FOR AGENDA

MASDTER FILES

EBS/83/254
Correction 1

CONFIDENTIAL

December 9, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zimbabwe - Use of Fund Resources - Buffer Stock Financing Facility - Special Stocks Under the International Sugar Agreement

The following corrections have been made in EBS/83/254 (11/29/83):

Page 2, para. 2, line 7: for "a 7 percent fall"
read "a 12 percent fall"

line 8: for "by a 25 percent drop"
read "by a 22 percent drop"

A corrected page is attached.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZIMBABWE

Use of Fund Resources--Buffer Stock Financing Facility--
Special Stocks Under the International Sugar Agreement

Prepared by the Research Department and the African Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and O.B. Makalou

November 29, 1983

The Managing Director has been informed that Zimbabwe will shortly request a purchase of SDR 2.099 million, equivalent to 1.4 percent of quota, in connection with the obligation of Zimbabwe to constitute special stocks of sugar under the 1977 International Sugar Agreement (ISA). The expected request is to be made pursuant to Decision No. 2772-(69/47), adopted June 25, 1969, as amended by Decision No. 4913-(75/207), adopted December 24, 1975 and Decision No. 5597-(77/171), adopted December 16, 1977. The proposed purchase relates to the minimum level of stocks that Zimbabwe, as an exporting member of the ISA, is obligated to accumulate in the 12 months ended June 30, 1982. The special stocks were constituted in June 1982, and for the purpose of a Fund purchase they have been valued in accordance with the provisions of Decision No. 5597-(77/171), adopted December 16, 1977.

Zimbabwe has no purchases currently outstanding under the buffer stock financing facility. If approved, the purchase would raise the Fund's holdings of the Zimbabwe dollar from 227.4 percent to 228.8 percent of quota. A waiver of the limitation of Article V, Section 3(b)(iii) of the Fund's Articles of Agreement would be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Zimbabwe, is presented in four sections and an annex. The sections deal with: (1) balance of payments position and cooperation with the Fund; (2) sugar exports and the performance of Zimbabwe under the 1977 International Sugar Agreement; (3) the amount of purchase and repurchase requirements; and (4) staff appraisal and proposed decision. The member's relations with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

Zimbabwe's balance of payments position deteriorated sharply in recent years (Table 1). From 1979 to 1981, the current account deficit increased from SDR 84 million (2.8 percent of GDP) to SDR 616 million (12.1 percent of GDP); the overall balance changed from an average annual surplus of about SDR 42 million in 1979-80 to a deficit of SDR 151 million in 1981, despite a significant increase in net capital inflows in that year. The deterioration in the current account is attributable to adverse developments in the trade balance and a significant increase in the deficit on services account, largely reflecting an increase in the outflow of investment income following the liberalization of the exchange system in November 1980 and February 1981. 1/

In 1982 the current account deficit widened to SDR 703 million (12.2 percent of GDP), but increased borrowing by the Government and public enterprises reduced the overall deficit from SDR 151 million in 1981 to SDR 86 million in 1982. The widening of the current account deficit mainly reflected a 3 percent decline in exports and substantially higher net outflows of investment income. A sharp reduction in the current account deficit (to SDR 501 million) is projected for 1983; a 12 percent fall in exports is expected to be far exceeded by a 22 percent drop in imports necessitated by a shortage of foreign exchange. However, with a projected decline in capital inflows, the deficit in the overall balance of payments for 1983 is expected to widen to SDR 283 million. Gross international reserves, which rose from SDR 157 million at the end of 1979 to SDR 231 million at the end of 1981, declined to SDR 203 million by the end of 1982. Net foreign assets, which averaged SDR 183 million at the end of 1979 and 1980, declined to minus SDR 44 million by the end of 1982 and are expected to decline further to minus SDR 327 million by the end of 1983.

b. Cooperation with the Fund

The request for the proposed purchase may be met only if the Fund is satisfied that Zimbabwe will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties. Zimbabwe has regularly conducted Article IV consultations with the Fund, and is in the process of implementing an adjustment program supported by a stand-by arrangement from the Fund. The staff report for the 1983 Article IV consultation and review of the stand-by arrangement, which will be considered by the Executive Board concurrently with the request for a buffer stock financing purchase, states that Zimbabwe observed all of the performance criteria at the end of March 1983 and all but one of the criteria (the

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1/ The exchange liberalization measures provided for the remittance of 50 percent of current profits, dividends, interest, and emigrants' remittances and the remittance of similar accounts blocked during the period 1965-73. The remittance of previously blocked funds was to be effected in equal installments over a period of four years.