

EBS/83/67
Correction 1

CONFIDENTIAL

April 4, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zambia - Staff Report for the 1982 Article IV Consultation and Request for Stand-By Arrangement

In EBS/83/67 (3/30/83), the allocation of purchases under the proposed stand-by arrangement between ordinary resources and borrowed resources was calculated on the assumption that the request for stand-by arrangement would be considered by the Board after April 22, 1983, when Zambia is scheduled to make a repurchase to the Fund of SDR 3.1 million on outstanding credit tranche purchases. As Board discussion is now set for April 18, 1983, before the scheduled repurchase, the mix between ordinary and borrowed resources under the proposed arrangement is slightly altered. Accordingly, the following corrections have been made in EBS/83/67:

Page 1, para. 2, line 7: for "SDR 70.9" read "SDR 67.8"
line 8: for "SDR 140.6" read "SDR 143.7"

Page 2, column 1, line 2: for "20.8" read "19.1"
line 3: for "10.7" read "12.4"

column 4, line 2: for "9.2" read "7.8"
line 3: for "35.8" read "37.2"

Page 36, para. 3, line 2: for "SDR 11,905,728" read "SDR 8,780,728"
line 4: for "SDR 141,682,813" read "SDR 138,557,813"

Corrected pages are attached.

Att: (3)

I. Introduction

The 1982 Article IV consultation discussions with Zambia were held in Lusaka during the periods November 8-23, 1982 and January 31-February 10, 1983. The Zambian representatives included Mr. N. Mundia, Prime Minister, and Minister of Finance since January 13, 1983; Mr. B.R. Kuwani, Governor of the Bank of Zambia; and other senior officials concerned with economic and financial matters. The mission head also met with President Kenneth Kaunda. The staff representatives were Messrs. E.L. Bornemann (head), W.J. Shields (both of AFR), W. Mahler (FAD), U. Gunjal (AFR), T. Hatayama (ETR), and Mrs. C. Smith and Miss M. Duane (secretaries-AFR). Mr. N. Sangare, Executive Director, participated in some of the discussions during the first mission.

Concurrently, discussions were held with the Zambian authorities on a stabilization program covering the year 1983. In the attached letter dated February 25, 1983, the Zambian Government requests a one-year stand-by arrangement in the amount of SDR 211.5 million (100 per cent of quota) in support of this program; this request and the accompanying Memorandum on the Economic and Financial Policies of Zambia are set out in Appendix II. Of the amount of SDR 211.5 million requested under the stand-by arrangement, SDR 67.8 million would be from the Fund's ordinary resources and SDR 143.7 million from borrowed resources. As of February 28, 1983, the Fund's total holdings of Zambian kwacha amounted to SDR 758.4 million, or 358.6 per cent of quota. Purchases scheduled under the stand-by arrangement and the concurrent CF request, together with repurchases scheduled during the program period, are set out in Table 1. If the full amount of the stand-by arrangement is purchased, the Fund's total holdings of Zambia's currency would rise to SDR 963.4 million at the end of March 1984, or 455.5 per cent of the present quota. Zambia's new quota will be SDR 270.3 million. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

The last Article IV consultation discussions with Zambia were held in Lusaka during the period August 5-17, 1981. The staff report (SM/81/196) and the report on recent economic developments (SM/81/208) were considered by the Executive Board on November 18, 1981. A summary of Zambia's relations with the Fund is provided in Appendix III. A summary of Zambia's relations with the World Bank Group is provided in Appendix IV. Zambia continues to avail itself of the transitional arrangements of Article XIV.

II. Background to the Discussions

Zambia's economic performance in recent years has been unsatisfactory. Real GDP declined over the five-year period 1977-81 at an average annual rate of almost 2 per cent (Table 2), with the consequence that real per

Table 1. Zambia: Schedule of Proposed Purchases and Repurchases, 1983-84

(In millions of SDRs)

	1983				1984
	April	May- June	July- Sept.	Oct.- Dec.	Jan.- March
<u>Purchases</u>					
Stand-by arrangement	31.5	45.0 ^{1/}	45.0	45.0	45.0
Ordinary resources	19.1	20.4	20.5	7.8	--
Borrowed resources	12.4	24.6	24.5	37.2	45.0
CFF	97.2	--	--	--	--
<u>Repurchases</u>					
Credit tranches	3.1	25.0	25.0	21.9	18.8
CFF	--	6.1	--	--	--
Oil	--	0.7	--	--	--
<u>Net purchases</u>	125.6	13.2	20.0	23.1	26.2
<u>Total Fund holdings of Zambian kwacha (cumulative)</u>					
In millions of SDRs	880.9	894.1	914.1	937.2	963.4
As per cent of quota	416.5	422.6	432.2	443.1	455.5

Source: IMF, Treasurer's Department.

^{1/} Based on April performance criteria and satisfactory completion of the review of the program with the Fund by end-June 1983.

Proposed Decisions

In view of the foregoing, the following draft decisions are proposed for adoption by the Executive Board:

I. 1982 Consultation

1. The Fund takes this decision relating to Zambia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article XIV consultation with Zambia, in the light of the 1982 Article IV consultation with Zambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zambia's exchange system remains highly restrictive. In the context of the program supported by a stand-by arrangement, the authorities intend to pursue the policies that will permit a progressive reduction in payments arrears and facilitate other steps toward a more liberal exchange system. In the circumstances of Zambia, the Fund grants approval for the restrictions on making of payments and transfers for current international transactions referred to in SM/83/50 until June 30, 1984, or the next Article IV consultation, whichever is the earlier. The existing multiple currency practice, resulting from the levy on the sale of foreign exchange for private overseas travel, is approved until the completion of the mid-term review of the stand-by arrangement.

II. Stand-By Arrangement

1. The Government of Zambia has requested a stand-by arrangement in an amount equivalent to SDR 211.5 million for a period of 12 months beginning 1983.
2. The Fund approves the stand-by arrangement attached to EBS/83/67.
3. The Fund waives the limitation in Article V, Section 3(b)(iii).

APPENDIX I

ZAMBIA - Stand-By Arrangement

Attached hereto is a letter and annexed Memorandum dated February 25, 1983 from the Prime Minister and Minister of Finance of Zambia requesting a stand-by arrangement and setting forth: (a) the policies and objectives that the authorities of Zambia intend to pursue for the period of this stand-by arrangement; and (b) understandings of Zambia with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of Zambia will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of 12 months from 1983, Zambia will have the right to make purchases from the Fund in an amount equivalent to SDR 211.5 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.
2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 31.5 million until June 15, 1983, SDR 76.5 million until August 15, 1983, SDR 121.5 million until November 15, 1983, and SDR 166.5 million until February 15, 1984.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Zambia's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota.
3. Purchases under this stand-by arrangement shall be made from ordinary resources until purchases reach the equivalent of SDR 8,780,728, then from ordinary and borrowed resources in the ratio of 1:1.2, until purchases under this arrangement reach the equivalent of SDR 138,557,813; and then from borrowed resources only provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.
4. Zambia will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Zambia's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 per cent of quota:

(a) During any period in which the data at the end of the preceding period indicate that

(i) the target for reduction in external payments arrears described in paragraph 19 and Attachment II of the annexed Memorandum, or