of making refunds is that foreign exchange can only be allocated efficiently if bidders are made to pay the bid price. Even under such a system it does not necessarily follow that the resultant allocation is in any sense "desirable" (eg the import of luxury items). But this is a question best tackled by tariffs and a more effective customs service rather than via the auction.

(b) If disciplining high bidders is found to be necessary, has an alternative method been considered - turning the difference into Bank of Zambia non-discountable bills?

Bank of England
18 April 1986

EAN PROJECTS DEPARTMENT
TRANSMITTAL MEMORANDUM
(See reverse side for instructions on use)

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Rec 110
Action OK?

COUNTRY: ZAMBIA	L/C NUMBER: 1630-ZA	PROJECT NAME OR SUBJECT: Industrial Reorientation Project
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TYPE OF REPORT:
Report on Auction of Foreign Exchange: Its Impact and Related Policy Issues

Attention is drawn to the following sections/items for

	INFORMATION	DISCUSSION/ACTION	CLEARANCE (by c.o.b. on:)
EAP			
Mr. Wyss	X		
Mr. Bronfman			
Mr. Christoffersen	X		
Mr. Loh			
Mr. Gusten	X		
Mr. Wijnand			
Mr. Graves			
Mr. Lethem (PRT)			
Mr. Benitez.			
RMEA ()			
EAN Programs			
Div. Chief (Mr. Messenger)	X		
-Country Ec. (Grawe, Westin)	X		
Loan Off. (Gebhart)	X		
Res. Rep. (Mbanefo, Khan)	X		
OPS and/or EIS			
Dept. (OPS) (Dubey)	X		

ADDITIONAL DISTRIBUTION TO:
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FOR ADDITIONAL INFORMATION OR MATERIAL PLEASE CONTACT:
Mr./Ms: Daniel Kaufmann Room No.: D-1146 Extension: 75781

COMMENTS BY ORIGINATING DIVISION CHIEF:
President Kaunda has requested from his advisors an urgent review of the functioning of the foreign exchange auction mechanism, with particular importance to be given to alleged abuses and problems with the auction. We, for our part, have done a review of the auction's workings. Our findings are summarized in the attached note. The analysis of the available information concludes that the alleged abuses and problems are not supported by the evidence. The second part of the note analyzes the impact of the revamped policy framework on resource allocation, and points to policy areas where changes are still required.

FROM (Signature of Division Chief, Deputy or Section Chief): Francisco Aguirre-Sacasa, Division Chief, EAPID	DATE: April 29, 1986
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RESPONSE (if any) FROM RECIPIENT:

TO (Originating Division Chief):	FROM:	DATE:
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OFFICE MEMORANDUM

DATE: April 29, 1986

TO: Mr. Francisco Aguirre-Sacasa, Division Chief, EAPID

FROM: Daniel Kaufmann, EAPID

EXTENSION: 75781

SUBJECT: ZAMBIA - Auction of Foreign Exchange: Its Impact and Related Policy Issues

A. Introduction

1. In the wake of important changes in the Cabinet, President Kaunda has requested from his advisors an urgent review of the functioning of the foreign exchange auction mechanism, with particular importance to be given to alleged abuses and problems with the auction. The first part of this note presents an analysis of the available information and concludes that the alleged abuses and problems are not supported by the evidence. However, overall resource allocation, which has already improved significantly since the auction began, is still far from optimal, largely due to remaining policy and institutional inefficiencies which are not related to the auction. The second part of the note analyzes the impact of the revamped policy framework on resource allocation, and points to the policy areas where changes are still required to further improve resource allocation and support the ongoing process of economic restructuring.

I. THE AUCTION

B. Auction of Foreign Exchange: Some Common Perceptions

2. Five common perceptions will be discussed: (i) the auction is allocating significant resources to non-essential goods, particularly luxury items; (ii) some large bidders are more successful in obtaining auction resources and are driving the auction rate up by bidding irresponsibly; (iii) changing the present auction mechanism to a "Dutch auction" system (where each successful bidder would pay the rate that he offered) would help keep the exchange rate down and significantly increase Government revenues; (iv) the auction is fuelling inflation; and (v) the auction-determined rate is too volatile. The evidence reviewed does not appear to support any of these perceptions.

- (a) Does the auction allocate significant resources to the non-essential goods, particularly luxury items? The evidence suggests the contrary. On the basis of information from 12 auctions, an average of 18.6 percent of the auction resources were allocated to consumer goods. This constitutes about 6 percent of the total import bill, well below the 15 percent share of (equivalent categories of) consumer goods in total imports during the 1970-81 period. ^{1/} Furthermore, only a small portion of the auctioned foreign exchange used to import consumer goods is being channeled to luxury goods. Luxury items coming in under the beverages, tobacco, soap and detergents categories are estimated to be between 3 to 5 percent of the auction resources (prior to the inclusion of oil into the auction, i.e. about US\$200,000 per auction).

The perception of significant auction resources being used for the purchase of luxury cars is also unfounded. Although 10.8 percent of auction resources are used to bring in transport equipment, only a small fraction is being utilized for the purchase of luxury cars. Detailed review of all pro-forma invoices for two auctions reveals that, on average, 3.8 percent of total auction disbursements was used for passenger cars and spares, of which only 1.1 percent went to cars averaging US\$7,250 per vehicle (seven Japanese vehicles and one Mercedes Benz CKD purchased at US\$10,000). More significantly, the remaining 2.7 percent was utilized for the purchase of spares for the existing vehicle fleet (clearly a desirable outcome of the auction).

In sum, a smaller share of foreign exchange is being used for consumption items compared with past years, and a higher share is accruing to the productive sectors. Luxury imports financed by auction resources are limited: they do not appear to exceed US\$250,000-300,000 per auction. There is some evidence, however, that some luxury imports may be financed by non-auction resources, through "no-funds required" (or own funds) imports. These imports do not appear to come in at the expense of productive inputs since its alternative use is holding these funds in foreign accounts. Possible concerns regarding the social implications of luxury consumption in Zambia would point to the need to establish higher excise taxes for such products, rather than altering the functioning of the auction itself.

- (b) Are large bidders more successful in securing auction resources, and are they driving the rate up by bidding irresponsibly? The evidence does not support these claims. First, successful bidders do not submit larger bids than unsuccessful ones. Analysis of one typical recent auction indicates that the average successful bid was US\$22,471, i.e., 15 percent below the average unsuccessful bid (US\$25,926). Second, among successful bidders, virtually all (96 percent) were concentrated

^{1/} No comparable data for the 1982-84 period is available.

in a very narrow range: Kw6.75 to 7.10 to the US\$. Only 11 bidders (out of a total of 304) submitted bids higher than 7.1 (up to 7.5), and their average bid amount was only US\$12,350, i.e. only one-half the average for all bids. Similar results emerge from a detailed review of bids of four other auctions. Thus, successful bids are not large, are highly concentrated in a very narrow range, and bids at the higher price end are few and for small amounts of foreign exchange.

A variant of the above issue is the perception that the Kwacha has depreciated too much as a result of the collusion by the commercial banks which have "agreed" to bid at a rate around Kw7 to the US\$. This perception lacks any logic. First, even if the commercial banks could collude, it would be in their benefit to lower the rate below a competitive market clearing rate, rather than raising the rate. Second, collusion is virtually impossible when the ultimate bidders are large numbers of consumers and producers in the economy. "Agreement" by the banks on a rate which is too low (or too high) would immediately create an excess demand (or supply) situation, and the weekly foreign exchange allocated to the auction would not suffice (or too much would remain undisbursed).

- (c) Would a change of the present auction mechanism to a "Dutch Auction" system keep the exchange rate down and significantly increase Government revenues? Neither assertion is correct. The highly compressed range of bids (about 85 percent of all bids were concentrated between Kw6.5 and 7 in a recent auction when the auction rate was Kw6.75) suggests that: (i) bidders would not bid differently if they had to pay the actual bid prices rather than the marginal rate ^{3/}; and (ii) the additional Kwacha revenue collected by BOZ would be very small. A simulation on the basis of actual data from a recent auction indicates that a Dutch auction would increase total Kwacha payments by no more than 2.6 percent. In addition, it should be noted that if the range of bids were widely dispersed, a Dutch auction would constitute a violation of IMF rules against multiple exchange rate practices, which only allow for a maximum 2 percent exchange rate differential.
- (d) Is the auction fuelling inflation? In the Zambia situation, the present level of the exchange rate reflects, inter alia, past domestic inflation higher than world inflation and is therefore a consequence, not a cause of inflation. Monetary and fiscal policy are the main determinants of the rate of inflation, and not the exchange rate regime (or level) per se. As expected, the transition from a very overvalued

^{2/} In a Dutch auction, each successful bidder pays his own bid price, rather than the marginal (equilibrium) bid as in the present auction.

^{3/} Under certain assumptions, it can be hypothesized that regardless of the actual compression in the bid structure, a rational bidder would bid the same price (somewhat below his reservation price) under either auction scenario; over time he would only adjust the quantity demanded. At any rate, the literature does not shed light on this issue.

(pre-auction) currency to an equilibrium exchange rate has been associated in Zambia with a sharp one-time price increase in many tradeable commodities. Whether these price increases do translate themselves into a higher rate of inflation depends, however, on the stability of monetary and fiscal policy, and on the expectations generated by the policies, and not on the performance of the auction. (This issue is ~~important enough--and widely misunderstood in many Governments--to~~ warrant a separate note addressing in detail the conceptual and empirical underpinnings of the relationship between the exchange rate and inflation).

- (e) Is the auction-determined exchange rate too volatile? Except for the initial adjustment period to the new economic regime, the exchange rate has been very stable. During the first three months, the rate fluctuated between Kw5 and 7. By late January the rate was Kw6.40, and the fluctuations have been minor ever since. The lowest rate stood at Kw6.36, and the highest at 7.06. The average weekly fluctuation has been about 2 percent, and the maximum weekly fluctuation was 3 percent. Over the past two months the volatility has further decreased: the rate has only fluctuated between Kw6.78 and 7.06. Fluctuations of the Kwacha have been below movements in major currencies (like the British Pound, US\$, Rand, etc., see Table 1 in Annex). Zambian industrialists indicated to our recent mission that they can now operate under significantly more certainty than in the past due to: (i) the knowledge that the value of the Kwacha, by being much more realistic, can only fluctuate within a relatively narrow band, whereas for some years prior to the auction unexpected large devaluations could take place at any time; and, more importantly, (ii) the knowledge that they can have assured access to foreign exchange (as long as they have the Kwacha to bid for it), clearly contrasting with the uncertainty as to when and how much foreign exchange they would be able to obtain under the previous system.

C. The Impact of the Auction on the Allocation of Foreign Exchange to the Productive Sectors.

3. Agriculture. The agricultural sector is purchasing very little foreign exchange. Since October 1985, 1.7 percent of total imports (5 percent of auction resources) have been channeled to agriculture, implying an annual amount of about US\$13 m. During 1980-1981 imported agriculture inputs and equipment was about US\$40-55 m. and constituted about 4 to 5 percent of total imports. The dramatic drop (in absolute and relative terms) is taking place at a time when an increased allocation of resources to agriculture is crucial for the success of the economic reorientation program. Seasonality explains in part the low demand for imported agricultural inputs, but other remaining policy and institutional bottlenecks appear to be playing an important role in precluding agricultural producer

prices to approach border prices, thus depressing the demand for agricultural inputs. Among others, this is the result of unresolved NAMBOARD (and subsidy) issues affecting maize prices; other monopsonistic institutions purchasing agricultural inputs, like ROP buying oilseeds; export restrictions on agricultural products, like milling companies using their influence to prohibit exports of wheat and soya beans, etc.

4. Industry. The manufacturing sector is receiving a similar amount and proportion of the foreign exchange available than immediately prior to the auction. The share of imports to industry has increased marginally from 17.7 percent before the auction to 17.9 percent after the auction was instituted (Table 2 in Annex). Industry is still importing significantly less, however, (in both relative and absolute terms) than in the early 1980s, when the share of imports to industry in total imports was almost one-quarter. This is a positive development, given the over-industrialization tendencies of the past.

5. Major changes are taking place in the allocation of foreign exchange within the industrial sector. The share of imports to the private sector has increased significantly, from less than 50 percent immediately before the auction to over 61 percent now, at the expense of parastatals (Table 2). Within parastatals, preliminary evidence suggests that the least efficient firms are purchasing smaller amounts of foreign exchange, whereas others are getting a higher share.

II. EFFICIENCY OF RESOURCE USE AND POLICY ISSUES IN INDUSTRY

D. The New Policy Regime and Industrial Performance

6. The auction system, with its market-clearing exchange rate level, and the major trade policy and financial reforms (elimination of all non-tariff import restrictions, freeing of interest rates), not only led to a significant change in the actual amounts of foreign exchange purchased by different sectors and subsectors but, as importantly, it is already having a positive impact on the efficiency of use of foreign exchange and other resources. In industry, a major shift in managerial attitudes is evident, and marked increases are already taking place in capacity utilization, productivity of capital and labor, efficiency of foreign exchange use and exports.

7. The differences in attitude on the part of parastatal and private sector management is striking when compared to earlier experiences. Since the changes in the economic and regulatory environment of October 1985, managers interviewed during our supervision mission emphasized efficiency, labor productivity, competition and the profitability of exports, in stark contrast to the "cost-plus" complacency of the past.

8. Capacity utilization in industry is estimated to have increased from 42 percent in early 1985 to 47 percent in 1986, the direct result of the significant rise in private sector capacity utilization from 38 to 54 percent (Table 3 in Annex). Capacity utilization has declined in the parastatal sector from 45 to 41 percent mainly as a result of the poor performance of five economically inefficient enterprises ^{4/} (while the rest of the parastatal sector is estimated to have increased capacity). Value added in industry is (preliminarily) estimated to have increased by at least 15 percent since the auction was instituted.

9. The productivity of capital in industry has increased by approximately 12 percent as a result of higher capacity utilization. Overall labor productivity has also increased significantly (by at least 15 percent) thanks to the higher production levels and reductions in the industrial labor force. Industrial parastatals, with few exceptions, have shed labor as a means to reduce costs, albeit often in the form of reinforced natural attrition.

10. Foreign exchange is also being utilized more efficiently. Based on actual data from all INDECO firms and a sample of private enterprises, we found that each unit of foreign exchange is generating about 10 percent more value added than before the auction, because: (i) foreign exchange is being purchased by more efficient producers in the sector; and (ii) firms have implemented productivity-improvement measures as a response to the higher cost of foreign exchange.

11. Exports in manufacturing are also increasing. A small survey of about twenty private firms indicates that exports for these firms are expected to increase this year ten-fold (to a still very small amount of over US\$2 m.). INDECO reports export increases as well. Manufacturing exports cannot be expected yet to play a prominent role in foreign exchange generation since its base is so small. However, if a high rate of export growth is maintained through the appropriate policies, manufacturing exports could become a significant contributor to the balance of payments by 1990.

E. Policy Issues in Industry

12. Following the establishment of the new exchange rate regime and other policy reforms, resource allocation has improved in the economy in general and in industry in particular. However, policy bottlenecks still remain in the industrial sector, where the efficiency of resource use, however improved, is still suboptimal. Some inefficient producers are still gaining access to significant resources, whereas some efficient firms are not receiving enough. These misallocations are the result of: (i) the

^{4/} They were found to be economically inefficient in our DRC study: "Efficiency Review of INDECO Enterprises" mimeo, July 1985, EAPID.

existence of some inefficient parastatals which will have to be restructured, phased out or privatized; and (ii) the current tariff structure, which still features significantly higher duties on final goods than on intermediate inputs, permits different firms to face different rates of duty for the same intermediate inputs (because of the old "priority-status" of some firms), and differentiates in a distortionary manner between PTA and non-PTA imports (resulting in negative protection for some Zambian intermediate goods producers). Some of these policy issues are being corrected under the ongoing Industrial Reorientation Project, and others will have to be addressed in the follow-up operation.

F. Conclusions.

13. The Foreign Exchange Auction. The auction of foreign exchange has been functioning effectively since October 1985. The abuses and distortions commonly attributed to the auction are not found to be supported by an analysis of the available evidence. The problem is one of perceptions, which, however misplaced, ought to be dealt with if the political commitment to the auction is to continue. The Bank of Zambia--with our assistance, if necessary--ought to institutionalize further the analysis of foreign exchange allocation and bid behavior, and make such analysis available to policy makers and to the general public to dispel any misconceptions based on lack of information.

14. Resource Allocation and Policy Changes. Resource allocation has already improved markedly, particularly within industry. However, it is still far from optimal, largely as a result of other policy and institutional inefficiencies, not related to the auction, which need to be addressed. In agriculture, where demand for foreign exchange has been very low, further institutional and policy changes may be required to ensure that producer prices received by farmers reflect border prices. In industry, the restructuring, phasing out and/or privatization of some inefficient parastatals is needed, and further reforms in the tariff structure are required--beyond what was contemplated in the ongoing Industrial Reorientation Project. The next round of policy-based operations in Zambia should address these remaining industrial policy issues.

Attachments

cc. Messrs. Penalver, Cacho, Hughes, Owen, EAPID
EAPID Economists

DKaufmann/ich

TABLE 1 : Exchange Rates

Currency per US \$	1985 (Monthly Average)				1986 (Weekly Rate)																Average Weekly Change Feb-April	Maximum Weekly Change Feb-April		
					January				February				March					April						
	Month Week	Sept.	Oct.	Nov.	Dec.	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	5th	1st	2nd			3rd	4th
Kwacha/US \$	Level	2.17	5.25	5.85	5.75	5.76	5.86	6.01	6.40	6.36	6.51	6.68	6.78	7.01	6.90	6.75	6.91	6.85	6.87	6.98	7.06	6.98		
	% Change	-4.11%	141.99%	11.29%	-1.72%	0.22%	1.74%	2.56%	6.49%	-0.63%	2.36%	2.61%	1.50%	3.39%	-1.57%	-2.17%	2.37%	-0.87%	0.29%	1.60%	1.15%	-1.13%	1.66%	3.39%
Pound Stg/US \$	Level	0.73	0.70	0.69	0.69	0.69	0.69	0.70	0.72	0.71	0.71	0.71	0.69	0.68	0.69	0.68	0.67	0.67	0.65	0.68	0.66	0.65		
	% Change	1.13%	-4.13%	-1.19%	-0.48%	0.18%	-0.64%	1.23%	2.98%	-1.24%	0.50%	-0.92%	-1.80%	-1.63%	1.31%	-1.16%	-2.14%	0.88%	-3.70%	4.47%	-2.77%	-0.85%	1.80%	4.47%
Rand/US \$	Level	2.49	2.59	2.66	2.68	2.53	2.38	2.29	2.26	2.28	2.13	2.10	2.01	1.98	1.99	1.99	2.08	2.11	2.08	2.02	2.00	2.05		
	% Change	0.07%	4.28%	2.34%	0.91%	-5.40%	-6.12%	-3.58%	-1.36%	0.87%	-6.71%	-1.57%	-4.31%	-1.09%	0.40%	0.10%	4.26%	1.26%	-1.14%	-2.83%	-1.20%	2.46%	2.17%	(-) 6.71%

Sources: IMF International Financial Statistics
Bank of Zambia

ANNEX

Table 2
ZAMBIA - IMPORTS TO INDUSTRY

	Average 1980-81	Pre- Auction ^{a/} 1985	Post- Auction ^{b/} 1986
<u>MILLIONS US\$</u>			
<u>Manufacturing Imported Inputs</u>	<u>181</u>	<u>112</u>	<u>127</u>
of which:			
Parastatal	105	56	47
Private	76	56	80
<u>Manufacturing Capital Imports ^{e/}</u>	<u>85</u>	<u>19</u>	<u>12</u>
of which:			
Parastatal	50	10	7
Private	35	9	5
<u>Total Manufacturing Imports</u>	<u>266</u>	<u>131</u>	<u>139</u>
of which:			
Parastatal	155	66	54
Private	111	64	85
<u>TOTAL IMPORTS</u>	<u>1,084</u>	<u>741</u>	<u>775</u>
<u>SHARES (%)</u>			
Share of Manufacturing ^{c/} in Total Imports (%)	24.5	17.7	17.9
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Share of Parastatal Imports in Manufacturing Imports (%) ^{c/}	58.3	50.4	38.8

^{a/} Annualized on the basis of January-September 1985.

^{b/} Annualized on the basis of October 1985-February 1986; when available 1986 projections were utilized as well.

^{c/} Imported Inputs and Capital Equipment.

^{d/} Excluding Capital Equipment.

^{e/} Includes spare parts for machinery and equipment in 1980-81; which are excluded for 1985 and 1986, when they were recorded as inputs. This classification inconsistency explains only part of the large drop in capital imports between 1980 and 1986. The aggregate category "total manufacturing imports" is consistent over time.

Sources: Annual Statements of External Trade; CSO Worksheets; INDECO Financial Statements; BOZ Auction Worksheets; IMF tables; Mission estimates.

ANNEX

Table 3
ZAMBIA - CAPACITY UTILIZATION IN INDUSTRY: PRELIMINARY ESTIMATES a/

	1980-81	Pre-Auction 1985	Post-Auction 1986
INDECO Parastatals	64	45	41
of which:			
Five Highly Inefficient Parastatals	N.A.	56	26
Others	N.A.	43	46
Private Sector	45	38	54
Manufacturing Capacity Utilization	<u>55</u>	<u>42</u>	<u>47</u>

a/ The preliminary nature of the estimates ought to be emphasized, since for 1985-1986 it is based on a sample of 20 firms for the private sector; and for INDECO the data available only permitted the calculation of simple averages (rather than weighted averages) for all firms and activities. These results are, therefore, subject to a margin of error. There is no prior, however, as to the direction of a possible bias.

Sources: INDECO Financial Statements; Supervision Mission Industrial Survey; "Zambia: Industrial Policy and Performance" World Bank Report No.4436-ZA, August 1984.

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SORT ROLL EXCEPT
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START ADDRESS

23 MR. PAUL A. ACQUAH
22 HOTEL SHILLA
21 SEOUL, KOREA

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18 THE BANK OF ZAMBIA HAS TODAY, INFORMED THE FUND THAT:
17 (A) WITH EFFECT FROM OCTOBER 4, 1985, THE ZAMBIAN KWACHA
16 RATE AGAINST OTHER CURRENCIES WILL BE DETERMINED BY AN
15 AUCTION SYSTEM: (B) THE FIRST AUCTION SYSTEM-DETERMINED
14 KWACHA RATE WILL BE ANNOUNCED ON OCTOBER 11, 1985; AND
13 (C) DEALINGS IN FOREIGN EXCHANGE BETWEEN THE BANK OF
12 ZAMBIA AND AUTHORIZED DEALERS HAVE BEEN SUSPENDED UNTIL
11 THEN.

10 REGARDS
9 ABU-ZOBAA

IF REQUIRED
INITIAL
BELOW

SPECIAL INSTRUCTIONS ↑ TEXT MUST END HERE ↑

TELEX NO. SHILLA K-24160

CABLE ADDRESS:

DRAFTED BY NAME (TYPE) IMUZONDO:ags

EXT 8969

DEPT. AFD

DATE 10/4/85

AUTHORIZED BY NAME (TYPE) N. ABU-ZOBAA

AUTHORIZED BY NAME (TYPE)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log

FROM IMF WASH. DC *Abu-zobaa* 10/04/85 17:40

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SIGNATURE

Treatment of L/C's under
the auction system

Commercial banks are making the following arguments:

- a. Unless BOZ will allocate sufficient foreign exchange to allow them to eliminate their overdrawn positions within a seasonably short time (eg 12 months), their parent banks and correspondents would use various methods to reduce seriously the amount of short term trade credits available to Zambia.
- b. If the requested program of retiring the overdrawn positions was agreed to and implemented by BOZ, correspondent banks would be willing to maintain and even expand the current facilities available to Zambia. Hence the estimated cost of some \$120 million would not result in any significant net drain on the country's foreign exchange resources.
- c. Unless the kwacha cover for L/C's already matured before the first auction were paid at the pre-auction exchange rate, the losses suffered by the importing companies in question would be such as to call the financial viability of a number of well managed companies into question. Hence the banks are proposing that BOZ allocate \$2.5 million per week for them to reduce their outstandings and provide this foreign exchange at the pre-auction rate.

The BOZ is unable to agree to these proposals, because of the following considerations:

- a. Allocating the sums requested would clearly leave insufficient funds to carry out the auction market successfully.
- b. The implicit exchange rate subsidy would result in the central bank injecting high powered money into the banking system in amounts probably exceeding K150 million.

The banks' position seems to have validity to the following extent:

- a. For already matured L/C's, especially those for which goods have been sold, some relief from the effect of devaluation seems justified.
- b. Certain banks would find it difficult to operate and there could be a net loss to the country if no provision was made to retire old L/C's.

An arrangement having the following features would appear to accommodate the legitimate concerns of banks as well as being consistent with the policy objectives of the BOZ:

- a. Allow banks some room under their allowed working balances to bid for forex in the auction to pay off some of their overdue L/C's. Perhaps a total of \$0.2-0.5 million per week would be sufficient for the purpose. This would allow emergency needs to be sent and hence would help ZNCB with its special problem.
- b. If banks wanted to bid for more forex to retire overdrawn L/c's, they could do so up to a specific limit (say \$0.5 - 1.0 million per week), provided that they can give evidence of opening new L/C's for equipment amounts.

This would be consistent with the banks' claim that there would be no net claim on forex and would result in an equivalent reduction the demand side at the auction and, hence should be satisfactory to BOZ.

- c. For mtured L/C's the BOZ could provide a special loan facility whereby the customers could borrow on concessionary terms (say, 5 years maturity at bank rate) the kwacha amount resulting from the difference between the current and pre-auction exchange rates.

In this way relief would be provided, short of exchange rate guarantee in a way that would enable the BOZ to know exactly the cost, or amount of liquidity creation, involved. This could, if needed, be sterilized through regular monetary policy actions.

Mr. Aguilar

*File 2A Nov. 1985 mission
675588*

RECEIVED
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1985 AUG 28 PM 5:04

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248423 WORLD BANK
MIMEIN ZA42221

ORIG: AFR
CC: MD
DMD
MR. MTEI
ETR
FAD
MR. STERN (IBRD)
MR. S. COLLINS

TO : MR RICHARD D FRB
ACTING MANAGING DIRECTOR
INTERFUND
WASHINGTON D C

I HAVE JUST RETURNED TO WORK TO FIND THE MESSAGE YOU SENT ME STOP I AM MOST GRATEFUL STOP THE POSITION WITH THE VARIOUS POINTS YOU RAISED IS AS FOLLOWS:-

- I. WE DISCUSSED THE WAGE POLICY IN THE PUBLIC SECTOR WITH THE JOINT IMF/WORLD BANK TEAM THAT RECENTLY VISITED ZAMBIA STOP WE STRESSED THE POINT THAT WE HAVE A VERY SERIOUS PROBLEM OF LABOUR FLIGHT IN ALL KEY SKILLS - DOCTORS, AGRICULTURISTS, VETS, ENGINEERS, ACCOUNTANTS ETC MAINLY BECAUSE OF EXISTING POOR SALARIES STOP FURTHER DEPRECIATION WILL MAKE POSITION EVEN WORSE AND COULD NEGATE ALL THE OTHER POSITIVE POLICIES WE ARE FOLLOWING STOP I WOULD SUGGEST WE ALLOW SOME INCREASE IN WAGES FROM A CURRENT DATE STOP TOTAL COST WOULD BE AROUND K50 MILLION ONLY AS AGAINST THE ORIGINAL K150 MILLION STOP THIS INCREASE CAN BE MADE UP BY POLICY OF LABOUR REDUCTION WHICH WE INFORMED YOU ABOUT STOP
- II. THE INCREASE IN THE PRICE OF MAIZE AND FERTILIZER IS TO BE ANNOUNCED SHORTLY STOP
- III. NEW PRODUCER PRICES FOR 1985/86 IS BEING WORKED ON AND WILL BE ANNOUNCED SHORTLY STOP
- IV. MINERAL EXPORT TAX AT 20 PER CENT HAS ALREADY BEEN APPROVED BY PARLIAMENT STOP
- V. THE LAW TO CHANGE THE TARIFF SYSTEM CAN ONLY BE INTRODUCED IN OCTOBER SINCE ALL TAX LEGISLATION MUST BE PASSED BY PARLIAMENT WITHIN A PERIOD OF THREE MONTHS THE NEXT MEETING OF PARLIAMENT WILL BE IN DECEMBER, LEGISLATION IS HOWEVER NEARLY READY.
- VI. AT PRESENT THERE IS ONLY EXCISE TAX ON PETROLEUM PRODUCTS STOP WE ARE INVESTIGATING THE EFFECT ON REVENUE OF CHANGING THE SYSTEM OF TAXATION STOP IN ANY CASE CHANGE IN THE TAX REGIME CAN ONLY TAKE PLACE IN OCTOBER AS EXPLAINED IN (V) ABOVE.

III. INTEREST RATES WILL BE LOWER NEXT WEEK AND THE OTHER RELATED

MATTERS WILL BE IMPLEMENTED AT THE SAME TIME.

I HOPE YOU WILL FIND THESE REPLYES SATISFACTORY AND HELPFUL IN ENABLING YOU TO PROCEED WITH THE MEETING OF DONORS STOP BUT IF THERE ARE ANY OTHER POINTS WHICH REQUIRE CLARIFICATION PLEASE LET ME KNOW.

BEST REGARDS

L. J. MWANANSHIKU: MP
MINISTER
ZAMBIA.

28TH AUGUST: 1985

248423 WORLDBANK
MINFIN ZA42221

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File title & dates: Zambia - Foreign Exchange Auction, 1984-1986

Doc. title & dates: Foreign Exchange Auction A Review Performance

Doc. Classification: SECRET

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ZA 110

Treatment of L/C's under
the auction system

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Office Memorandum

Personal files
As

To : Mr. Paul Acquah
Head of IMF Mission
Lusaka, Zambia

Date: August 3, 1985

ZA 110

From : Abdul Rahman

Abdul Rahman

Subject: Auction System

In terms of the Director of Administration's telex dated July 23, 1985, I left Kampala for Lusaka on July 26, 1985 via Nairobi and joined the mission on July 27, 1985.

2. We met the Governor of the Bank of Zambia and the Minister of Finance on July 29, 1985 and discussed the Auction-based exchange rate regime. It was stressed in both the meetings that the Auction System be given priority in the allocation of Zambia's own foreign exchange receipts and there should be a continuing source of supply of an agreed minimum amount of foreign exchange to the Auction Market. Unless this is assured the failure of the system would be catastrophic to the economy of the country. The response from the Minister of Finance was quite encouraging.

3. As regards the design of system and the appropriate measures to ensure its effectiveness and viability, a draft was prepared and sent to Mr. Mehran of CBD under advice to Mr. Woodward vide my letter dated May 8, 1985. On the basis of it a detailed guideline-styled "Modifications to Foreign Exchange Arrangements" and rules thereunder have been framed by the Bank of Zambia. The draft was discussed on July 30 and 31, 1985 by a committee chaired by the Secretary to the

Ministry of Finance and the Deputy Governor of the Bank of Zambia, respectively. The draft has been cleared subject to the following issues still to be resolved:

(i) whether the Auction should be on a weekly basis or on a fortnightly basis; and

(ii) the requests from the government ministries/ departments should be routed through the Ministry of Finance or direct from the ministries concerned.

4. As you are aware, our stand was that the Auction should be on a weekly basis to avoid violent adjustment in the exchange rate. As regard handling of government allocations, I hold the firm view that the requests should be routed through the Ministry of Finance. I was vocal about it in various forums for the obvious reason of financial discipline. Subject to the above other issues were fully resolved. It is now necessary that the "guideline" and rules thereunder should be printed and circulated to the commercial banks and general public for their guidance. This should be done on a priority basis so that the system will be properly understood and digested by them.

5. As regard (a) establishment of Auction Secretariat and staff arrangement therefor (b) format of register, (c) forms to be used for effective handling of work passing through the Auction Secretariat, and (d) circulars to be issued have been designed and placed below for your information and perusal. The details are as under:

AUCTION SECRETARIAT

DOCUMENTS AND FORMAT

1. Public Notice.....A
2. Covering Form for submission of bids
by commercial banks.....B
3. Auction Bids - Summary Ratewise.....C
4. (a) Consolidated Summary of Bids Received.....D
- (b) Consolidated Summary of Eligible Bids.....D
- (c) Breakdown of Eligible Bids
 categorywise/purposewise.....D
- (d) Breakdown of Eligible Bids under
 (i) other imports
 (ii) other payments.....D
5. Public Announcement at the end of weekly Auction....D
6. Advice to commercial bank regarding the
 weekly outcome of Auction.....F
7. Request for Sale of Funds outside the Auction.....G
8. Advice to pay outside the Auction -
 Exemption from Auction drill.....H
9. Refund of Excess Amount to commercial bank.....I
10. Confirmation of Foreign Exchange Sale.....J
11. Purchase Contract.....K

REGISTER

1. Register showing weekly Auction Sale.....I
2. Weekly Foreign Exchange Receipt.....II
3. Foreign exchange surrendered by commercial
 banks commoditywise and currencywise.....III

CIRCULARS

1. To commercial banks regarding buying and selling rates
2. To ministries/departments by the Secretary to the
 Ministry of Finance regarding new Foreign Exchange Allo-
 cation System

6. I have handed over a set of the above forms/format/circulars to the Director, Foreign Exchange Operations and Budget, who is also the Secretary of the Auction Secretariat, on August 2 for perusal and suggestions for further improvement, keeping in mind the existing exchange control regime in Zambia. I propose to finalize it on August 6, 1985.

7. Mr. Hansen, staff member of the World Bank, was also associated in the discussions to work out the modalities of disbursement of World Bank project loans relating to Industrial Reorientation Project and Agricultural Rehabilitation Project. He would prepare a memorandum for the benefit of the Auction Secretariat.

8. To sum up, the following items are to be attended to on a priority basis before green signal is given for introduction of Auction-based exchange rate regime:

(i) Guideline and rules framed thereunder to be printed and circulated to the commercial banks and general public. This is subject to clearance of two issues referred to in paragraph 3 above;

(ii) Availability of foreign exchange on regular and priority basis as stated in paragraph 2 above;

(iii) Establishment of Auction Secretariat as recommended vide Exhibit (i).

Attachments



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ADLIB ref. number: 62511

File title & dates: Zambia - Foreign Exchange Auction, 1984-1986

Doc. title & dates: Auction secretariat Documents and Format

Doc. Classification: SECRET

Draft

§II. Proposed Decision

please circulate in Division. Comments to be taken Note of attached memo. A 10/28

In light of the reforms introduced in the areas of the exchange and trade policies the following draft decision is proposed for adoption by the Executive Board, instead of the draft proposed decision on page 26 of SM/85/273:

1. The Fund takes this decision relating to Zambia's exchange measures subject to Article VIII, Sections 2(a) and 3, in concluding the 1985 Article XIV consultation with Zambia and in the light of the 1985 Article IV consultation with Zambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Zambia now has substantially liberalized its exchange system. The restrictions on the making of payments and transfers for current international transactions, which are described in detail in SM/--/--, are maintained by Zambia in accordance with Article XIV except that the exchange measures evidenced by payments arrears ^{and} ~~the~~ the foreign exchange auction system are subject to approval under Article VIII, Sections 2(a) and 3. The Fund welcomes the intentions of the authorities to remove these restrictions and multiple currency practices as soon as possible. In the meantime, the Fund grants approval for their retention until ^{December 31, 1985} ~~date~~, or the completion of the next Article IV consultation with Zambia, whichever is earlier. #

June 6, 1985

To: Mr. A.C. Woodward
From: William E. Horder
Subject: Zambia: Foreign Exchange Auction Market

1. Thank you for your note of May 30, 1985, and, in particular, your comments on Mr. Nicoletopoulos' memorandum of December 14 to Mr. Beveridge concerning the Ugandan foreign exchange auction market, which I sent you.

2. There seems to be some difference of views about what was decided on Uganda relating to the feature of the exchange auction market, both in terms of the principle and in terms of application. In an attempt to clarify things, I have reviewed the record and discussed the matter with Mr. Nicoletopoulos and Mr. Liuksila, both of whom were involved. The position, as I understand it, is as follows:

a. Mr. Nicoletopoulos continues to adhere to the principles in his memorandum of December 14 on the Ugandan foreign exchange auction market. As a matter of fact, therefore, and in contradistinction to your understanding, the Legal Department did not revise its position concerning these principles in dealing with the case of Uganda.

b. The description and treatment of the foreign exchange allocation system in Uganda, including the auction feature, in SM/35/14 (1/14/85) was the result of an understanding between Mr. Beveridge and Mr. Nicoletopoulos. Accordingly, various restrictive features of Uganda's exchange system were referred to, but the auction system was not highlighted. In the view of the Legal Department, however, that treatment was not intended to qualify the conclusion that in the circumstances of Uganda a restriction existed in the form of a fixed allocation of foreign exchange for imports, as administered, in part, through the auction market.

c. You state in your memorandum of May 30 that "a restriction would exist only to the extent that participants in the auction are arbitrarily excluded from entering a bid". This is rather too general. In each situation, there is a need to look at all of the circumstances concerning the controls on the allocation of foreign exchange. In a situation in which there is no direct governmental limitation or interference limiting the supply of foreign exchange, I would agree with your statement.

3. In the situation of Zambia, the principles espoused in Mr. Nicoletopoulos' memorandum of December 14 are apposite. Applying them, it should be concluded that the allocation of foreign exchange, and the need to have recourse to the auction system, involves an exchange restriction. In particular, the setting up of a Foreign Exchange Allocation Committee, the setting aside of a sizeable proportion of foreign exchange for priority requirements, and the decision thereby to limit the amount of foreign exchange to be auctioned, amount to a direct governmental limitation on the availability of foreign exchange (see, in this respect, SM/59/73, 11/18/59/, especially pp. 33-35).

4. In this Department's view, the authorities of Zambia should be informed of this conclusion. Presumably, and in accordance with the last sentence of the first paragraph of Mr. Nicoletopoulos' memorandum of December 14, 1984, approval of the restriction involved would be recommended.

cc: Mr. Nicoletopoulos
Mr. Liuksila
Mr. Beveridge
Mr. Quirk

WHolder:mo
6/6/85

Mr. Holder

May 30, 1985

A.C. Woodward

Zambia - Foreign Exchange Auction Market

Thank you for your note attaching copy of Mr. Nicoletopoulos' memorandum of December 14 concerning the Ugandan foreign exchange auction market. I understand that the Legal Department revised its position on this in the case of Uganda. My feeling would be that a restriction would exist only to the extent that participants in the auction are arbitrarily excluded from entering a bid.

SUBJECT COPY

INTERNATIONAL MONETARY FUND

Uganda - 1984 Consultation

Executive Board Decision - February 8, 1985

1. The Fund takes this decision relating to Uganda's exchange measures subject to Article VIII, Section 2(a), in concluding the 1984 Article XIV consultation with Uganda and in the light of the 1984 Article IV consultation with Uganda conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. As described in SM/85/14, Uganda continues to maintain exchange restrictions on payments and transfers for current international transactions, including restrictions evidenced by external payments arrears. The Fund urges Uganda to undertake the early elimination of these restrictions.



Office Memorandum

cc: Mr. Quinn

TO: Mr. W.A. Beveridge

FROM: George P. Nicoletopoulos *G.P.N.*

SUBJECT: Uganda - Foreign Exchange Auction Market

December 14, 1984

If the only way in which residents of Uganda may obtain foreign exchange legally for making payments for permitted current international transactions is to participate in periodic auctions of limited amounts of foreign exchange, it is evident that some participants will not be able to obtain the exchange needed to settle their commitments. As I understand it, participants in auctions whose bids are not successful may not, with few exceptions, buy, consistently with the applicable rules, the foreign exchange needed for imports from any other source, even if they are willing to pay any price. This system involves a restriction on current payments that is subject to the jurisdiction of the Fund's Article VIII, Section 2(a). The fact that an unsuccessful bidder may participate at a subsequent auction does not eliminate the restrictive aspect of the system. I may add that if, as you state, the Fund is promoting such auction arrangements in certain member countries, we should be willing to recommend approval of the restrictions involved in the arrangements, on the ground that these arrangements are preferable to the alternatives available.

I would appreciate it if the 1984 Article IV Report on Uganda would reflect the legal position as explained above.

cc: Mr. Outtara



Office Memorandum

TO : Mr. Nicoletopoulos

DATE: December 13, 1984

FROM : W.A. Beveridge *WAB*

SUBJECT : Uganda--Foreign Exchange Auction Market

I cannot see any exchange restrictions in the operation of this market, assuming that the problems relating to tax compliance checks and the assignment of Treasury bills are solved. No one is left out of this market. If applicants do not wish to make bids personally they may do so through the commercial banks, who consolidate the amounts and make the bids on their behalf. I would note that the Fund is, as a matter of policy, promoting such market-oriented arrangements in developing member countries.

bcc: Mr. Quirk

Pls start ZA-246 110
Foreign exchange
auction system

TO : Mr. Bornemann

August 7, 1984

FROM : Joshua Greene

SUBJECT : Analysis of Establishing a Partial Foreign
Exchange Auction System in Zambia

For several years, Zambia has used a complex, administratively-based system to allocate its limited supply of foreign exchange for imports of goods and services. Under the most recent modification of the system, established midway during 1983, the Bank of Zambia draws up a quarterly foreign exchange budget using projected foreign exchange receipts and pre-identified demands for foreign exchange such as external debt service and retained export earnings of the mining company. Any remaining foreign exchange services are then allocated to general imports of goods and services. This final amount is transmitted to an Import Licensing Committee, whose members include representatives of five key government ministries and commissions, the Bank of Zambia, ZIMCO, ZINCOM, and the Commercial Farmers Bureau. In theory the committee uses the Bank of Zambia's data to establish a ceiling on the volume of import licenses commensurate with the availability of foreign exchange. In practice, the volume of import licenses has regularly exceeded the availability of foreign exchange, often because the Bank has overestimated receipts or underestimated other claims on foreign exchange. To help reduce the overhang of unfilled licenses, during 1983 the committee recalled and replaced all outstanding licenses with a smaller amount. Nevertheless, another overhang developed by early 1984, and the committee decided not to allocate new licenses until the second quarter of the year. As a result, many nontraditional exporters could not obtain import licenses for the foreign exchange earnings they were allowed to retain under the Government's new export-promotion program, thereby nullifying its effectiveness.

In response to these and other problems with the foreign exchange allocation system, many observers have urged the Government to adopt an auction system for allocating some of Zambia's foreign exchange resources. Under an auction system, a predetermined quantity of foreign exchange would be sold to the highest bidder(s) at a price determined by the auction. 1/ The quantity allocated for bid would presumably be set by the Bank of Zambia as part of its foreign exchange budgeting exercise and sold either by the Bank or the Government, using the Bank as agent.

1/ The World Bank has suggested that a two-tier auction system be established, with separate allocations and bidding for each of the two following categories of goods: (a) capital goods, spare parts, general raw materials, and intermediate inputs; and (b) nonessential consumer goods, including luxury items. Category (b) could also be expanded to include such items as the repatriation of dividends.

outside the official exchange rate system and to lead to a readjustment of the official exchange rate at a more realistic level. Thus, the Fund has typically required that the creation of any such auction system be strictly temporary, with the aim of unifying the exchange rate at the auction price around the end of a program when the program covers more than one year ^{1/}. In addition, programs involving foreign exchange auction systems have sometimes required that a minimum amount of foreign exchange be supplied through the auction mechanism, with the amount stipulated as a performance criterion and required to increase over time (as in the case of Uganda).

With these precedents, it may be hard gaining approval for an auction system in the case of Zambia. Only a limited proportion of Zambia's export earnings (about 20-25 percent, the amount associated with emerald production) is now occurring outside regular channels. In addition, Fund missions have not thus far urged the authorities to depreciate the kwacha all the way to the market clearing level, although establishing an auction could be a way to achieve this objective. An auction system could eliminate some of the administrative difficulties now plaguing Zambia's foreign exchange allocation system. Whether this justification would suffice for Fund approval is uncertain, however, especially if other administrative reforms, such as unifying the import licensing and foreign exchange allocation process, might accomplish the same objective without the establishment of multiple exchange rates.

4. Conclusion

Despite the many risks associated with it, a partial auction system could lead to a smoother and more efficient allocation of foreign exchange in Zambia. Provided proper safeguards were taken, the system could ensure the inflow of critical imports while allowing market factors to determine the allocation of remaining foreign exchange among competing, less essential items. It could also reduce the administrative burdens associated with foreign exchange allocation and simplify the process of obtaining foreign exchange once an important permit was obtained. On the other hand, introducing an auction system would mean establishing a multiple exchange practice and, to that extent, require numerous restrictions to receive authorization from the Fund. If the primary reason for introducing the auction were to increase the allocation of foreign exchange for specific types of imports (such as spare parts), it might be simpler just to unify the import licensing and foreign exchange allocation systems and then grant any application for spare parts (up to certain limits) an automatic approval.

If an auction system is established, however, the authorities must ensure that the funds allocated for auction are in fact available, to ensure the integrity of import licenses under the new system. The authorities must also coordinate the auction system with other claims on Zambia's foreign

^{1/} See "Review of Experience with Multiple Exchange Rate Regimes," SM/84/64 and SM/84/65, February 1984.

exchange system, such as the recently established foreign exchange retention system for nontraditional exports. This may require establishing a special pool of foreign exchange separate from the general auction to fund imports from these exchange retention accounts. Moreover, in establishing an auction system the authorities should ensure that it cover the broadest possible range of nonessential imports, and that steps be taken over time to expand the list of covered items. Only in this way can the maximum benefits from a market-based allocation of resources be achieved.

cc: Mr. Woodward
Mr. Sharer
Mr. Hatayama
Mr. Schneider

CENTRAL FILES

Mr. Shiner

Copy:

Zambian mission

ATTACHMENT III

2A/10

CONFIDENTIAL

First Draft

Freetown, 10/26/84

Sierra Leone: Interbank Exchange Rate Determination:
Preliminary Illustrative Broad Outline for Discussion 1/

Broad framework

The exchange rate system tentatively proposed by the Fund staff would be based on the features that are briefly described hereafter:

1. Introduction of a unified exchange rate system, without a formal leone/U.S. dollar parity. This unified exchange rate would be used for all transactions, including official transactions carried out by the Bank of Sierra Leone and the transactions that are currently handled through the parallel market.
2. The official transactions of the Bank of Sierra Leone would include those transactions that are related to official external debt servicing.
3. All the other transactions, which are currently made either by the commercial banks or the so-called parallel markets, would be made within a liberalized exchange and trade system.
4. The introduction and implementation of a unified exchange rate system would be based on the establishment of a unified interbank exchange market.

(a) To this effect, a prior and substantially large depreciation of the leone is recommended in order to bring the current official exchange

1/ The outline presented herein represents this mission's preliminary attempt to generate discussion on the modalities for exchange rate determination, within the context of an interbank market. Consequently, this draft would be subject to comments and changes from the authorities designed to take account of other specific characteristics of Sierra Leone's financial system.

rate to a level closer to an "equilibrium" rate as reflected in the so-called parallel market. Logically, there would be no need for this discreet devaluation and the rate could be floated from the present level. However, for practical purposes, it may be useful to instill confidence in the market by beginning with a benchmark.

(b) A unified interbank market could have the following features:

(i) To establish an interbank market, consisting of five commercial banks [and the Bank of Sierra Leone] to jointly determine a weekly (or daily) exchange rate.

(ii) Each Friday [each day] the commercial banks meet with the Bank of Sierra Leone, at 10:00 a.m. to determine a rate applicable for the following week (business day).

(iii) The individual banks including the Bank of Sierra Leone announce the transactions in foreign exchange they intend to undertake at a particular exchange rate, based on requests for purchases and sales of foreign exchange made on the previous week (business day).

(iv) The Bank of Sierra Leone has no direct authority to fix the rate.

(v) The net foreign exchange position of each commercial bank should be limited to a certain portion of its capital and reserves.

5. This system would also be accompanied by a liberalization of import licenses.

Note: One variant would be to allow commercial banks to negotiate any rate in their daily transactions among themselves, as well as with their clients, irrespective of the weekly (daily) determined rate.

Advantages of a partial auction system

Shifting the allocation of part of Zambia's foreign exchange resources to an auction system would have several major advantages over the present allocation system.

First, it would greatly simplify the administration of foreign exchange budgeting. By restricting the allocation system to the Government and a small number of presumably parastatal/importers of necessities, the Government would no longer have to evaluate the applications of would-be importers of other goods for specific commodities of foreign exchange. Instead, it could simply authorize individuals and firms to bid for foreign exchange, to be used for importing the items or types of items designated on an import license. Such a change would reduce the time and effort needed to assess foreign exchange applications. It would also eliminate the need to reconcile the volume of foreign exchange licenses with the allocation of foreign exchange, since the auction itself would determine each bidder's right to a certain quantity of foreign exchange.

A second advantage of shifting to a partial auction system is that it could lead to a more efficient allocation of resources among competing users of foreign exchange. In theory bids for foreign exchange would reflect the relative value of alternative imports. Thus, allowing only the highest bidders to receive foreign exchange should lead to allocation among the most highly-valued imports. The same result cannot be assured under an administrative allocation system, where government bureaucrats can apply criteria other than market worth in determining the allocation.

A third advantage to using an auction system is that it could lead to a more realistic exchange rate. A partial auction system would give an indication of the market-clearing rate for the kwacha. As such, it would encourage the Government to move the kwacha toward that level, particularly if licenses for a large proportion of imports were allocated by auction. Such an adjustment, in turn, could discourage the production of goods with high foreign exchange costs in relation to value added, thereby contributing to the broader goal of rationalizing industrial production in Zambia. It could also signal Zambia's intention to pursue more market-oriented policies, including a shift from quota-based protection to protection based on tariffs and exchange rate policy. As such, it would represent another break from the heavily regulatory approach of past government policies toward industry and production generally.

A further advantage of establishing an auction system is that it could yield additional government revenue. Under an auction system the Government would receive in kwacha the difference between the official exchange rate and the rate bid for import licenses. The auction would thus transfer to the Government a large part of the scarcity rents now accruing to holders of foreign exchange. The resulting increase in revenue would reduce the government's budget deficit and its consequent need for bank borrowing. These revenue gains would, of course, disappear as the official rate were adjusted toward the market-clearing (auction) level.

CENTRAL FILES

2. Disadvantages

Establishing an auction system could also have potential disadvantages that need to be recognized. First, an auction system could allow scarce foreign exchange to be used for politically undesirable uses, such as the purchase of luxury goods. This problem could be minimized by establishing a list of items disapproved for import or, better, by imposing excise taxes on certain goods to discourage, rather than prohibit, imports of particular items. Nevertheless, an auction is likely to generate a different allocation of foreign exchange licenses from what government ministers or bureaucrats would recommend, and this may prove politically troublesome. Furthermore, overly tight limits on the use of auctioned foreign exchange could undermine the effectiveness of the system and lead to smuggling. Thus, it may not be possible to avoid some "unwanted" imports under an auction system.

A second problem with an auction system is that it may be hard to administer. Establishing a new method for allocating foreign exchange is likely to require a second recall of outstanding import licenses, further efforts to determine the list of imports eligible for auction, and the need to draft and publicize new regulations, all of which will tax the limited numbers of well-trained staff in the Government and the Bank of Zambia. Deciding how to limit bids to selected categories of goods and services may pose an especially significant problem, since it could require the issuance of "permits to bid" for foreign exchange that need review by a government agency, although Fund staff understand that lists of this sort have already been compiled under the existing allocation system. Unless this process is handled well, it could lead to major bottlenecks. In particular, where private dealers handle imports both of essential items (for which the allocation system would still apply) and of other consumer goods, the determination of whether applications should be processed under the allocation or the auction system could lead to delay and confusion.

A third drawback with establishing an auction system is that it could make it difficult for smaller firms with limited resources to compete for foreign exchange. Because private sector credit is in limited supply, smaller firms might find it hard obtaining the funds with which to compete against larger importers in bidding for import licenses. Consequently, an auction system could increase the concentration of importing among larger dealers with sizable existing resources. To the extent this outcome eliminates inefficient operators from the market, it might be welcome. The exclusion of smaller firms could intensify existing problems of monopoly supply, however. Thus, the Government might wish to limit the availability of licenses to any one supplier of a particular commodity. In addition, the Prices and Income Commission might be asked to examine the implications of an auction system for monopolistic practices and price levels in Zambia.

The fourth possible problem with establishing an auction system involves its effect on the rate of inflation. World Bank economists who have analyzed this issue contend that shifting to an auction system might not change the rate of inflation in Zambia unless the Government tends to spend a larger fraction of the rents from exchange scarcity than do the present recipients of these rents. The reason is that the total supply of foreign exchange will not change, only its allocation among different items. Thus, the major effect of adopting an allocation system should be a shift in relative prices, in particular a rise in the price of luxury consumer goods relative to other items rather than an increase in the overall price level. Nevertheless, any rise in the kwacha cost of imported goods is certain to be reflected in higher consumer prices, given the excess demand for most of these items in Zambia. The effect could be even broader if the auction rate in turn raises the black market exchange rate for the kwacha, which many private dealers use in determining their required margins for selling consumer goods. A rise in consumer prices could in turn touch off demands for higher wage increases, since wage levels have fallen significantly over the past two years and Zambia's unions have already objected to proposals that would keep wage increases below the rate of consumer price inflation during 1984-85. It would therefore be important to monitor both price developments if an auction system were implemented and to take special efforts so as to prevent any spillover of inflation into wage rates that could weaken Zambia's efforts to limit consumption and increase its trade competitiveness.

In addition to these four principal disadvantages, an auction system could create others as well. For example, it could undermine the authority of the official exchange rate, although this might prove worthwhile if it helped re-establish the exchange rate at a level equating supply with demand. The auction system could also complicate Zambia's trade policy by making it harder to determine the effective level of protection for imports as the exchange rate varied from day to day. On the other hand, using an auction-based exchange rate in place of the official rate to determine payments to nontraditional exporters should increase the incentives for engaging in these activities. Another problem is that an auction system could lead to wide swings in the auction exchange rate, especially if the quantity of foreign exchange for auction is subject to sudden changes. A further difficulty is that the auction system would represent a multiple exchange practice and therefore require special approval from the Fund, although such approval would probably be forthcoming if the system were portrayed as an improvement in Zambia's foreign exchange system.

3. An auction system as a multiple exchange rate practice

A further problem with an auction system is that its establishment would represent a multiple exchange practice and therefore require special approval from the Fund. Such approval would not be automatic, since Fund policy has been to use auction systems to regularize transactions occurring

Illustrative Procedures for Rate Determination

A. Opening of the Fixing Session

1. A session is presided by the Director (or Deputy Director) of the Foreign Department of the Bank of Sierra Leone.
2. The session is commenced by an exchange of views on recent economic and monetary situations in Sierra Leone and abroad which might have an influence on the future evolution of the foreign exchange market.

B. Procedures to be followed by the Central Bank

1. Control the presence of the participants.
2. Distribute operation slips to the participants.
3. Inform the previous fixing rate of the participant.
 - 4.1 Ask the participants to provide information on foreign exchange operations between them, if any, effected since the previous fixing session (in the morning prior to the current session).
 - 4.2 Take note of the outcome of the above operations between participants on the operation slips in a chronological order.
 - 4.3 Announce loudly the exchange rate (buying and selling) on the latest of such operations as a benchmark of the opening of the session ("opening quotation").
 - 4.4 In case of the absence of such operations between participants, the previous fixing rate is to be a benchmark for the session.
5. Ask the participants to provide their ask and bid orders by means of the operation slips which indicate:
 - order's name;
 - specification as to whether the order is selling or buying;

- amount of the order;
- desired exchange rate; and
- name of the correspondent banks abroad for the settlement of the possible transaction.

6. Collect the operation slips.

7. Make a table based on the individual slips which indicates orders for purchases on the left hand side and those for sales on the right hand side; orders with higher prices in local currency terms shall be put above those with lower prices; orders for sales without limit are to be shown on the top while orders for purchases without limit on the bottom, respectively.

8. Calculate the total amount of orders for sales and purchases, separately.

9. Look into the structure of orders of the first round in terms of the amount and the exchange rate with a view to having an idea as to the likely exchange rate at the fixing.

10. Announce with a loud voice extreme exchange rates, i.e. the lowest rate on purchases and the highest rate on sales.

11. Announce the likely exchange rate at the fixing by saying that the exchange rate at the fixing rate is expected to be at around such and such unless the participants offer new orders of a possible second round.

12. Ask the participants whether they wish to offer new orders in the second round.

13. Take note of such new orders, if any.

14. Repeat the process of collection of orders for sales and purchases.

15. Reexamine the structure of the second-round-orders in terms of the amount and the exchange rate to determine exactly both the fixing rate and the amount of transactions undertaken at the fixing rate. The rules to be followed in determining these rates and amounts follows:

a. Rates provided by purchasers indicate the maximum rate beyond which the purchasers would not effect transactions but they would accept a rate which is lower than they offered. By contrast, rates provided by sellers represent the minimum rate below which they would not sell but would accept to sell at a higher rate.

b. A fixing rate is to be decided upon by making diagonal comparisons between orders for purchases and those for sales, from high to low rates for sales orders and from low to high rates for purchase orders.

c. Orders without specified limit should be executed with priority.

d. A fixing rate should be established at a level which allows the largest orders for purchases to be transacted.

e. In cases where it is impossible to satisfy these orders without specific limit, orders with a specific amount could be executed on condition, however, that a fixing rate is decided at a level offered by the orders with a specific amount.

f. If the rates offered by purchases exceeds those by sellers and the amount of orders for purchases is equal to that for sales, a fixing rate should be decided at a mid-point between the rates offered by the sellers and purchasers.

16. Announce the fixing rate decided upon in line with the above-mentioned procedures and its attendant eventual transactions, with a loud voice.

AFR DIVISION COUNTRY DESK FILE

Box 329 File 6