

MASTER FILES

EBS/83/264
Supplement 1

CONFIDENTIAL

December 23, 1983

To: Members of the Executive Board

From: The Acting Secretary

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

The attached supplement to the staff report for the 1983 Article IV consultation with Zimbabwe and review under the stand-by arrangement modifies the performance criteria under the stand-by arrangement for Zimbabwe. Revised draft decisions appear on pages 2 and 3.

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. Ewart Williams, ext. (5)8751.

Att: (1).

INTERNATIONAL MONETARY FUND

ZIMBABWE

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

Prepared by the African Department

(In consultation with the Legal and Exchange
and Trade Relations Departments)

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

December 22, 1983

The stand-by arrangement with Zimbabwe provided for two general reviews, the first to be completed before June 30, 1983 to establish ceilings for the period July-December 1983 and to reach understandings on certain other matters, and the second to be completed before December 31, 1983 to establish ceilings for the last six months of the arrangement. The review contemplated in EBS/83/264 (12/7/83), is the first of these reviews. It was the intention that this matter would be brought before the Executive Board in December, and EBS/83/264 was prepared on that assumption. Because of unexpected delays, however, the matter is now on the agenda for January 4, 1983.

As a consequence of this delay, purchases proposed to be made on completion of the first review cannot be effected unless there is a waiver of the performance criteria specified in paragraph 4(b) of the stand-by arrangement requiring that the second mid-term review be completed before December 31, 1983 and understandings reached on performance criteria for the remaining period of the arrangement. In these circumstances, the staff suggests that Zimbabwe be permitted, upon completion of the first review by the Executive Board on January 4, 1984, to purchase the amounts originally scheduled for 1983. Further purchases during 1984 will remain subject to the completion of the second review and the observance of relevant performance criteria.

In order to conduct this second review, a mission is scheduled to visit Harare in February 1984. The report of this review is expected to be presented for consideration by the Executive Board in March 1984. In the course of the review, ceilings will be established for end-April and June 1984, rather than March and June 1984 as originally intended, and the phasing of purchases would be adjusted accordingly. A revised Table 1 of EBS/83/264 showing the new phasing of drawings, and the consequent revisions to Tables 6 and 7 (EBS/83/264) are appended herewith.

In order to give effect to the intention that purchases originally scheduled before the end of December can now be made, the following revised draft decisions are proposed for adoption by the Executive Board:

Revised Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board in concluding the 1983 consultation with Zimbabwe:

(i) 1983 Consultation

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) 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. The Fund decides, in view of the circumstances described in EBS/83/264 and Supplement 1, that Zimbabwe may proceed to make purchases under the stand-by arrangement, provided that such purchases are made

before January 15, 1984 and that cumulative purchases under the arrangement shall not exceed the equivalent of SDR 175.0 million until further review by the Fund.

4. In accordance with the letter of September 30, 1983, the understandings referred to in paragraph 4(b) of the stand-by arrangement for Zimbabwe relating to the limits on the total domestic credit of the banking system and on net bank credit to the Government for end-December 1983 shall be those specified in paragraph 12 of the memorandum annexed to the letter.

Table 1. Zimbabwe: Schedule of Purchases and Repurchases

(March 1983-July 1984)

	Purchases				Total outstanding	Purchases outstanding	
	Stand-by arrangement	CFF	Buffer stock	Repurchases		Total	Excl. special facilities
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	(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
1984							
January 1/	77.5	--	2.1	--	270.7	180.5	141.7
April	40.0	--	--	--	310.7	207.1	168.3
May	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.

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

(In millions of SDRs) ^{1/}

	1982	Projections			
		1983		1984	
		Program	Revised	Program	Revised
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	153	125	205
Other	89	-6	130 ^{4/}	75	13 ^{5/}
<u>Memorandum item:</u>					
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.

^{1/} Converted at the following annual average exchange rates: SDR 1.1961 per Zimbabwe dollar for 1982, and SDR 0.95 per Zimbabwe dollar for 1983 and 1984.

^{2/} Gold exports on a net basis.

^{3/} Under current stand-by arrangement.

^{4/} Drawdown of foreign reserves is projected to be SDR 52 million and bridging finance to be SDR 78 million.

^{5/} See Table 7.

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	<u>11</u>	<u>12</u>	<u>72</u>	<u>141</u>	<u>220</u>	<u>310</u>	<u>412</u>
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	<u>-501</u>	<u>-564</u>	<u>-511</u>	<u>-470</u>	<u>-414</u>	<u>-357</u>	<u>-289</u>
Official transfers (net)	46	61	70	80	90	100	100
Capital (net)	172	285	330	350	350	350	350
Overall balance	<u>-283</u>	<u>-218</u>	<u>-111</u>	<u>-40</u>	<u>+26</u>	<u>+93</u>	<u>+161</u>
<u>Financing</u>							
Use of Fund resources (net) ^{3/}	153	196	-19	-53	-132	-127	-46
(Purchases)	(153)	(205)	(--)	(--)	(--)	(--)	(--)
(Repurchases)	(--)	(-9)	(-19)	(-53)	(-132)	(-127)	(-46)
Addition to gross foreign reserves	-52	--	15	15	15	10	10
Other ^{4/}	78	-78
Financing requirement	--	100	145	108	121	44	-105
<u>Memorandum item:</u>							
Current account deficit as percent of GDP	9	9	7	6	5	4	3
Gross official reserves (in months of imports)	1.7 ^{5/}	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/} Estimated use of bridging finance that will need to be repaid in early 1984.

^{5/} After estimated decline in gross foreign reserves, end-1983 level of gross foreign reserves would be SDR 151 million.