DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

FOR AGENDA

EBS/83/264

CONFIDENTIAL

December 7, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zimbabwe - Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Zimbabwe and review under the stand-by arrangement. Draft decisions appear on pages 23 and 24.

It is proposed to bring this subject, together with Zimbabwe's request for a purchase under the buffer stock financing facility (EBS/83/254, 11/29/83), to the agenda for discussion on Wednesday, January 4, 1984.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Edo (ext. (5)8750) or Mr. E. S. Williams (ext. (5)8751).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZIMBABWE

Staff Report for the 1983 Article IV Consultation and Review Under Stand-By Arrangement

Prepared by the Staff Representatives for the 1983 Consultation with Zimbabwe

Approved by O.B. Makalou and S. Kanesa-Thasan

December 7, 1983

I. Introduction

A staff team visited Harare during the period May 12-31, 1983 to conduct the 1983 Article IV consultation discussions and to review performance under the 18-month stand-by arrangement for SDR 300 million (200 percent of the present quota) approved by the Executive Board on March 23, 1983. The consultation and review were not completed at the time, and further discussions were held in Washington during August 1-5 and September 26-30, 1983 1/. The Zimbabwean representatives participating in these discussions included the Minister of Finance and Economic Planning and Development, the Secretary of Finance and Economic Planning and Development, the Governor of the Reserve Bank, and other senior officials.

Zimbabwe has purchased SDR 97.5 million of the SDR 300 million available under the stand-by arrangement. Purchases were made in March 1983 (SDR 60 million) following Executive Board approval of the arrangement, and in April 1983 (SDR 37.5 million) based on the observance of quantitative performance criteria for the end of March 1983; Zimbabwe also made a purchase of SDR 56.1 million in March 1983, under the compensatory financing facility. The purchase that was scheduled for July 1983 under the stand-by arrangement was not made on schedule because the ceiling on net bank credit to the Central Government for June 1983 was not observed (the overall credit ceiling was observed). This purchase and the purchase originally scheduled for October 1983, together amounting to SDR 77.5 million, will be made available following the Executive Board's completion of the review; all performance criteria for the September quarter have been met. As of October 30, 1983, the Fund's total holdings of Zimbabwe dollars subject to repurchase amounted to SDR 91.1 million (117.4 percent of quota); excluding purchases under the compensatory financing facility, they were equivalent to SDR 135.0

1/ The staff team comprised Messrs. M. Edo (head), E. Williams, U. Gunjal, T. Oyama (all AFR), R. Hurnard (FAD), N. Weerasinghe (ETR) and Mrs. Y. Coker (secretary, AFR).

million (90 percent of quota). If the remaining amount available under the stand-by arrangement were purchased, the Fund's total holdings of Zimbabwe dollars subject to repurchase would rise to SDR 395.7 million (263.8 percent of the present quota or 185.7 percent of the proposed quota). Purchases would now be scheduled as summarized in Table 1.

Zimbabwe continues to avail itself of the transitional arrangements of Article XIV. A summary of Zimbabwe's relations with the Fund is presented in Attachment I.

II. Background

Following a reduction in real GDP in the late 1970s, a period of domestic civil and military unrest, the real rate of growth of GDP (at factor cost) rose to 11.2 percent in 1980 and 12.2 percent in 1981. This rapid expansion in economic output was accompanied by a rate of inflation of 7 percent in 1980 (as measured by the increase in the consumer price indices), as imports and the utilization of excess capacity served to absorb the impact of the increase in demand. In 1981, the rate of domestic inflation rose to 14 percent (Table 2), reflecting the impact of higher wages and government expenditures, higher interest rates and increases in rates of sales taxes.

While the rate of economic growth was relatively satisfactory, the external position deteriorated rapidly; the current account deficit increased from 2.8 percent of GDP in 1979 to 5.8 percent in 1980 and 12.1 percent in 1981 and the overall balance of payments position changed from a surplus of SDR 47.6 million in 1979 and of SDR 35.9 million in 1980 to a deficit of SDR 150.5 million in 1981 (Table 2). The deterioration was due largely to a reduction in export demand and to severe transportation problems on domestic routes as well as on transit routes through neighbouring countries to ocean ports. The rate of increase of exports declined from 32.9 percent in 1980 to 10.7 percent in 1981, while imports increased by 51.9 percent in 1980 and 26.3 percent in 1981. Another factor contributing to the deterioration in the external accounts was the implementation of exchange liberalization measures in November 1980 and February 1981. Remittances of profits, dividends, interest, and income from emigrant property had been severely restricted during the sanctions period. The liberalization measures provided for the remittance of 50 percent of these incomes on a current basis. Incomes which had accrued in the period 1965-73, but were previously blocked, were allowed to be remitted under a scheme involving the purchase of interest bearing bonds to be amortized in equal instalments over six years. These measures are estimated to have added SDR 75 million to the current account deficit in 1981.

Economic growth declined to 2 percent in 1982, and the rate of inflation rose slightly, to 15 percent. The decline in the rate of economic growth reflected the adverse effect of weather conditions on

Table 1. Zimbabwe: Schedule of Purchases and Repurchases, March 1983-July 1984

	Purchases: Stand-by arrangement	Purchases: CFF	Purchases: Buffer stock	Repurchases	Total outstanding	Purchases outstanding: Total	Purchases outstanding: Excl. special facilities
	(In millions of SDRs)					(As percent of quota)	
1983							
March	60.0	56.1	--	--	153.6	102.4	65.0
April	37.5	--	--	--	191.1	127.4	90.0
December 1/	77.5	--	2.1	--	270.7	180.5	141.7
1984							
February 2/	40.0	--	--	--	310.7	207.1	168.3
April	40.0	--	--	--	350.7	233.8	195.0
July	45.0	--	--	--	395.7	263.8	225.0

1/ The original schedule had provided for purchases of SDR 40.0 million in July 1983 and SDR 37.5 million in October 1983.

2/ Originally, January 1984.

Table 2. Zimbabwe: Selected Economic and Financial Indicators, 1980-84 1/

	1980 Actual	1981 Actual	1982 Actual	1983 Program Original	1983 Program Revised	1984 Proj.
	(Annual per cent changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	11.3	12.2	1.9	2.0	0.7	3.0
GDP deflator	14.2	11.5	14.4	17.0	16.5	16.0
Consumer prices	7.3	13.9	14.6	17.0	18.1	16.0
External sector						
Exports, f.o.b. (millions of SDRs)	1,111	1,229	1,195	1,280	1,051	1,177
Imports, c.i.f. (millions of SDRs)	-1,107	-1,457	-1,492	-1,575	-1,196	-1,329
Non-oil imports, c.i.f. (millions of SDRs)	-869	1,186	-1,278	-1,255	-1,082	-1,170
Export volume	-4.8	-4.8	2.9	5.0	-7.0	6.0
Import volume	37.7	23.5	7.7	4.0	-23.7	7.7
Terms of trade (deterioration -)	23.6	11.1	-2.6	-2.0	-7.0	1.0
Nominal trade-weighted effective exchange rate, end of period (depreciation -)	5.2	3.8	-13.8	...	...	...
Real trade-weighted effective exchange rate, end of period (depreciation -)	1.7	8.8	-6.8	--	--	
Central government budget 1/						
Revenue and grants	16.5	49.9	35.1	45.8	33.1	17.8
Total expenditure and net lending	20.9	23.7	31.5	38.7	32.6	14.9
Money and credit						
Domestic credit 2/	27.7	26.6	29.5	21.2	22.8	15.4
Government 2/	17.2	-3.1	18.7	--	0.6	...
Money and quasi-money (M2)	22.3	15.2	21.0	7.6	7.2	1.7
Velocity (GDP relative to M2)	3.0	3.2	3.1	3.1	3.3	3.7
Interest rate (annual rate, one-year savings deposit or alternative rate)	4.0	8.75	8.75	8.75	8.75	...
	(In per cent of GDP)					
Central government budget deficit 1/						
Excluding official transfers	-12.7	-9.3	-8.3	-8.2	-9.5	-8.3
Including official transfers	-12.7	-7.7	-7.6	-7.0	-8.5	-7.3
Domestic bank financing	4.6	2.8	-0.3	1.5	2.0	1.6
Foreign financing	2.5	0.8	4.9	3.4	0.9	2.9
Gross domestic investment	17.1	...	...	...	...	...
Gross national savings	14.7	...	...	...	...	...
External account deficit						
Including official transfers	4.7	10.7	10.8	12.2	8.4	8.0
Excluding official transfers	5.8	12.1	12.2	13.3	9.3	8.9
External debt	16.1	29.6	34.4	23.9	41.1	
Inclusive of use of Fund credit	16.1	30.6	34.4	30.9	45.3	
Debt service ratio 3/						
Inclusive of debt service on refinanced short-term debt 4/	3.8	7.0	10.4	...	16.9	23.6
	(In millions of SDRs, unless otherwise specified)					
Overall balance of payments	35.9	-150.5	85.5	-227.0	-283.0	-218
Gross official reserves (months of imports, c.i.f.)	2.4	1.9	1.6	...	1.5	1.4

1/ In the case of central government finances the data refer to fiscal years (July-June) 1979/80, 1980/81, 1981/82, 1982/83 program and preliminary actual and 1983/84 program as proposed under the new program.

2/ Absolute increase as a percentage of money and quasi-money at the beginning of the period.

3/ Includes Fund.

4/ Debt service ratios presented in earlier staff reports did not include payments due on short-term debt which has been consolidated in 1983 into medium-term debt.

agricultural output and of depressed international prices on mineral production. Several small mines, as well as the country's largest copper/nickel mine, were closed, and many others operated below capacity. The manufacturing sector, affected by weak demand, also recorded a fall in production.

The external accounts remained weak in 1982. Exports declined by about 3 percent, in nominal SDR terms. Imports rose by only 3 percent, but, with the continued high levels of freight and insurance payments and a sharp increase in net investment income outflows, the current account deficit rose to SDR 703 million (12.2 percent of GDP) compared with SDR 616 million (12.1 percent of GDP) in 1981. However, increased borrowing by the Government and the public enterprises and sizeable unidentified private inflows helped to reduce the overall deficit to SDR 86 million from SDR 151 million in 1981 (Table 2).

When the present Government of Zimbabwe, the first under majority rule, came to office in April 1980, it introduced urgent resettlement and rehabilitation programs to correct for the population displacement and property damage sustained during the civil war of the late 1970s. At the same time, the Government implemented policies designed to remove the dualistic features of the economy, expand social services and increase real incomes, especially for previously deprived groups of the population. In July 1980, a system of minimum wages was introduced: minimum wages, as well as lower level wages in both the public and private sectors were increased in January 1981 and January 1982; also, in 1981/82, primary school fees and hospital costs were waived for those earning less than Z$50 per month and primary and secondary school enrollment was rapidly expanded.

In February 1981, in a major economic policy statement "Growth with Equity," the Government described the main features of its development strategy 1/. In this statement, the Government recognized the important role of the private sector, which remains predominant in productive activity; the Government also undertook, as a first priority, to increase productivity by expanding infrastructure, energy and utilities, and by an emphasis on the development of skills and manpower training. While the strategy referred to a greater state involvement in economic activity, direct government participation in private sector enterprises has occurred only in isolated cases. The airlines, railways, and utility companies are in the public sector, and the Government holds a 48 percent share in the Zimbabwe Iron and Steel Company (ZISCO). The Government has acquired (at market prices) controlling interest in a commercial bank, and a publications company, as well as a 40 percent share in the Wankie colliery and a share in a bus transport company. The Government has indicated that it might acquire shares in a large insurance company. In March 1983, the Government established a minerals

---

1/ The strategy has been restated and amplified in the Three Year Transitional Plan issued in late 1982.

sales organization, which is intended over time to take over the domestic purchase and foreign sale of the country's mineral production, and to provide market research information for producing companies; thus far, the organization has been slow to develop and the responsibility for domestic and foreign marketing remains largely with the mining companies. Other than the above, activity in mining, manufacturing, agriculture, and services is in private hands. The share of the public sector in GDP is estimated to be less than 10 percent.

Largely as a result of the reconstruction effort and the expansion of social programs, total expenditures of the Central Government increased by 23.7 percent in 1980/81 (July-June) and 31.5 percent in 1981/82, or from 35 percent of GDP in 1979/80 to 38 percent of GDP in 1981/82. To help finance the higher expenditures, revenue measures were introduced in the middle of 1980/81, with the budget of 1981/82 and again in the middle of 1981/82, increasing the level or coverage of sales taxes, and raising customs duties, personal and corporate taxes, and excises on tobacco products and alcoholic and nonalcoholic beverages. These measures, combined with a strong recovery of economic activity, raised total revenues and grants by 50 percent in 1980/81 and 35 percent in 1981/82 and served to reduce the budget deficit, from the equivalent of 12.7 percent of GDP in 1979/80, to 7.7 percent of GDP in 1980/81 and 7.6 percent of GDP in 1981/82 (Table 3). In 1980/81, domestic credit financed about 90 percent of the budget deficit with slightly more than one-half coming from the banking system. In 1981/82, about 65 percent of the deficit was financed from net external borrowing, comprising concessional loans pledged at the ZIMCORD Conference 1/ and short-term Euro-currency loans.

The 1982/83 budget, as presented to Parliament at the end of July 1982, showed an increase of 43.6 percent for total revenue and grants and of 49.5 percent for total expenditure and net lending, with a deficit equivalent to 11.2 percent of GDP (compared with an actual deficit in 1981/82 equivalent to 7.6 percent of GDP). The budget contained several new revenue measures, including increases in personal income taxes, sales taxes, the surcharge on import duty and excise taxes, but envisaged a three-fold increase in capital outlays and net lending (which had been previously at a very low level). In view of the deteriorating economic circumstances, however, the authorities decided during 1982/83 to make fiscal policy restrictive and to implement a number of other adjustment measures, as part of the stabilization program supported by the current stand-by arrangement from the Fund.

In early 1983, the authorities introduced a small supplementary tax package and undertook to limit expenditures to a level Z$200 million below the level in the budget. To facilitate the expenditure reduction, a monthly expenditure schedule was established for each Ministry and a control system was instituted to enable the timely reporting of expenditures and the application of appropriate measures

---

1/ Zimbabwe Conference on Reconstruction and Development (ZIMCORD), held in Harare in March 1981.

Table 3. Zimbabwe: Summary of the Overall Fiscal Operations of the Central Government, 1980/81-1983/84

	1980/81 Actual	1981/82 Actual	1982/83 Program	1982/83 Preliminary Actual	1983/84 Budget	1983/84 Program
	(In millions of Zimbabwe dollars)					
Total revenue and grants	1,011.2	1,366.1	1,945.6	1,818.9	2,150.9	2,133.0
Total Revenue	950.6	1,333.7	1,885.3	1,762.6	2,077.6	2,069.0
Tax revenue	(777.7)	(1,207.5)	(1,727.1)	(1,578.7)	(1,850.8)	(1,842.0)
Nontax revenue	(172.9)	(126.2)	(158.2)	(183.9)	(226.8)	(227.0)
Grants	60.5	32.4	60.3	56.3	73.3	64.0
Total expenditure and net lending	1,298.1	1,706.6	2,330.6	2,263.6	2,557.6	2,583.0
Current	1,142.4	1,435.4	1,797.9	1,808.9	2,020.6	2,129.1
Capital	107.3	(157.2)		219.4	(269.4)	
Net lending	48.5	(114.0)	532.7	235.3	(267.6)	453.9
Overall deficit (-)						
Before grants	-347.4	-372.9	-445.3	-501.0	-480.0	-514.0
After grants	-286.9	-340.5	-385.0	-444.7	-406.7	-450.0
Financing	286.9	340.5	385.0	444.7	406.7	450.0
External (net)	31.7	220.4	182.3	49.9	216.6	180.0
Domestic (net)	255.2	120.1	202.7	394.8	190.0	270.0
Nonbank	(118.4)	(133.2)	(120.2)	(288.5)	(...)	(170.0)
Banking system	(136.8)	(-13.1)	(82.5)	(106.3)	(...)	(100.0)
	(As percent of GDP)					
Memorandum items:						
Total revenue	25.5	29.7	35.9	33.5	33.7	33.5
Tax revenue	20.8	26.9	32.9	30.0	30.0	29.9
Total expenditure and net lending	34.8	38.0	44.4	43.1	41.5	41.9
Current	30.6	32.0	34.2	34.4	32.8	34.5
Capital	2.9	3.5	...	4.2	4.4	...
Overall deficit (-)						
Before grants	-9.3	-8.3	-8.5	-9.5	-7.8	-8.3
After grants	-7.7	-7.6	-7.3	-8.5	-6.6	-7.3
Bank financing	3.7	-0.3	1.6	2.0	...	1.6

Sources: Report of the Comptroller and Auditor General; Financial Statements; data provided by the Ministry of Finance, Economic Planning and Development; and staff estimates.

to adjust for any expenditure overruns. These measures were projected to reduce the budget deficit for 1982/83 to 7.3 percent of GDP (Table 3). An indicative target for the budget deficit in 1983/84 was set at 5.5 percent of GDP.

The authorities also took exchange rate action in December 1982. The transactions-weighted currency basket was replaced by a trade-weighted basket (with a smaller weight for the U.S. dollar), and the currency was devalued by 20 percent. The exchange rate for the Zimbabwe dollar was permitted to float down by a further 5 percent in January 1983 and has since been managed flexibly (See Section III).

III. Report on the Discussions

The discussions with the Zimbabwe authorities focused on three main areas: (1) Performance under the 1982/83 program; (2) the financial program and policies for 1983/84; and (3) Zimbabwe's medium-term balance of payments prospects.

(i) Performance under the 1982/83 program

Real GDP is estimated to have remained stagnant in 1983 as the growth in the construction and services sectors has not been sufficient to offset the production declines in agriculture, mining, and manufacturing. Reflecting two consecutive years of poor weather, the output of maize (Zimbabwe's main crop) in crop-year 1982/83 was about one-half that of the previous year and about one-third the record crop of 1980/81; production of other major crops in 1982/83 were generally 20-40 percent lower than in 1981/82. The rate of inflation has accelerated to 18 percent in 1983 mainly because of the depreciation of the currency.

Actual government expenditures in fiscal year 1982/83 were slightly below the level envisaged in the fiscal program despite the need for supplementary appropriations (amounting to Z$60 million) to cover emergency assistance to farmers affected by the severe drought. There was, however, a larger shortfall in revenues so that the budget deficit amounted to Z$445 million (8.5 percent of GDP), compared with Z$385 million (7.3 percent of GDP) in the program (Table 3). Current expenditures in 1982/83, at Z$1,809 million, were only fractionally higher than the program level. The expenditure savings were largely on capital expenditures and net lending, which amounted to Z$454.7 million, as against Z$532.7 million in the program budget. These savings were made possible by reductions in the planned rate of implementation of housing and health programs. The shortfall in revenue was due largely to the impact on receipts of the depressed level of economic activity, continued low levels of international trade, the severe drought, and some consumer resistance to increases in commodity tax rates.

Net external financing of the overall deficit in 1982/83 was Z$50 million, instead of the Z$182 million envisaged in the program. Disbursement of ZIMCORD loans was significantly lower than programmed because of the slow rate of project preparation and implementation as well as administrative delays in seeking reimbursement of funds. The Government borrowed Z$289 million from the domestic nonbank sector, principally from the Post Office Savings Bank, insurance companies and pension funds. Government borrowing from the domestic banking system was Z$106 million (6.7 percent of the money stock at the beginning of the period) compared with the program ceiling of Z$83 million.

While net credit to the government exceeded program targets, total domestic bank credit expansion in 1982/83 remained below the program ceilings (Table 4). The banks financed the losses of the marketing boards, which were unusually large in 1982/83 because of losses on export sales of maize, increases in tariffs charged by transit railway systems in neighbouring countries, and emergency purchase of cattle from communal areas during the drought; total domestic credit expansion, however, did not exceed the ceilings as normal private sector demand for credit was subdued because of the low agricultural output and the depressed activity in the manufacturing and mining sector. Reflecting the lower rate of growth of credit and the large increase in the balance of payments deficit, the growth of the money supply fell to 6.5 percent in 1982/83 compared with 26 percent in 1981/82 (Table 5).

2. The Financial Program and Policies for 1983/84

Details of the program and policies to be pursued during the fiscal year are outlined in the letter of intent dated September 30, 1983 (Attachment IV), which also sets forth targets and performance criteria for 1983/84. The Zimbabwe authorities have already taken signifiant measures to ensure that the main objectives of the program can be attained. These measures include substantial increases in prices, the adoption of a restrictive budget for 1983/84, strong restraint on wages, and the continuation of a flexible exchange rate policy.

(a) Price and wage policy

The Government has introduced a series of substantial price adjustments with the basic intention that the agricultural marketing boards should be able to meet their costs of operations from revenue. On a current basis, the trading losses on domestic sales of the marketing boards have been virtually eliminated but because of recent declines in export prices of some commodities there are still small losses on export sales. These measures have significantly improved the financial position of the marketing boards which had large losses in 1982/83.

Table 4. Zimbabwe: Performance Under the Stand-By Arrangement, 1982/83 and Ceilings for 1983/84

	1982	1983				1984	
	Dec.	March	June	Sept.	Dec.	March	June
					(In millions of Zimbabwe dollars)		
Domestic credit							
Program ceiling	...	2,040.0	2.090.0	2,250.0	2,320.0	2,400.0 1/	2,380.0 1/
Actual	1,989.6	1,927.4	2,066.6	2,148.1			
Credit to the Government (net)							
Program ceiling	...	580.0	500.0	563.8	603.8	613.8 1/	623.8 1/
Actual	594.2	554.0	523.8	473.7			
					(In millions of SDRs)		
New nonconcessional borrowing contracted or guaranteed by the Government (cumulative);							
Maturity of 1-10 years							
Program ceiling	...	220.0	220.0	220.0	220.0		
Actual	...	...	...	87.9	87.9		
Maturity of 1-5 years							
Program ceiling		10.0	10.0	10.0	10.0		
Actual	...	9.2	9.2	9.2	9.2		

Sources: Data provided by the Zimbabwean authorities; and program ceilings.

1/ Indicative ceilings.

Table 5. Zimbabwe: Monetary Survey, 1982-84

(In millions of Zimbabwe dollars; end of period)

	1981	1982		1983		1984
	Dec.	June	Dec.	June	Dec. 1/	June 1/
Foreign assets (net)	40.3	13.8	-36.9	-235.5	-335.0	-435.0
Domestic credit	1,520.7	1,693.2	1,934.0	2,066.6	2,320.0	2,380.0
Government (net)	332.9	417.5	594.2	523.8	603.8	623.8
AMA	335.1	310.8	361.2	384.6	425.0	400.0
Private	852.7	964.9	978.6	1,158.2	1,291.2	1,356.2
Agricultural sector	(54.1)	(81.1)	(79.5)	(98.4)	(116.6)	(135.0)
Other	(798.6)	(883.8)	(899.1)	1,059.8)	(1,174.6)	1,221.2)
Money supply	1,399.3	1,561.6	1,692.8	1,663.2	1,815.0	1,775.0
Other items (net)	161.7	145.4	204.3	167.9	170.0	170.0
Rate of Change from previous year			(In percent)			
Domestic credit	26.9	23.4	27.2	22.1	20.0	15.2
Net claims on the Government	-10.2	-3.0	78.5	25.5	1.6	19.1
Private sector	28.2	23.9	14.8	20.0	31.9	17.1
Agricultural sector	(-3.4)	(23.4)	(47.0)	(21.3)	(46.7)	(37.2)
Other	(31.1)	(23.4)	(12.6)	(19.9)	(30.6)	(15.2)
Money supply	15.2	26.2	21.0	6.5	7.2	6.7

Sources: Data provided by the Zimbabwean authorities; and staff projections.

1/ Projections.

At the beginning of September the Government announced increases in the consumer prices of maize meal (45 percent), beef (35-50 percent), and milk (50 percent), as well as in the prices charged to intermediate processors: maize (15 percent), wheat (41 percent), sorghum (34 percent), soybeans (87 percent), groundnuts (11 percent), and cotton seed (109 percent). In August, the Government had announced, for the 1983/84 growing season, increases in producer prices for maize (17 percent), sorghum (17 percent), soybeans (10 percent), cotton seed (11 percent), and sunflower seed (12 percent). Earlier in the year, the producer price for beef had been raised by 15 percent and the price for wheat by 16 percent.

These increases followed several price measures taken in 1982, including increases in the prices of beef (30 percent in May 1982), fertilizer (12 percent in July), steel (25 percent in July), electricity (22-49 percent in October), and maize meal (50 percent in December). In February 1983, the prices of gasolene products were raised, with the price of petrol increased by one-third to the equivalent of US$4.25 per gallon. In May 1983, railway tariffs were increased by 10 percent for passenger traffic and 25 percent for goods traffic. Price increase have been approved and implemented for a wide range of products (including tires, sugar, and building materials) whose prices are not directly administered but are subject to government approval. In July 1983, the price of electricity was increased by 60 percent.

An important part of the program for 1983/84 is a continuation of the policy of wage restraint introduced last year. In 1982/83, wage adjustments were made for some occupation groups (education and the military) in order to unify previously existing dual pay structures, and for some occupational categories in particularly short supply (technicians in some industries). There were otherwise no general wage increases, other than normal wage drift. This represented a substantial change in policy in respect of lower income groups, which had received large wage increases in 1980/81 and 1981/82 (higher income wage groups have been subject to a wage freeze since the early part of 1980).

Also in September 1983, the Government announced that there would be no wage increases for workers earning more than Z$300 per month. For those earning less than Z$300 per month, the maximum permissible increase would be Z$5 per month for workers in the agricultural, mining and domestic service sectors, and Z$10 per month for workers in other sectors. The Government has promised to review wages later in the fiscal year but has also stated that the general increase in wages for the year as a whole, for all sectors combined, would not exceed 5 percent.

(b) Fiscal policy in 1983/84

The formulation of the 1983/84 budget has been especially difficult because the economic recession and the severe drought are depressing revenues at a time when there are increasing demands for government action to reactivate the economy and maintain the provision of essential public services. The tax bases (incomes, imports, and merchandise sales) are expected to show little growth, while the Government is making provisions to assist rural areas affected by the drought. Drought-related expenditures included in the budget total Z$160 million (5 percent of total expenditures) covering expanded transfers to the Agricultural Finance Corporation (AFC) which finances planting operations of farmers; the provision of seed packs for small farmers in the most severly droughtstricken areas; and emergency food and income supplement programs and public works projects designed to encourage the farm population to remain in the rural areas.

The 1983/84 budget contains a number of new revenue measures estimated to yield Z$150 million (2.4 percent of GDP) and sufficient to maintain the tax revenue to GDP ratio at 30 percent. The rate of surcharge on the individual income tax was increased from the previous range of 15 to 33 1/3 percent to a new range of 20 percent to 40 percent. A new income tax was introduced at a rate of 2 percent on the taxable income of employees earning more than Z$100 per month but who are not liable for the normal tax. The surcharge on the company income tax was raised from 15 percent to 20 percent with respect to the income year 1982/83. The rates of sales tax were increased from 16 to 18 percent on general goods and from 19 to 23 percent on the list of higher rated goods, which has been extended to include several new items. The import surtax was raised from 15 percent to 20 percent, and a 15 percent duty was imposed on motorcars made in Zimbabwe and on imported trucks. With the aid of these measures, government revenues and grants are projected to increase by Z$332 million (18 percent) (see Table 3).

With revenues increasing only modestly in 1983/84 despite the new measures, it has been necessary to maintain strict control over expenditures. The rate of increase of total expenditures (which averaged 32 percent a year in 1980/81-1982/83) has been reduced to 13 percent. Current expenditures are budgeted to increase by 12 percent and capital expenditures and net lending by 18 percent. In order to make this expenditure restraint possible, a number of measures have been introduced. Government employment, which increased by an average of 13 percent a year over the past three years, is projected to show almost no increase in 1983/84; vacancies will be filled only when necessary and only with the approval of the Ministry of Finance and of the Public Service Commission. The tight employment policy will help to limit the increase in the wage bill to 11 percent compared to annual increases averaging 22 percent during 1980/81-1982/83. The price measures described above are expected to reduce substantially claims on the Government for subsidy payments. The Government also has modified its educational program to reflect more realistically the availability of qualified teachers, supplies, and future employment opportunities. Capital expenditures will be limited to the same nominal level as in 1982/83 and relate only to continuing projects. With these measures, the deficit in the 1983/84 budget is projected at Z$450 million (virtually the same level as in 1982/83). In relative terms the deficit is projected to decline to the equivalent of 7.3 percent from 8.5 percent of GDP in 1982/83.

To finance the budget deficit, net foreign financing is projected at Z$180 million. The authorities have discussed with donor governments measures to increase the rate of disbursement of already pledged concessionary assistance. Government borrowing from the domestic non-bank sector is expected to be Z$170 million, and borrowing from the banking system is programmed at Z$100 million or about 6 percent of the money stock at the beginning of the period.

Unlike the case in previous years, the 1983/84 budget does not make full provision for coverage of losses of the agricultural marketing boards (which are refunded in the year after they are incurred) or of national railways and Air Zimbabwe (which are reimbursed on a current basis). Of the total potential claims of Z$340 million, the budget provides for Z$89 million. Provision is being made in the program for another Z$86 million which is to be covered through expenditure reductions in selected budget votes. This additional provision is to be approved in the context of a supplementary budget to be presented to Parliament in February 1984. The uncovered losses of Z$165 million relate to losses incurred by the marketing boards in 1982/83, and (as already noted earlier) were funded during that year through bank lending. Reimbursement of these losses during 1983/84 would merely switch the recipient of the bank debt from the marketing authorities to the Government without altering the total level of credit outstanding. The broader public sector deficit (the combined deficit of the Central Government, marketing authorities and the national railways) is expected to decline from Z$554 million (10.5 percent of GDP) in 1982/83 to Z$445 million (7.2 percent of GDP) in 1983/84 as a result of a sharp reduction in the current losses of the parastatals following the significant price increases referred to above. Further reductions in the overall public sector deficit will be effected in 1984/85 and 1985/86 and additional reimbursement of the past losses of the marketing boards will be made. This will enable them to reduce their indebtedness to the banking system.

(c) Monetary Policies

In 1981, the authorities introduced a major adjustment in interest rates, which had been maintained at low levels for about ten years. The increases, implemented in two steps (in February and November), raised the Reserve Bank rate from 4.5 percent to 9 percent and the commercial banks' prime lending rate from 7.5 percent to 13 percent. Since that action consumer lending rates have been at or above the rate of inflation. Deposit rates are currently below the rate of inflation but are expected to rise as excess bank liquidity is reduced.

The financial program for 1983/84 envisages a continuation of the policy of credit restraint. Total domestic credit is projected to increase in 1983/84 by 15 percent (slightly under the projected rate of inflation) compared with an increase of 22 percent in 1982/83. Net credit to Government is projected to increase by 19 percent (as against 26 percent in 1982/83) and credit expansion to the private sector is projected at 17 percent compared with an increase of 20 percent in 1982/83. With the forecast deficit in the balance of payments, the rate of monetary expansion in 1983/84 is projected to be 7 percent, about the same rate as in 1982/83 (Table 5).

Performance criteria relating to the expansion of total domestic credit and net credit to Government have been set for end-September and end-December 1983; and indicative targets have been set for March and June 1984 (Table 4). These targets take into account the seasonal pattern of revenues and expenditures; the major part of revenues in Zimbabwe is received in the second half of the fiscal year owing to the timing of corporate tax payments, while a large part of expenditures is in the first half of the fiscal year (the agricultural growing season). Limits on the contraction of external debt established in the original stand-by arrangement extend through the end of 1983. Limits for 1984 will be established in the context of the program review to be conducted before the end of February 1984.

(d) External Sector Policies

Export performance in 1983 is now expected to be much less satisfactory than envisaged under the program, with exports declining by about 12 percent in SDR terms, instead of increasing by 7 percent as projected under the program (Table 6). This development has been due mainly to the continuing subdued state of world demand for commodity exports. However, the lagged effect of the exchange rate measures of December 1982 and early 1983 began to be felt in the third quarter of 1983 when there was a noticeable increase in export orders for manufactured products. Capital inflows are also now projected to be less than initially projected, as there has been less project borrowing than anticipated. With low capital inflows, project-financed imports have declined substantially from the 1982 level and, with lower export

Table 6. Zimbabwe: Balance of Payments, 1982-84

(In millions of SDRs) 1/

	1982	1983 Program	1983 Revised	1984 Program	1984 Revised
		Projections			
Trade balance	-141	-134	11	-71	12
Exports, f.o.b. 2/	1,195	1,280	1,051	1,456	1,177
Imports, f.o.b.	-1,337	-1,414	-1,040	-1,527	-1,165
Services (net)	-448	-494	-425	-532	-489
Freight and insurance	-137	-158	-141	-180	-157
Travel	-70	-26	-41	-29	-48
Investment income	-189	-184	-176	-192	-205
Others	-52	-126	-67	-131	-79
Private transfers (net)	-114	-115	-87	-110	-87
Current balance	-703	-743	-501	-713	-564
Official transfers (net)	63	60	46	72	61
Capital (net)	482	456	172	441	285
Government	157	132	76	81	190
Public enterprises	242	240	81	264	85
Other	83	84	15	96	10
Errors and omissions	80	--	--	--	--
Monetization of gold	-7	--	--	--	--
Overall balance	-86	-227	-283	-200	-218
Valuation adjustment	-3	--	--	--	--
Financing	89	227	283	200	218
Use of Fund resources 3/	--	231	231	125	125
Other	89	-6	52	75	93
Memorandum item:					
Current account deficit as a percent of GDP	12.2	13.6	9.3	11.1	8.9

Sources: Data provided by the Zimbabwean authorities; and staff projections.

earnings, allocations for imports have also had to be reduced. As a result, imports are projected to decline by 22 percent in 1983, whereas the program had envisaged an increase of 6 percent, and the trade balance is now expected to be stronger than envisaged under the program.

The current account deficit of the balance of payments is now projected to be SDR 501 million (9.3 percent of GDP in 1982), compared with SDR 703 million (12.2 percent of GDP) in 1982. However, the decline in the current account deficit is likely to be more than offset by the sharp reduction in capital inflows and the overall balance of payments deficit is projected to increase to SDR 283 million in 1983, compared with SDR 86 million in 1982.

New nonconcessional borrowing contracted or guaranteed by the Government with a maturity of 1-10 years amounted to SDR 80 million in 1983, significantly below the SDR 220 million permitted under the program's external borrowing ceilings; the amount of these loans contracted with a maturity of 1-5 years was SDR 9.2 million compared to the program ceiling of SDR 10 million.

Since the exchange rate measures implemented in December 1982 and January 1983, the exchange rate has continued to be managed flexibly. The rate declined by 5.9 percent in nominal effective terms between the end of December 1982 and the end of September 1983 and by 2.3 percent in real effective terms between the end of December 1982 and the end of June 1983 (Chart 1). The objective of the authorities is to prevent any real effective appreciation of the exchange rate during the period of the program.

Despite a considerable liberalization which was implemented in late 1980 and early 1981, Zimbabwe continues to maintain a number of restrictions on payments and transfers for current international transactions. None of the outstanding restrictions are subject to approval under Article VIII.

3. Medium-term balance of payments prospects

Developments in 1984 will largely depend on the strength of the recovery of external demand, the level of international commodity prices, and the size of the agricultural harvest in 1983/84. Zimbabwe has stocks of asbestos, sugar, cotton, steel, copper, and nickel and could readily undertake expansion of mining products; the constraint on export earnings from minerals is therefore not production but external demand. As mentioned earlier, there has been an increase in export orders for manufactured goods in late 1983 which is expected to continue in 1984. Exports of tobacco and sugar are projected to show some recovery in 1984, after two years of decline, and coffee exports are projected to show the same modest rate of growth as in 1983.

On the basis of current projections, export earnings will increase by 12 percent in 1984. Imports, after declining sharply in 1983, are also expected to increase by 12 percent in 1984. The deficit on the services account will continue to be significant, as the large outflows for pensions, emigrants' remittances and interest payments as well as transfers arising from the liberalization measures of 1980-81, are likely to continue. The current account deficit is therefore projected to increase in nominal terms, from SDR 501 million in 1983 to SDR 564 million in 1984 but to decline slightly in terms of GDP, from 9.3 percent in 1983 to 8.9 percent in 1984. As mentioned earlier, the Zimbabwean authorities are taking steps to accelerate the disbursements of pledged ZIMCORD aid. Balance of payments projections for 1984 indicate a small reduction in the overall deficit from SDR 283 million in 1983 to SDR 218 million in 1984 (Table 6).

The medium term balance of payments projections are shown in Table 7. Assuming a moderate recovery in the world market for mineral products and continued improvement in competitiveness of Zimbabwe's manufacturing sector, export receipts are projected to increase by about 10 percent a year during the period 1985-89. With appropriate demand management and structural adjustment policies, the rise in imports could be held to about 5 percent a year over the same period. The negative balance on services account is projected to increase by about 5 percent a year mainly on account of a steady growth in interest payments on government and government guaranteed debt. Under these assumptions, which also include the assumptions that the terms of trade will improve by only one percent a year, the current account deficit of the balance of payments (before official grants) is projected to decline to 3 percent of GDP by 1989.

It is difficult to project Zimbabwe's capital account mainly because of uncertainties regarding the disbursement of already pledged aid flows. In the ZIMCORD conference of 1981, SDR 1.6 billion of concessionary assistance (comprising SDR 760 million of grants and SDR 840 million of concessionary loans) was pledged. These funds were originally expected to be disbursed in three to five years. However, as at the end of 1983, only about SDR 420 million (SDR 180 million of grants and SDR 240 million of loans) is expected to have been disbursed. The Zimbabwean authorities expect that, as a result of discussions with donors in late 1983, it would be possible to draw down the remaining SDR 600 million of concessionary loans during 1984-86 and raise another SDR 100 million a year in new commitments. Gross disbursements of SDR 300 million a year of concessionary loans are also projected for 1987-89. If to this is added another SDR 250 million a year of nonconcessionary loans (including SDR 75-100 million a year from IBRD loans) gross capital inflow would amount to about SDR 550 million a year, while the net capital inflow would be SDR 350 million during 1985-89. Under these assumptions, the overall balance of payments would move from a deficit of SDR 283 million in 1983 to a surplus of SDR 26 million in 1987 with the surplus increasing in the following years. (Table 7).

CHART 1: ZIMBABWE

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES

(Q1 1978 = 100)

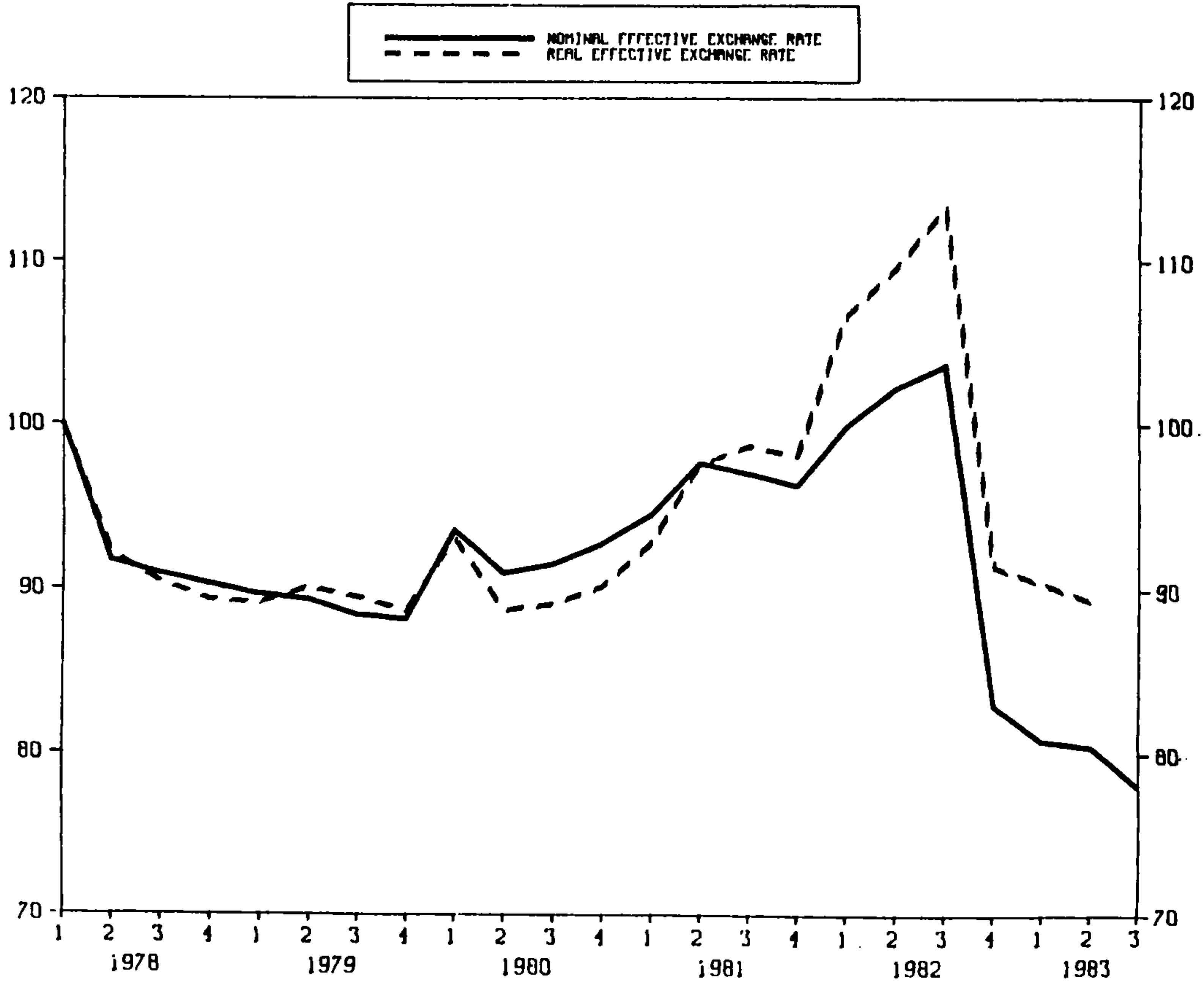

Table 7. Zimbabwe: Medium-Term Balance of Payments Projections, 1983-89 1/

(In millions of SDR's)

	1983	1984	1985	1986	1987	1988	1989
		Projections					
Trade balance	11	12	72	141	220	310	412
Exports, f.o.b.	1,051	1,177	1,295	1,425	1,568	1,725	1,898
Imports, f.o.b.	-1,040	-1,165	-1,223	-1,284	-1,348	-1,415	-1,486
Services (net)	-425	-489	-508	-536	-564	-597	-636
(Interest payments) 2/	(-120)	(-160)	(-195)	(-232)	(-263)	(-287)	(-303)
Private transfers (net)	-87	-87	-75	-75	-70	-70	-65
Current balance	-501	-564	-511	-470	-414	-357	-289
Official transfers (net)	46	61	70	80	90	100	100
Capital (net)	172	285	330	350	350	350	350
Overall balance	-283	-218	-111	-40	+26	+93	+161
Financing							
Use of Fund 3/ resources (net)	231	116	-19	-53	-132	-127	-46
(Purchases)	(231)	(125)	(--)	(--)	(--)	(--)	(--)
(Repurchases)	(--)	(-9)	(-19)	(-53)	(-132)	(-127)	(-46)
Addition to gross foreign reserves	-52	--	15	15	15	10	10
Financing requirement	--	102	145	108	121	44	-105
Memorandum item:							
Current account defic as percent of GDP	9	9	7	6	5	4	3
Gross official reserves (in months of imports)	1.7 4/	1.6	1.6	1.7	1.7	1.7	1.7

Sources: Data provided by the Zimbabwean authorities; and staff estimates.

1/ Assumes annual rate of increase in exports of 10 percent and in imports of 5 percent for the period 1984-89.

2/ Includes estimated interest payments on projected new borrowings.

3/ Assuming full purchase under the current stand-by arrangement.

4/ After estimated decline in gross foreign reserves, end-1983 level of gross foreign reserves would be SDR 151 million.

The debt service ratio rose from 10.4 percent in 1982 to 16.9 percent in 1983 and is projected to rise to 23.6 percent in 1984 mainly because of the effect of the conversion of SDR 147 million of short-term debt into medium-term loans. Reflecting sizeable repurchases to the Fund as well as the servicing of the new loans to finance the projected current account deficits after 1984, the debt service ratio is projected to rise to a peak of 34.0 percent by 1988, and then start to decline in 1989 (Table 8).

IV. Staff Appraisal

The Zimbabwean economy has experienced a number of adverse developments in the past two years. Continuing weakness in world demand for minerals has affected Zimbabwe's mining industry, causing many small mines and one of the largest mines to close and other mines to operate below capacity. The severe drought in 1982/83 greatly reduced agricultural output and the manufacturing sector was adversely affected by reduced supplies of domestically produced agricultural inputs and by weak external demand. Transportation problems contributed to the balance of payments difficulties, especially in 1981.

Since 1982, the Zimbabwean authorities have adopted measures to respond to these adverse developments. Government expenditures were restrained in 1982/83 and a restrictive fiscal stance has been maintained in 1983/84. Lending interest rates have been kept positive in real terms and the rate of credit expansion has been kept moderate. In December 1982, the currency was devalued by 20 percent and the currency basket modified to reflect trade weights more closely; there was a further devaluation of 5 percent in January 1983 and the currency has continued to be managed flexibly to avoid any real effective appreciation. The authorities have taken significant action in the wage and prices field. There were no general increases in salaries in 1982/83 and the increases announced so far in 1983/84 have been modest (the increase for the year as a whole is not expected to exceed 5 percent). In 1982 and 1983, the price increases introduced have been substantial. The price of maize meal (the basic food staple) was increased by 50 percent in December 1982 and again by 45 percent in September 1983. There have been major increases in producer prices and the consumer prices of beef, milk and edible oil, in utility rates and transportation tariffs, as well as in a wide variety of items including coal, steel, building materials, tires and pharmaceuticals.

The consumer price increases announced in September 1983 have virtually eliminated, on a current basis, the marketing boards' losses on domestic sales. In the case of the national railways, the Government has adopted, under the terms of a World Bank loan, a schedule of tariff adjustments which will eliminate the operational losses by 1984/85. The authorities realize that further adjustments in consumer prices will be required in future to compensate for increases in producer prices and

Table 8. Zimbabwe: Projections of Service Payments on Government and Government-Guaranteed External Debt, 1982-89 1/

(In millions of SDRs)

	1982	1983	1984	1985	1986	1987	1988	1989
			Projections					
				(In millions of SDRs)				
I. Government 2/								
Amortization	50.5	72.1	103.9	122.1	120.8	111.4	91.9	79.6
Interest	48.2	55.1	60.2	59.3	52.3	45.0	39.6	30.9
Subtotal	98.7	127.2	164.1	181.4	173.1	156.5	131.5	110.5
II. Government-guaranteed								
Amortization	5.9	19.8	53.3	55.2	50.9	60.1	59.5	45.2
Interest	41.4	52.2	49.5	51.3	52.1	47.1	42.5	36.2
Subtotal	47.3	72.0	103.8	106.5	103.0	107.2	102.0	81.4
III. Fund 3/								
Repurchases	--	--	9.4	18.8	53.3	132.2	127.2	45.9
Charges	2.4	12.7	29.2	32.2	30.6	24.7	15.1	8.0
Subtotal	2.4	12.7	38.6	51.0	83.9	156.9	142.3	53.9
IV. New Borrowings 4/ 5/								
Amortization	--	--	--	--	10.0	48.0	104.0	178.0
Interest	--	--	20.6	52.3	96.9	145.9	192.0	227.4
Subtotal	--	--	20.6	52.3	106.9	193.9	296.0	405.4
(A) Total I and II	146.0	199.2	267.9	287.9	276.1	263.8	233.6	191.9
(B) Total I and II and III	148.4	211.9	306.6	338.9	360.0	420.8	375.9	245.8
(C) Total I and II and IV	146.0	199.2	288.5	340.2	383.0	457.7	529.6	597.3
(D) Total I and II and III and IV	148.4	211.9	327.2	391.2	466.9	614.7	671.9	651.2
Memorandum items:								
Exports of goods and services	1,416	1,251	1,317	1,516	1,657	1,811	1,980	2,166
Debt service ratios 6/				(In percent)				
Excluding Fund (C)	10.3	15.9	20.8	22.4	23.1	25.3	26.7	27.6
Including Fund (D)	10.4	16.9	23.6	25.8	28.2	33.9	34.0	30.1

Sources: Data provided by the Zimbabwean authorities; and staff estimates.
Note: Government and Government-guaranteed external debt outstanding at the end of April 1983 stood at SDR 2,254 million (including undisbursed).

1/ Service payments on external debt outstanding at the end of April 1983 and estimated service payments on new borrowings projected to be disbursed through 1989.

2/ Excludes short-term borrowing of US$40 million by Government, which is expected to be repaid in 1983.

3/ Assuming full purchase under the current stand-by arrangement.

4/ For outstanding Eurocurrency loans, assumes LIBOR rates of 13.5 percent for 1982, 9.5 percent for 1983, and 9 percent thereafter. For new borrowings on concessionary terms, assumes an average interest rate of 8 percent, 5 years grace and 12 years maturity. For new borrowings on non-concessionary terms, assumes an average interest rate of 10 percent, 3 years grace and 8 years maturity.

5/ Projected new borrowings are based on BOP medium-term projections where exports and imports are assumed to grow at 10 percent and 5 percent, respectively, from 1984 onwards. Further it is assumed that half of the new borrowings projected for the capital account are at concessionary terms and half are at non-concessionary terms; and financing of projected overall deficits and reserve increase is at non-concessionary terms.

6/ Includes payments due on short-term debt which has been consolidated in 1983 into medium-term debt.

maintain the financial position of the marketing boards. The authorities are also committed to the continued flexibility in the adjustment of administered prices to reflect movements in the exchange rate and changes in domestic market conditions.

The staff believes that in the current economic context, the fiscal adjustment reflected in the 1983/84 program is substantial. Achievement of the programmed fiscal performance will require close adherence to the expenditure control measures outlined in the budget and a concerted effort to accelerate the flow of pledged concessional assistance. The staff would emphasize the importance of the next program review which will provide an opportunity for an examination of performance in the first half of the fiscal year and for the formulation of additional measures, if necessary, to ensure that the fiscal targets are met. All purchases after end-December 1983 are subject to successful completion of this review.

While implementing various stabilization measures, the authorities have not neglected the long-term growth prospects of the economy. The flexible exchange rate policy, with appropriate supporting measures, is expected to restore export competitiveness and contribute to the expansion of manufactured exports and tourism over the medium term. Official emphasis has been placed on the development of infrastructure and energy sources, manpower training and rural development. Assistance has been provided for private sector companies and the Government has taken steps to encourage increased levels of capacity utilization and foreign direct investment.

The medium-term balance of payments outlook remains, however, difficult. A viable scenario would require strengthened adjustment measures to control the growth of imports and still be dependent upon substantial amounts of additional foreign financing on concessionary terms which would only be forthcoming if adjustment measures are seen as adequate. Even so the debt service ratio is projected to reach 34 percent by 1988. As part of the review to be conducted in early 1984 the staff will reach understandings with the authorities on the appropriate combination of measures required to ensure that the program will be fully financed in 1984.

In November 1980 and February 1981, the Zimbabwean Government introduced several exchange liberalization measures. Zimbabwe, however, still maintains a number of exchange restrictions on payments and transfers current international transactions. The staff believes that the authorities should reduce these restrictions as soon as practicable. No new restrictions have been introduced since the last consultation and the existing restrictions do not require Fund approval under Article VIII, Sections 2 and 3.

V. Proposed Decisions

(i) 1983 Consultation

The following draft decision is proposed for adoption by the Executive Board in concluding the 1983 consultation with Zimbabwe;

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Zimbabwe, in the light of the 1983 Article IV consultation with Zimbabwe conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zimbabwe continues to maintain restrictions on payments and transfers for current international transactions as described in SM/83/247. The Fund encourages the authorities to take measures to reduce these restrictions as soon as possible.

(ii) Review Under Stand-By Arrangement

1. Zimbabwe has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Zimbabwe (EBS/83/44, Sup. 1, March 24, 1983) and paragraph 3 of the letter dated January 24, 1983 attached thereto in order to reach understandings subject to which further purchases may be made by Zimbabwe under the stand-by arrangement.

2. The letter from the Minister of Finance, Economic Planning and Development of September 30, 1983, shall be annexed to the stand-by arrangement for Zimbabwe, and the letter of January 24, 1983, attached to the stand-by arrangement, shall be read as supplemented by the letter of September 30, 1983.

3. Zimbabwe will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Zimbabwe's currency in the

credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota during any period in which the data at the end of the preceding period indicate that:

(i) the limit on the total domestic credit of the banking system described in paragraph 12 of the memorandum annexed to the attached letter; or

(ii) the limit on net bank credit to the Government also described in paragraph 12 of the same memorandum has not been observed.

4. With respect to the exchange rate, interest rates, and the budget for 1983/84, the Fund finds that no additional understandings are necessary for the period ending December 31, 1983.

ZIMBABWE - Relations with the Fund
(As of October 31, 1983)

Fund data

Date of membership:	September 29, 1980
Status:	Article XIV
Quota:	SDR 150 million (new quota is SDR 191 million)
Intervention currency and the rate:	U.S. dollar; Z$1 = US$0.9386
Local currency/SDR equivalent:	Z$1 = SDR 0.8861
Fund holdings of local currency:	SDR 341.1 million, or 227.4 per cent of quota,
SDR position:	SDR 2.5 million, or 24.3 per cent of net cumulative allocation

Staff contacts

Use of Fund resources (upper credit tranches)	August 9-20, 1981
Possible use of Fund resources (compensatory financing facility)	October 18-24, 1981
1982 Article IV consultation and use of Fund resources (upper credit tranches)	January 24-February 6, 1982
IMF Institute Seminar	August 9-13, 1982
Use of Fund resources (upper credit tranche)	October 14-29, 1982
1983 Article IV Consultation and review of stand-by arrangement	May 12-31, 1983
Further discussions on Review of stand-by arrangement (at Head Office)	August 1-5, 1983
	September 6-9, 1983
	September 26-29, 1983

ZIMBABWE - Relations with the World Bank Group

Before 1965 the Bank made five loans totaling US$130.3 million to the then Rhodesia. Two loans were made directly to the Government for agriculture (US$5.6 million) and power (US$28 million), and two other loans totaling US$87.7 million were made to the Central African Power Corporation (CAPCO). One loan (US$9 million) was also made to the then Rhodesia Railways. As a guarantor of each of the loans, the United Kingdom serviced them after 1964. The loans for agriculture and railways have been repaid, and CAPCO resumed servicing its two loans after the lifting of sanctions on December 21, 1979.

In early 1981 the Bank and the IDA approved a loan for US$50 million and a credit of US$15 million under the Manufacturing Rehabilitation Imports Program. Both the loan and credit were used to finance priority import requirements of raw materials, spare parts, and other items needed to promote fuller capacity utilization in the manufacturing sector. The bank also approved a loan of US$42 million to finance technical assistance and import requirements of spare parts, track maintenance equipment and tools for the National Railways of Zimbabwe (NRZ) and equipment for the Central Mechanical Equipment Department. In early 1981 the IFC also approved an investment of US$38 million for a thermal power station.

In 1982 the World Bank Group approved a small farm credit project (US$30.4 million), a project (US$1.2 million) to finance economic and engineering studies of petroleum fuels supply options available to Zimbabwe and a project (US$105 million) for power development at Hwange.

ZIMBABWE - Relations with the World Bank Group (concluded)

So far in 1983 an export promotion project (US$70.6 million), a forestry project (US$9.0 million), an agricultural extention and research project (US$13.0 million), a highway development and maintenance project (US$26.4 million) and a project on training and technical assistance for railway (US$40 million) have been approved.

The World Bank Group has also several projects which are now under consideration (urban development, development finance, agricultural technical assistance, health, and agricultural marketing and input supply).