

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/10

CONFIDENTIAL

January 11, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Zambia - Exchange Arrangements

The attached paper on recent changes in the exchange arrangements of Zambia is circulated for the information of the Executive Directors.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

Zambia--Exchange Arrangements

Prepared by the African Department
and the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by J.B. Zulu and S. Kanesa-Thasan

January 10, 1983

In the attached communication dated January 7, 1983, the Bank of Zambia has notified the Fund of a 20 per cent devaluation of the kwacha in terms of the SDR, to which the kwacha is pegged. With effect from January 7, 1983, the new exchange rate of the kwacha vis-à-vis the SDR is K 1 = SDR 0.781049, compared with the previous rate of K 1 = SDR 0.976311. In this connection, the Bank of Zambia decided to close foreign exchange operations on January 7, 1983 and reopen on January 10, 1983.

The Zambian authorities also decided, with effect from January 7, 1983, to suspend temporarily repayment of principal on all external loans and external payments arrears, and to seek a rescheduling from their creditors.

The staff has been assisting the Zambian authorities in working out a stabilization program in support of which Zambia intends to request financial support from the Fund in the form of a stand-by arrangement. In its communication, the Bank of Zambia states that the above measures constitute a part of a package of measures under such a program. The staff remains in close contact with the authorities and will report any further developments to the Executive Board.

Attachment

INTERFUND
WASHINGTON, D.C.

1. THE GOVERNMENT OF THE REPUBLIC OF ZAMBIA HAS WITH EFFECT FROM FRIDAY 7TH JANUARY, 1983 DECIDED TO:-

(A) DEVALUE THE KWACHA BY TWENTY PER CENT AGAINST THE SPECIAL DRAWING RIGHTS (SDR). IN THIS CONNECTION THE BANK OF ZAMBIA WILL BE CLOSED FOR FOREIGN EXCHANGE OPERATIONS ON FRIDAY 7TH JANUARY AND WILL REOPEN ON MONDAY, 10TH JANUARY 1983.

(B) TEMPORARILY SUSPEND REPAYMENT OF PRINCIPAL, EXCEPT INTEREST, ON ALL FOREIGN LOANS AND ON FOREIGN PAYMENTS ARREARS AND SEEK FOR A RESCHEDULING FROM ITS CREDITORS.

2. THE PROLONGED RECESSION IN THE WORLD ECONOMY HAS DEPRESSED ZAMBIA'S EXPORT EARNINGS FROM COPPER AND COBALT, ON WHICH ZAMBIA DEPENDS FOR OVER 90 PERCENT OF ITS FOREIGN EXCHANGE EARNINGS. EXPORT EARNINGS, TOGETHER WITH OTHER FOREIGN INFLOWS, HAVE NOT BEEN SUFFICIENT TO FINANCE THE CONTINUING REQUIREMENTS OF THE ECONOMY FOR IMPORTS OF GOODS AND SERVICES, AND THE NEED TO MEET FOREIGN DEBT SERVICE PAYMENTS FALLING DUE. FOREIGN PAYMENTS ARREARS HAVE BEEN INCREASING AS A RESULT.

3. IN ORDER TO REDUCE THE FOREIGN EXCHANGE GAP, AND TO HELP RESTORE THE CONFIDENCE OF THE INTERNATIONAL FINANCIAL COMMUNITY, THE GOVERNMENT HAS BEEN NEGOTIATING WITH THE INTERNATIONAL MONETARY FUND (IMF) FOR A STANDBY ARRANGEMENT. A BROAD MEASURE OF UNDERSTANDING BETWEEN THE GOVERNMENT AND THE IMF HAS NOW BEEN REACHED AND THE TWO MEASURES TAKEN ABOVE ARE PART OF THIS PACKAGE. IN ADDITION, THE GOVERNMENT IS APPLYING FOR THE COMPENSATORY FINANCING FROM THE IMF FOR EXPORT SHORTFALLS FOR WHICH ZAMBIA IS ELIGIBLE IN 1983.

4. THE GOVERNMENT'S DECISION TO DEVALUE THE KWACHA IS INTENDED TO RESTORE THE EFFECTIVE VALUE OF THE KWACHA TO ITS LEVEL AFTER THE LAST ADJUSTMENT IN THE EXCHANGE RATE IN 1978. FURTHER THE DECISION TO RESCHEDULE FOREIGN OBLIGATIONS IS DESIGNED TO ENSURE THAT ZAMBIA CAN CONTINUE TO AFFORD THOSE IMPORTS THAT ARE VITALLY NEEDED TO MAINTAIN THE ECONOMIC INFRASTRUCTURE OF THE COUNTRY SO THAT ITS GREAT POTENTIAL CAN BE REALISED IN THE LONG TERM.

5. THE IMPLICATIONS OF THE GOVERNMENT'S DECISIONS WILL BE FULLY DISCUSSED WITH THE INTERNATIONAL FINANCIAL COMMUNITY AND IN THIS CONNECTION THE GOVERNOR OF THE BANK OF ZAMBIA AND THE CHAIRMAN OF ZAMBIA CONSOLIDATED COPPER MINES WILL BE TRAVELLING TO EUROPE SHORTLY FOR DISCUSSIONS.

BANK OF ZAMBIA
LUSAKA

Received in Cable Room: January 6, 1983