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INTERNATIONAL MONETARY FUND

ZAMBIA

Recent Economic Developments

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Contents | Page

Contents

Contents | Page

Appendix II. Tables

Appendix III

Chart

ZAMBIA - Basic Data

Area, population, and GDP per capita

Area	290,410 square miles
Population: Total (1980)	5.8 million
Growth rate	3 per cent
GDP per capita (1980)	SDR 508

	1977	1978	1979	1980 Est.	1981 Proj.
GDP (at factor cost)					
Total (in millions of kwacha)	1,952	2,201	2,623	3,038	3,645
Agriculture (per cent of total)	12	12	11	12	13
Mining (per cent of total)	33	35	30	29	28
Government (per cent of total)	11	11	12	12	11
Annual real rate of growth (per cent)	-5.1	2.5	-8.0	0.9	5.0
Investment as per cent of GDP (at market prices)	34	25	18	20	22
Prices (per cent change)					
GDP deflator	9.9	10.1	29.6	14.8	14-16
Cost of living (low income)	19.8	16.4	9.7	11.7	14-16
Government finance		(In millions of kwacha)			
Revenue	511	576	621	791	900
Current expenditure	596	580	771	1,039	949
Capital expenditure and net lending	177	199	153	244	206
Overall deficit	-262	-203	-302	-492	-255
External borrowing (net) as per cent of overall deficit	7	10	46	53	23
Domestic bank borrowing as per cent of overall deficit	84	46	20	47	59
Overall deficit as per cent of GDP	13	9	12	16	7
Money and credit		(Per cent change)			
Domestic credit	30	18	8	16	15
Government (net)	39	34	6	21	12
Nongovernment	18	-10	14	5	21
Money and quasi-money	12	-8	30	9	13

ZAMBIA - Basic Data (concluded)

	1977	1978	1979	1980 Prel.	1981 Proj.
Balance of payments			(In millions of SDRs)		
Exports, f.o.b.	768	662	1,065	908	979
Imports, c.i.f.	-711	-617	-735	-1,017	954
Trade balance	57	45	330	109	25
Net services and transfers	-242	-238	-227	-359	-401
Current account balance	-185	-193	103	-468	-376
Capital account (net)	-58	-14	55	240	188
Government	(17)	(53)	(134)	(100)	(58)
Mining companies	(-15)	(-15)	(-23)	(26)	(110)
Other (including errors and omissions)	(-60)	(-52)	(-56)	(114)	(20)
SDR allocation	--	--	15	15	15
Overall surplus or deficit (-)	-243	-207	173	-213	-173
Current account balance as per cent of GDP	-9	-9	4	-16	-11
Gross official foreign reserves 1/ (end of period)	55	39	61	61	39 2/
External public debt					
Disbursed and outstanding (end of period)	1,146	1,072	1,183	1,206	...
Debt service as per cent of exports	20	21	12	28	24

1/ Excluding gold.
2/ End-July.

I. Income and Production

The Zambian economy is heavily dependent upon the mining sector, which centers mostly around the production and exportation of copper. Mineral production in the 1970s accounted, on average, for about one third of real GDP, with the shares of agriculture and manufacturing averaging 12 and 10 per cent, respectively. The importance of the mining industry to the Zambian economy is far greater, however, than its proportion in real income would indicate. Since copper exports constitute, on average, over 90 per cent of total foreign exchange earnings, economic activity and domestic absorption in an open economy like Zambia are greatly affected by developments in the mining industry. The volume of copper production and exports has exhibited relatively small variation during the 1970s. The fluctuations in the value added of mining and in export earnings, however, have been wide because of the sharp cyclical variations in the world market price for copper. Moreover, during the last decade the real price of copper has shown a persistent downward trend, implying a steady decline in the resources which the stationary volume of Zambia's mining production can command. Because of the persistence of depressed conditions in the world copper market, Zambia has experienced substantial balance of payments difficulties during the last five years, and the level of activity in the other sectors of the economy, which have developed a high dependency on imported inputs, has been seriously affected by the consequent scarcity of foreign exchange.

1. Gross domestic product

Overall economic activity, which recovered with a 2 per cent growth rate in 1978, declined sharply in 1979 when real gross domestic product (GDP) fell by 8 per cent (Table 1). The reduced level of aggregate production was mainly associated with a particularly large decline in the output of the mining sector (especially copper), as well as with substantial decreases in both agriculture and construction (Appendix Tables I and II). The main factor behind the 21 per cent reduction in the real value added of the mining sector was the fall in the output of finished copper. As in the previous years, this decline was related to rising costs of sales and severe shortages of essential imported materials caused by the unavailability of foreign exchange. Unfavorable weather conditions, together with a shortage of foreign exchange for agricultural inputs, contributed to the 9 per cent decline in real agricultural output in 1979. For the third successive year construction activity suffered a decline (5 per cent), reflecting primarily depressed demand and the consequent drop in projects (particularly housing), and a scarcity of imported building materials. The tight foreign exchange situation also had a severe impact on performance in manufacturing and commerce, and real output in both sectors stagnated. Most industries were forced to operate at levels substantially below capacity, while others ceased to function altogether. The reduced levels of consumer imports resulted in a lower volume of commercial activities.

Provisional estimates for 1980 indicate that the decline in economic activity experienced in 1979 was arrested, and the economy recorded a

Table 1. Zambia: Real GDP Growth, 1977-80 1/

(In per cent)

	1977	1978	1979	1980 2/
Agriculture	0.8	0.5	-9.2	8.5
Of which: subsistence	(2.4)	(2.6)	(-2.5)	(3.0)
Mining	-6.7	7.5	-20.5	2.4
Manufacturing	-6.9	7.5	--	0.5
Electricity, gas, and water	9.9	0.9	7.4	6.5
Construction	-9.2	-9.3	-5.4	-11.6
Other services	5.4	-0.8	0.5	2.2
Of which: government	(0.8)	(0.5)	(-1.3)	(0.4)
GDP	-5.0	2.4	-8.0	2.2
	Contribution to GDP growth 3/			
Agriculture	0.1	0.1	-1.1	1.0
Mining	-2.2	2.5	-6.9	0.4
Manufacturing	-1.0	0.7	--	--
Electricity, gas, and water	0.3	--	0.3	0.3
Construction	-0.6	-0.6	-0.3	-0.7
Other services	-1.6	-0.3	--	1.2

Sources: Central Statistical Office, Monthly Digest of Statistics; data provided by the Zambian authorities; and staff estimates.

1/ Totals may not equal the sum of components because of rounding.
2/ Provisional.
3/ Absolute change in the value added of each sector divided by the GDP of the previous year.

modest growth of 2 per cent. The value added by agriculture accounted for slightly less than half of the growth realized in the economy, and its share of GDP increased to 12 per cent compared with 11 per cent in 1979. The increase of about 9 per cent in agricultural output, the largest sectoral growth, reflected slightly better weather conditions, larger areas under cultivation, and improved extension services. Output in the mining sector increased only modestly by 2 per cent, representing only a marginal contribution to GDP growth. The tertiary sector, consisting largely of government services and commerce, registered an increase of over 2 per cent in real terms and accounted for over half of GDP growth. Construction activities continued to be depressed, with output declining further by nearly 12 per cent, as domestic demand, particularly investment in infrastructure, remained low.

Present indications suggest that the economic recovery started in 1980 will be sustained in 1981, and a growth rate of 5 per cent is projected. Agricultural performance is expected to be encouraging, especially with the improved weather conditions and the maintenance of existing incentives to the sector. However, no significant recovery is expected in the mining sector, where value added is projected to stagnate. The easing of the foreign exchange constraint with financial assistance from the Fund is expected to improve production conditions in both the manufacturing and construction sectors.

2. <u>Expenditure</u>

Final expenditure, which had increased by only 9 per cent in nominal terms in 1978, rose sharply by 15 per cent in 1979, compared with a 9 per cent increase in nominal GDP (Table 2 and Appendix Table III). However, in real terms, final expenditure declined by 2 per cent, while real GDP declined by 8 per cent. In 1979 private consumption continued to increase rapidly, at 32 per cent in nominal terms and 10 per cent in real terms, while the nominal increase in government consumption, which had slowed down in 1977-78, went up by 15 per cent, as a relatively large budget deficit, equivalent to more than 10 per cent of GDP, was maintained. Zambia's investment effort has declined continuously since 1975. During 1979 the adjustment toward equilibrium between aggregate domestic demand and the supply of resources was again largely borne by investment, which was reduced by 15 per cent in nominal terms and by 28 per cent in real terms. Export performance, which had stagnated in the preceding two years, was particularly favorable, with receipts from goods and nonfactor services increasing by more than 57 per cent. At the same time, imports of goods and nonfactor services increased by only 19 per cent, which led to a significant improvement in the external accounts that facilitated a rapid reduction of external payments arrears. Nevertheless, the rapid rise in domestic demand in 1979, together with the tightening of the supply situation, created the basis for continued pressures on the balance of payments and on domestic prices.

Table 2. Zambia: Growth in Expenditure, 1977-80

(In per cent)

	1977	1978	1979	1980 1/
		(At current prices)		
Government consumption	10.4	6.9	15.2	22.7
Private consumption	8.4	34.1	31.6	38.2
Gross fixed investment	11.3	-16.9	-15.0	25.8
Final expenditure	10.0	8.8	14.8	31.5
Changes in stocks 2/	0.4	5.1	-3.4	2.1
Exports 3/	-5.3	-5.0	57.4	-9.5
Imports 3/	7.3	-3.0	19.3	41.3
GDP	4.2	12.8	19.2	15.4
		(At 1970 prices)		
Government consumption	-5.1	-7.7	-3.2	4.2
Private consumption	-5.6	16.9	9.9	19.9
Gross fixed investment	-8.2	-29.9	-27.7	5.2
Final expenditure	-6.3	-4.5	-2.1	13.2
Changes in stocks 2/	--	9.8	-5.2	3.5
Exports 3/	-2.1	-8.0	-14.6	-23.5
Imports 3/	-6.5	-21.4	-3.8	7.5
GDP	-5.0	2.4	-8.0	2.2

Sources: Central Statistical Office, Monthly Digest of Statistics; data provided by the Zambian authorities; and staff estimates.

1/ Provisional.
2/ In per cent of previous year's GDP.
3/ Goods and nonfactor services.

In 1980 final expenditure, in nominal terms, is estimated to have risen by about 32 per cent, as government and private consumption went up by 23 per cent and 38 per cent, respectively. Investment expenditure, which had declined in the two previous years, rose by 26 per cent. However, exports of goods and nonfactor services declined by 10 per cent, while imports rose by 41 per cent. Consequently, a resource gap equivalent to over 7 per cent of GDP emerged. In real terms, all categories of demand increased except for exports of goods and nonfactor services, which declined by about 24 per cent. The strongest impetus continued to emanate from private consumption, which rose in real terms by 20 per cent, while real investment was increased, for the first time in several years, by only 5 per cent.

Preliminary indications are that, while total domestic demand will continue to exceed domestic supplies in 1981, the composition of final expenditure would alter in favor of investment. Government consumption, which had been about 27 per cent of GDP in 1979-80, is expected to diminish to about 20 per cent of GDP in 1981, reflecting a substantially reduced budgetary deficit. Concurrently, the rise in private consumption is expected to slow down, following measures to reduce consumer subsidies and effect economic pricing for the products of parastatal enterprises. These developments, together with the slight improvement expected in the external position, are projected to lead to a sharp increase in total investment to a level equivalent to about 24 per cent of GDP in 1981. However, the resource gap will decline only modestly, to just below 7 per cent of nominal GDP.

The ratio of gross domestic savings to GDP fell to 25 per cent in 1979, after falling consecutively in the two preceding years, largely as the combined result of lower domestic supply and sharply rising consumption (Table 3). Net investment income and transfer payments remained relatively steady but declined as a proportion of gross domestic savings. As is generally the case when copper prices are high, Zambia was a net exporter of capital in 1979. In 1980 gross domestic savings are estimated to have declined further to only 14 per cent of GDP, with net investment income and transfer payments increasing to 47 per cent of gross domestic savings.

3. Developments by main economic sectors

a. Agriculture

In terms of providing employment or means of livelihood, the agricultural sector remains the largest in the Zambian economy, engaging about 50 per cent of the working population. However, agricultural production has accounted for only about 11-12 per cent of real GDP in recent years and contributed slightly more than 1 per cent of the total value of exports. Maize, tobacco, groundnuts, wheat, rice, and cotton are the main crops cultivated.

Weather conditions have been largely responsible for the fluctuations in agricultural production experienced in recent years. Output, which

Table 3. Zambia: Saving and Investment, 1977-80

	1977	1978	1979	1980 1/
	(In millions of kwacha)			
Total investment	675	655	398	649
Gross fixed investment	668	555	472	594
Changes in stocks	7	100	-74	55
Financed by:				
Gross domestic saving 2/	674	638	663	424
Net investment income	-105	-65	-73	-130
Net transfer payments	-65	-67	-60	-71
= National saving	504	506	530	223
Public and private capital from abroad 3/	-51	-15	72	261
Change in net foreign assets 4/ (increase -)	222	164	-204	165
	(In per cent of GDP)			
Total investment	34.6	29.8	15.2	21.4
Gross fixed investment	34.2	25.2	18.0	19.6
Changes in stocks	0.4	4.5	-2.8	1.8
Financed by:				
Gross domestic saving	34.5	29.0	25.3	14.0
Net investment income	-5.4	-3.0	-2.8	-4.3
Net transfer payments	-3.3	-3.0	-2.3	-2.3
= National saving	25.8	23.0	20.2	7.4
Public and private capital from abroad	-2.6	-0.7	2.7	8.6
Change in net foreign assets (increase -)	11.4	7.5	-7.8	5.4
Memorandum item:				
National saving (in per cent of total investment)	74.7	77.3	133.2	34.4

Sources: Central Statistical Office, Monthly Digest of Statistics; data provided by the Zambian authorities; and staff estimates.

1/ Provisional.
2/ Gross domestic saving equals total investment plus (minus) the surplus (deficit) on the goods and nonfactor services.
3/ Includes errors and omissions and allocations of SDRs.
4/ Includes estimates of external payments arrears.

stagnated in 1977-78, declined sharply in 1979, by 9.2 per cent. The unsatisfactory performance was due to adverse weather conditions as well as to a severe shortage of foreign exchange in the economy, which prevented the importation of farm machinery, spare parts, fertilizer, and other inputs. The sharp decline in agricultural output was largely associated with commercial production, which fell by over 21 per cent, as subsistence output fell by less than 3 per cent.

Apart from Virginia tobacco and groundnuts, the marketed output of all crops increased modestly during the 1979/80 agricultural season (Table 4). Maize output, which had fallen by about 50 per cent in the preceding season, rose by 15 per cent to 382,230 tons. The rise in output was due to the increase in the area under cultivation from 336,000 hectares to 540,000 hectares, which marked the return of agricultural land to maize cultivation (Appendix Table IV). However, as the normal consumption level in the country is about 700,000 tons, this output had to be supplemented for the second successive year by substantial imports of maize. The output of cotton increased by a third, which more than met the requirement of the local textile manufacturing industry. The increase was accounted for by the slightly improved weather conditions, larger acreage, and the better extension services provided by the Ministry of Agriculture. However, because the producer price for cotton was more than the prevailing world market price, the surplus production of cotton had to be exported at a loss that was borne by the government budget. Raw sugar production rose by 8 per cent to 110,601 tons in 1979/80, due to the improved cane yield per hectare, the results of the replanting scheme undertaken in the previous year, and the heavy rains during the season that were favorable to sugarcane growth. Wheat production more than doubled from the 1978/79 level, to reach a peak of 9,540 tons in 1979/80. Also, the production of paddy rice increased by 33 per cent to 2,240 tons. These latter increases in output largely reflect increases in area under cultivation and the more intensive irrigation schemes undertaken by the commercial farmers.

Preliminary estimates for 1980/81 show a marked improvement in agricultural production, due to more favorable weather conditions, higher producer prices and other incentives, and better extension services, including the timely availability of essential agricultural inputs such as fertilizer. The volume of maize marketed is estimated to have increased sharply to about one million tons, which will eliminate the necessity of importing maize during the following 12-month period. Significant production increases are also estimated for sunflower seeds (52 per cent), cotton (15 per cent), wheat (23 per cent), paddy rice (54 per cent), soya beans (77 per cent), groundnuts (124 per cent), and tobacco (11 per cent).

The Government's primary objective is to achieve overall self-sufficiency in most foodstuffs and other agricultural products in the medium term. However, until 1975/76 producer prices had been kept low in relation to production costs and border prices, which resulted in unattractive profit margins and smuggling. The primary motive for low producer prices had been

Table 4. Zambia: Marketed Production of Selected Agricultural Crops, 1976/77-1980/81

(In metric tons)

	1976/77	1977/78	1978/79	1979/80	1980/81 1/
Maize	693,000	657,000	331,255	382,230	1,000,000
Virginia tobacco	5,588	3,700	4,590	4,127	4,600
Sugarcane	71,203	73,450	102,148	110,601	110,000
Groundnuts	7,229	6,777	2,693	2,000	4,480
Sunflower seed	13,320	11,355	12,869	17,250	26,250
Cotton	8,929	10,200	15,000	20,000	23,000
Wheat	4,741	6,400	4,322	9,540	11,700
Paddy rice	2,090	2,970	1,686	2,240	3,440
Soya beans	1,274	2,844	1,294	3,510	6,210
Coffee	24	55	--	--	--
Tea (green leaves)	64	85	--	--	--

Source: Data provided by the Zambian authorities.

1/ Preliminary estimates.

to contain the cost of living for urban dwellers through heavy subsidization of input costs to farmers, particularly fertilizer. In recent years the Government has adopted a more flexible producer price policy. Thus, producer prices have been revised upward regularly, with a view to ensuring more adequate rates of return to farmers (Appendix Table V). Although agricultural production has in the past shown a significant positive response to changes in real producer prices, the unusually adverse weather conditions during the two previous crop seasons largely offset the positive effects of the higher producer prices.

A substantial part of the development effort in agriculture is undertaken within a scheme known as "Operation Food Production," which entails a four-pronged approach involving smallholder, commercial, cooperative, and state farms. The primary objective of this scheme is to neutralize the adverse effects of changes in weather conditions on agricultural production, as well as to bring the country to full self-sufficiency. The program involves, first, the grouping of smallholder farmers, who have adequate land but lack the means and skills necessary to maximize production. The organization of these farmers is expected to facilitate the provision of material and financial assistance as well as adequate levels of extension services. Second, the program includes development of the cooperatives in rural areas. Although these cooperatives would pay particular attention to agriculture, they will also function as vehicles for other rural development. In this regard assistance has been obtained from the Scandinavian countries in the provision of cooperative management training through a specialized college opened recently. Third, additional financial assistance would be provided by the Agricultural Development Bank of Zambia, which is expected to become operational shortly. Finally, state farms are to be gradually established throughout the country. Various feasibility studies are being conducted, with appropriate recommendations as to the medium-term viability of state farms pending. It is unlikely that implementation would be completed in less than ten years' time. The main objective of the state farms would be to produce all year round, with the help of both rainfed and irrigated areas. In conjunction with the establishment of these farms, electrification of the rural areas will be expedited so as to assist in overall agricultural development. Support for the state farms is being sought from friendly countries. In addition, foreign private sector participation is being sought, especially in the provision of managerial assistance. It is expected that some cultivation may start this year on two of the state farms covering an area of about 200 hectares.

In an attempt to reduce current inefficiencies in the marketing of agricultural products, the National Agricultural Marketing Board (NAMBOARD) has been reorganized, with many of its functions transferred to locally based cooperative unions. The cooperative unions are now responsible for the purchase of maize from the farmers and its subsequent sale to the milling companies. This change has resulted in more timely payments to farmers. In the past, both the acreage under cultivation and the attitude of farmers had suffered because of delays in payments by NAMBOARD. Furthermore, the reorganization requires that the cooperatives be responsible for the distribution of fertilizer to farmers, although NAMBOARD will continue to be the sole importer when necessary. In addition, all agricultural implements will be sold by private companies and the cooperative unions, with the latter free to decide which implements to sell, based on profitability. These changes should contribute significantly to the removal of some of the problems that have hindered production.

b. Mining

The deterioration in aggregate production in 1979 was accounted for mainly by a drop in mineral production of almost 20 per cent, as copper output, which contributes almost 90 per cent of Zambia's total mining production, fell by about 12 per cent (Table 5). At 579,000 metric tons, copper output in 1979 was at its lowest level in the decade and about 19 per cent below the peak production of 713,000 tons in 1976. The decline in copper production was attributable to several factors. These included a continuation of insufficient investment due to the mining companies' limited financial resources; a deepening of mine operations and a falling grade of mined ores; a continued loss of skills through a high rate of expatriate labor force turnover; and, although there was some easing of Zambia's foreign exchange situation during 1979, the inadequacy of supplies of inputs and spares due to prolonged delays between the placing of orders and their receipt. Despite the decline in the volume of output, export sales rose by some 10 per cent to 646,000 tons in 1979, reflecting a decumulation of abnormally high stocks made possible by the opening of the southern route through Zimbabwe to East London (South Africa).

Table 5. Zambia: Mineral Production, 1976-80

(Volumes in thousands of metric tons)

	Copper	Zinc	Lead	Coal	Cobalt
1976	713	37	14	762	1.62
1977	660	40	13	708	1.70
1978	656	43	13	615	1.56
1979	579	38	13	599	3.27
1980	610	33	10	579	3.31

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

Cobalt production more than doubled in 1979 to 3,270 tons and is now second only to copper in its contribution to mining output and foreign exchange earnings. The large rise in cobalt production was mainly the result of the opening of the Chambeshi plant. There were declines in the production of other minerals in 1979: the output of coal went down by about 3 per cent to 599,000 tons, while zinc production declined by 12 per cent to 38,000 tons and that of lead stagnated at 13,000 tons.

In 1980 copper production recorded an increase of over 5 per cent to 610,000 tons. The improvement largely reflected increased capacity utilization, following an easing of the foreign exchange constraint that allowed a slightly more favorable allocation of foreign exchange to the mining companies, and hence enabled a higher volume of imported essential inputs. However, actual sales of copper fell marginally to 634,000 tons, due to difficulties in shipments as a result of shortages of locomotive power and freight cars, which severely limited the handling capacity of TAZARA railways. Also, the inadequacy of mechanical-handling equipment at the port of Dar es Salaam contributed to the low copper shipments. These developments were offset to some extent by the increased use of the southern route, through which a considerable amount of copper was exported.

The production of cobalt recorded a small increase to 3,310 tons in 1980. However, cobalt sales declined sharply, from 2,987 tons in 1979 to 1,650 tons in 1980. The fall in cobalt exports primarily reflected the reaction of the major consumers to high interest rates, which substantially raised the cost of financing their cobalt stocks. Consequently, consumers reduced their stocks significantly, shifting the location and financing of stocks to the producers. The output of lead and zinc in 1981 was adversely affected by frequent breakdowns of the plant and shortages of coke; production of lead declined by 23 per cent to 10,000 tons, while the output of zinc fell by 15 per cent to 33,000 tons. The downward trend in coal production which started in 1974 has continued, with output in 1980 at 579,000 tons, 38 per cent below the peak level obtained in 1973. The fall in output was due to stoppages and disruptions necessitated by the need to carry out repairs and replacement of old machinery. In addition, frequent mechanical and electrical problems with the aerial ropeway made it difficult to move coal between the mine pithead and the loading point.

The rationalization measures adopted in 1978 in conjunction with a two-year stand-by arrangement, and the pickup in the average export prices of both copper and cobalt, helped improve the financial positions of the two mining companies, Nchanga Consolidated Copper Mines (NCCM) and Roan Consolidated Mines (RCM). For RCM, unit costs rose by only 10 per cent in 1979, compared with an increase of almost 60 per cent in 1978, while NCCM was able to keep its rise in average costs to 8 per cent. Thus, in 1978/79 the companies showed a combined pre-tax profit of K 100 million, compared with a combined pre-tax loss of K 30 million in 1977/78. In 1979/80, the financial operations of the mining companies were affected by the low level of copper prices and high cost of sales. Unit costs increased substantially, due to the higher prices of imported spare parts and equipment and high transport and labor costs; these developments resulted in unfavorable revenue-cost ratios and adversely affected the cash-flow position of the mining companies. Nevertheless, in part because of the substantial decumulation of copper stocks, the combined sales revenue from all metals for the two companies increased from K 886 million in 1978/79 to K 1,090 million in 1979/80, with a pre-tax profit of K 215 million. In 1980/81 the average unit cost of sales increased considerably for both mining companies, which further weakened their cash-flow positions; the combined profit before tax was reduced to only K 42 million.

In May 1981 the Government decided to merge the two mining companies in order to improve operations in the mining sector. The merger, which is unlikely to be completed before the end of 1981, is expected to contribute significantly toward lower unit production costs and less duplication investment in the medium term. However, without major investment to rehabilitate the mines and expand certain operations, it would be difficult to sustain the present levels of production, particularly for copper. In this regard, efforts are being made to obtain external financial assistance, including a copper-sector loan from the IBRD.

c. Manufacturing

The manufacturing sector in Zambia is dominated by parastatal enterprises, which are mostly under the Industrial Development Corporation (INDECO), the Government-owned holding company (see Section III. 5 below). Manufacturing is geared largely toward import-substitution and the processing of agricultural produce almost exclusively for the domestic market. Moreover, the manufacturing sector is heavily dependent on imported raw materials and is highly capital-intensive. The sector's main branches of activity are food, beverages, and tobacco (31 per cent); metal products (21 per cent); chemicals, rubber, and plastics (19 per cent); and textiles and clothing (12 per cent).

Following a strong recovery in 1978, expansion in the manufacturing sector slowed down in 1979, with the index of production increasing by less than 2 per cent (Table 6). Among the most important factors for the sector's weak performance were the generally depressed level of domestic demand, a serious shortage of imported raw materials, and the inability of the parastatal enterprises to effect a rational cost-price structure. Chemicals, rubber, and plastics recorded the largest increase in manufacturing production (13 per cent), followed by nonmetallic mineral products (18 per cent) and textiles and clothing (5 per cent). Among the industries in which production declined were metals (7-9 per cent), reflecting the depressed level of activity in the mining sector; food, beverages, and tobacco (3 per cent); and wood and wood products (2 per cent).

Preliminary estimates indicate that the real value added by the manufacturing sector registered an increase of less than 1 per cent in 1980,

Table 6. Zambia: Index of Manufacturing Production, 1976-80

(1973 = 100)

	Weight	1976	1977	1978	1979	1980 1/
Food, beverages, and tobacco	73	101.5	98.1	99.3	96.7	92.9
Textiles and clothing	28	118.9	100.4	140.7	147.7	176.0
Wood and wood products	9	69.6	76.9	75.4	74.0	67.0
Paper and paper products	12	94.1	102.6	123.3	126.3	106.0
Chemicals, rubber, and plastic	44	106.7	105.8	103.5	116.5	111.9
Nonmetallic mineral products	16	102.7	134.5	132.7	142.7	136.4
Basic metals industries 2/	5	100.5	109.8	121.0	109.8	112.7
Metal products and other	50	95.0	81.9	73.8	68.6	80.2
Total manufacturing	237	101.6	98.5	102.6	104.5	106.6

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ Provisional.
2/ Excluding copper refineries.

while production levels expanded by about 2 per cent. The marginal improvement over the previous year's performance reflected the easing of the supply situation for imported inputs because of priority allocation of import licenses, and the increasing degree of substitution of local raw materials for imported inputs. However, only two groups of industries expanded production: textiles and clothing, where the output increase of 19 per cent stemmed from good cotton harvests and higher capacity utilization; and the metal industries, where production increased by over 15 per cent on average because of the higher level of economic activity in the mining sector. All other industries registered declines in output in 1980, particularly the wood and paper industries, where production fell by 9 per cent and 16 per cent, respectively.

The prospects for the manufacturing sector in 1981 are mixed. Without higher imports of essential materials, it would be difficult to increase capacity utilization levels. However, recent actions in the area of pricing policy for the parastatal enterprises should have a favorable impact on both production and cash-flow positions (see Section II.1a below). These factors together with the development efforts for the manufacturing sector included in the three-year public sector investment plan, should help establish the basis for sustained expansion of manufacturing output in the medium term.

d. Energy

Zambia continues to rely mainly on hydroelectricity for energy. This source accounted for 58 per cent of total energy supply in 1979-80, while contributions from oil and coal were about 26 per cent and 13 per cent, respectively (Table 7). Hydroelectricity and coal, which together accounted for 70 per cent of energy supply, are produced domestically, while petroleum and related products are imported. Since 1974 Zambia has exported declining amounts of electric power to neighboring countries in the face of rapid increases in domestic demand. The net foreign exchange payment for energy supplies has increased substantially in recent years, because of escalating petroleum costs, despite a downward trend in the volume of petroleum imports.

After stagnating in 1979, Zambia's demand for energy declined marginally in 1980, from a coal equivalent to 4.9 million tons in 1979 to 4.7 million tons. The proportion of total energy consumed by the mining sector, which had declined sharply in 1979 to 46 per cent, rose in 1980 to about 54 per cent. The fluctuations in the use of energy by the mining sector during 1978-80 reflected movements in production levels during the period. A certain amount of substitution of hydroelectricity for oil has occurred in the mining sector in recent years with the electrification of some operations. Energy demand in the other sectors, particularly manufacturing and construction, has declined due to higher energy prices and lower levels of economic activity. The Government continues to allow all increases in petroleum prices to be passed on to the consumer, a policy that has contributed considerably to dampening domestic demand. Furthermore, the Government plans to offer tax incentives to encourage users of petroleum-related products to switch to the existing inexpensive hydro-based power.

Table 7. Zambia: Supply and Use of Energy, 1976-80

(In per cent of total)

	1976	1977	1978	1979	1980
Supply:					
Hydroelectricity	56.4	57.7	58.2	58.2	58.1
Coal	14.8	14.5	12.6	12.4	13.0
Oil	26.6	25.4	25.8	26.8	26.4
Coke	1.9	2.0	1.4	1.1	1.0
Other	0.3	0.4	2.0	1.5	1.5
Use:					
Agriculture	0.8	0.8	1.4	2.9	2.4
Mining	61.3	62.1	59.4	45.9	53.8
Manufacturing and construction	16.4	16.1	12.2	19.0	16.0
Transport	3.8	3.4	3.3	4.5	3.6
Commerce and services	17.7	17.6	23.7	26.2	24.2

Source: Bank of Zambia, Report and Statement of Accounts for the year ended December 31, 1980.

Various measures have been taken to improve the supply of energy while reducing the relative dependence on imported petroleum products. The recycling of used lubricants is being encouraged, particularly in the transport industry. Another potential means of substitution away from petroleum is the manufacture of ethanol from molasses available from the domestic sugar refineries. For this project, Zambia is seeking financial assistance from the World Bank Group, and operations are expected to start in the foreseeable future. Finally, efforts to rehabilitate and expand coal mining are being undertaken, as well as studies for new hydroelectric installations. It is expected that when these projects are concluded, Zambia's import requirements for petroleum will be substantially reduced.

II. Prices, Wages, and Employment

1. Prices

a. Prices policy and regulation

An extensive system of formal controls applies to the prices of most goods produced or sold in Zambia. Before the recent establishment of a

Prices and Incomes Commission, the system operated through a number of channels. In the agricultural sector, producer prices for almost all commodities have been determined at Cabinet level, on the basis of recommendations by the Ministry of Agriculture after an annual survey of farming costs. In the manufacturing sector, prices for a specified list of basic consumer goods--produced mainly by parastatal enterprises under INDECO, the government holding company--have been determined both at Cabinet level and below; the official prices have then been administered by the Office of the Price Controller in the Ministry of Industry and Commerce. Cabinet approval has been required for price adjustments to nine commodities on the list deemed to be "essential," mainly certain foodstuffs, petroleum products, and stock feed. Price changes for other basic commodities produced by parastatal enterprises generally required approval only by the board of the Zambian Industrial and Mining Corporation, Ltd. (ZIMCO), the parent company of INDECO, although in certain cases the changes had also to be sanctioned by the relevant controlling ministries; the approved increases were then notified to the Price Controller's Office to be gazetted. The Office of the Price Controller itself has been charged with determining prices of any basic commodities produced by private companies, and with establishing permissible markups on imported consumer goods.

This system of price controls has proved to be rather cumbersome, and, as a consequence, untimely and often inadequate price increases have acted as a substantial deterrent to production. Agricultural producer prices were frequently announced too late to have a strong impact on production decisions in the same crop season, while low producer prices--particularly for maize--led to reductions in acreage under cultivation. Delays in approving or gazetting price increases for the manufacturing sector, at a time of rapidly rising costs, seriously undermined the financial position of parastatal enterprises and compounded the effects of the tight foreign exchange situation. The result has been very low capacity utilization rates, a sharp deterioration in debt repayment records, and growing recourse to direct subsidies or low cost loans from the Government to finance losses. In some cases, the subsidies arose from the inability of the parastatal enterprises to forward government sales taxes collected from the consumer. Another consequence of the noneconomic pricing of goods has been the encouragement of relatively high consumption levels, particularly for essential commodities, which in some cases have had to be met by greater volumes of imports.

In light of these difficulties, substantive changes have recently been made in the price control system to render it more responsive to the development needs of the economy. First, the Government has endorsed a policy of economic pricing, in keeping with the recommendations of the Turner Reports prepared under the auspices of the ILO. This policy involves a gradual approach toward full cost pricing (including an adequate return on capital) for all products of parastatal enterprises, and the adjustment of agricultural producer prices toward world market equivalents. In line with this objective, substantial price adjustments for many basic commodities were introduced in the first half of 1982 (see below). Further, producer prices were increased by an average of 15 per cent for the 1980/81 crop year, and for the 1981/82 season producer price increases of 19 per cent for maize and up to 51 per cent for other commodities have already been announced.

Second, a Prices and Incomes Commission was established in May of this year, to centralize and thereby streamline the procedures for approving price increases. The Commission's initial concern has been to bring the various statutory price control mechanisms under its authority, a process unlikely to be completed before the end of the year. When fully operational, the Commission will be directly responsible for setting agricultural producer prices and prices of basic commodities produced by private companies, and for recording price increases for parastatal enterprises approved by the ZIMCO board. The role of policing price controls will be retained by the Office of the Price Controller, which will remain with the Ministry of Industry and Commerce. To speed the process of price adjustment, the Commission will be empowered to approve increases in the prices of "essential" commodities without reference to the Cabinet, although the Commission expects to consult with the Cabinet on the most sensitive price increases. For the same reason, the Commission may also exempt certain producing or trading units from price control, or allow them to increase prices within predetermined limits. As a means of widening political support for price increases, the Commission will also be able to refer general or particular pricing issues to a new Consultative Council, on which all major interest groups in the economy will be represented.

b. Recent price developments

The recent evolution of the major price series is given in Table 8. The consumer price indices for both low- and high-income earners show a considerable abating of inflationary pressures in 1978 and 1979, during the period of the recent stand-by arrangement. By 1979 the annual inflation rate had fallen to 10-11 per cent, compared to almost 20 per cent between 1976 and 1977, despite the once-for-all price effects of the exchange rate and tax/subsidy actions taken under the arrangement. A slowdown in price increases for food, beverages, and tobacco was the major reason for the easing of inflation (Appendix Table VI). In 1980, however, prices for these items rose substantially, largely as a result of the poor maize harvest and additional reductions in budgetary subsidies to consumers, which took effect at the beginning of the year. These higher prices bore more heavily on low income earners, for whom the rate of inflation rose by 2 percentage points in 1980; the inflation rate for high income earners increased only slightly. Nevertheless, the recorded inflation rate of about 12 per cent for both groups was well below the 1980 increase in import prices (24 per cent) and in wholesale prices for nonmining output (18 per cent). This divergence--which was also pronounced in 1979--reflects the use of official prices only to measure inflationary trends; the substantially higher black market prices for certain controlled items in limited supply would suggest that underlying inflationary pressures in 1980 were much stronger.

Table 8. Zambia: Price Developments, 1976-80

(Annual percentage changes)

	1976	1977	1978	1979	1980
Consumer prices					
Low-income group	18.8	19.8	16.4	9.7	11.7
High-income group	16.1	17.1	12.2	11.3	11.5
Wholesale prices (nonmining output)	17.5	24.6	19.6	15.7	18.4
Domestic demand deflator	14.7	16.4	8.3	25.9	12.0 1/
Gross domestic product deflator					
Total	13.4	9.9	10.1	29.6	12.9 1/
Nonmining output	13.3	17.3	11.4	13.8	14.5 1/

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ Provisional.

These pressures became more open in the first half of 1981, following adoption by the Government of a policy of economic pricing for parastatal enterprises. Substantial adjustments were made during the first quarter of the year in the retail price of maize (a 32 per cent increase), sugar (15 per cent), beef products (12 per cent), bread (40 per cent), and stockfeeds (40 per cent on average). These were followed in the second quarter by increases in prices for rice (27 per cent), butter (39 per cent), salt (25 per cent), and a further increase in sugar prices (12 per cent). Reflecting these increases, the cost of living for low-income earners rose by 13 per cent in the first half of 1981, and by 8 per cent for high-income earners.

2. Wages

Data on earnings in Zambia, which are based on semiannual surveys of wages paid, are available only after a considerable lag; the latest finalized data refer to 1978 (Appendix Table VII). These data show that, except for a brief wage explosion in 1976, average earnings have risen only slowly, at rates well below concomitant increases in the price level.

The result has been a steady erosion in the buying power of earnings of both Zambian and non-Zambian workers. Between 1974 and 1978 the real value of earnings fell by 15 per cent for the former group and by 23 per cent for the latter. Preliminary data suggest that real wages may have declined further in 1979, in line with guidelines established in conjunction with the stand-by arrangement holding wage increases in both the private and parastatal sectors to 5 per cent, and limiting public sector wage increases to a fixed absolute amount for unskilled and semiskilled workers, as recommended by one of the Turner Reports. Aggregate wage data are not available for 1980, but wage settlements during the year would have ensured real gains for a number of groups of workers. In particular, government employees were granted a general wage increase averaging 22 per cent, effective August 1; however, this was the first such increase since 1977, and provided only partial compensation for the increase in the cost of living over that period.

In the future, general wage policy will be the responsibility of the Prices and Incomes Commission. The Commission will become the final arbiter of wage disputes, a power previously exercised largely by the Industrial Relations Court. In addition, the Commission will be empowered to set minimum wages for workers not covered by collective agreements (mainly in retail and other small industries) and to ratify and monitor collective wage agreements, including those pertaining to government employees. The Commission is charged with formulating a comprehensive prices and incomes policy which, once approved by the Government, will provide the guidelines for ratifying new collective agreements. One problem the Commission will face in designing an incomes policy derives from the structure of inter-industry relative wage differentials in Zambia. Although very significant in size--mining-sector employees earn about one and one half times the average wage for all Zambian workers, while agricultural workers earn only 40 per cent of the average--wage differentials have remained relatively constant, suggesting that the Zambian labor market has become a "unified" market in which it is not easy to change, other than temporarily, the general pattern of inter-industry wages. In this type of market, wage settlements in any one sector, particularly the copper industry which has proven to be a wage leader, will tend to affect wage demands throughout the economy, creating generalized cost pressures. The Commission expects that the new Consultative Council will act to ease these pressures by ensuring that major interest groups in the economy--all represented on the Council--come to recognize the implications of excessive wage increases.

3. Employment

The sluggishness in economic activity in recent years has led to a considerable stagnation in employment opportunities within Zambia. Consequently, in the face of a rapidly growing population of school leavers, unemployment has become a major policy concern, one which was explicitly addressed in the Third National Development Plan. Between 1975 and 1978 paid employment declined in total by 7 per cent, the declines being registered mainly in the construction sector following completion of the TAZARA railway project, but also in agriculture and mining (Appendix Table VIII). This trend was halted in 1979 with the improvement in the foreign exchange situation, and in 1980 paid employment grew by some 3 per cent. Nevertheless, total paid employment in 1980 was still below its 1974 level. The result has been a substantial increase in unemployment and in generally low-paying "informal" labor market activities, particularly in Zambia's urban areas.

The growth in total employment during 1980 was centered mainly on the agriculture and transportation sectors. Agricultural employment rose by 14 per cent over the year, in response to government initiatives to expand agricultural production through increases in producer prices and improved extension and financial services. The Third National Development Plan sees such incentives for agriculture, and also for agro-industries, as the major means of strengthening the employment situation in the medium term. Employment in the transportation sector rose by 16 per cent in 1980, as transportation bottlenecks eased with the increased use of the southern route. Manufacturing employment, however, fell by 3 per cent partly offsetting the marked improvement in the previous year. The deterioration reflected the decline in capacity utilization rates, due to shortages of raw materials and other inputs and to cash flow problems created by price controls.

III. Public Finance

1. Overall budgetary situation

Public finances in Zambia are highly centralized, although local authorities are responsible for provision of a number of municipal services, the most important of which is housing. Local governments retain independent revenue sources, including the property tax, personal levy, and license and trading revenues, which are supplemented by grants from the Central Government in respect of certain services and block grants for general purposes. Nonfinancial public enterprises predominate in economic production, employing over one third of the labor force and, through the Government's equity participation in the mining companies, provide nearly all foreign exchange earnings. These enterprises are subject to considerable control by the Central Government, particularly with regard to pricing policies (see subsection 5 below).

Fiscal performance since independence in 1964 can be viewed as consisting of two broad epochs. The first lasted until 1975, and was dominated by strong if intermittent mineral revenues deriving from copper production. Expenditures responded to revenue levels with a lag, producing a pattern of budgetary surpluses and deficits which effectively provided a compensatory fiscal policy. In 1975 and subsequent years, however, mineral revenues virtually disappeared as a source of government revenues. Confronted with the loss of a revenue source which had provided more than one quarter of budget revenues over the preceding five years, the authorities adopted a more restrictive fiscal policy, restraining further expenditure growth and augmenting nonmineral revenues, which increased nearly 5 percentage points as a share of nonmining GDP in 1975. Due to the fundamental disequilibrium between revenues and expenditure at previously established budgetary levels, however, these measures were only sufficient to avert further deterioration in the fiscal position after 1975, and deficits remained large, equivalent to about 16 per cent of GDP during 1975-77, and were primarily financed by domestic bank credit (Tables 9 and 10). These policies culminated in the 1978 stabilization program, in which fiscal policy had a central role in reducing excess demand pressures in the economy. With economic activity stagnant and tax burdens already high, policy initiatives focused on demand management, particularly in regard to recurrent expenditures. Total expenditures were subsequently held below 1975 levels, with a substantial decrease in the provision of subsidies and, in conjunction with continued strength in revenue, which grew by 12 per cent per annum over 1976-78, the deficit in 1978 decreased by 40 per cent from the record level attained in 1975, to K 203 million, or 9 per cent of GDP, and bank financing declined by 60 per cent, to K 93 million, or 4 per cent of GDP.

Subsequently, budgetary discipline weakened, and fiscal policy became more expansionary. Expenditures rose at twice the rate revenues increased in 1979, led by increases in current expenditures. Reductions in the personal and corporate income tax rates eroded earlier attempts to secure additional revenues, and the share of nonmining revenue to nonmining sector value-added declined to pre-1975 levels. The resultant deficit exceeded that of the previous year by nearly one half, but bank financing declined further due to improved disbursement of external borrowings primarily related to bilateral aid projects and an IMF Trust Fund drawing.

Despite an exceptional revenue performance, the fiscal position deteriorated substantially in 1980, as the revenue growth, led by the first significant mining receipts in five years, was exceeded by the rise in expenditures. Expenditures were broadly higher, but the rise in capital outlays and net lending was due to the extraordinary K 161 million contribution for the Nitrogen Chemicals of Zambia (NCZ) fertilizer plant. As a result of these factors, the deficit increased sharply to K 492 million, or 16 per cent of GDP; excluding the effects of the NCZ loan, the deficit was K 331 million, or 11 per cent of GDP. Nearly all of the growth in recurrent expenditures was financed domestically, since the bulk of the external financing was tied to capital outlays, and bank financing quadrupled to K 233 million, or 8 per cent of GDP.

2. Expenditures

Expenditures grew more than 18 per cent in 1979, rising to K 923 million, an increase entirely attributable to current expenditure growth,

Table 9. Zambia: Central Government Finance, 1974-81

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	1980	1981 Budget
Revenue	651.0	462.3	460.8	510.7	576.3	620.6	791.4	866.7
Total expenditure	564.5	806.6	733.7	772.8	779.4	922.6	1,283.2	1,086.4
Current expenditures	402.2	562.2	564.2	596.3	580.3	771.3	1,039.5	880.6
Capital expenditures	112.8	143.6	122.8	92.3	91.7	88.7	187.3 1/	149.5
Net lending	49.5	100.8	46.7	84.2	107.4	62.6	56.4 1/	56.3
Overall surplus or deficit (-)	86.5	-344.3	-272.9	-262.1	-203.1	-302.0	-491.8	-219.7
				(In per cent)				
Memorandum items:								
Annual growth rate of revenue	68.3	-29.0	-0.3	10.8	12.8	7.7	27.5	9.5
Annual growth rate of expenditure	9.4	42.9	-10.0	5.3	0.9	18.4	39.1	-15.3
Overall deficit/GDP	-4.5	20.0	14.0	12.9	9.2	11.5	16.2	6.0
Total expenditure/GDP	30.3	49.4	38.0	38.3	35.4	35.2	42.2	29.8
Capital expenditure excluding net lending/Gross fixed capital formation	22.5	23.9	20.5	13.8	16.5	18.8	31.5	...

Sources: Ministry of Finance, Financial Reports (Annual), 1974-80; Estimates of Revenue and Expenditure, 1981; and data provided by the Zambian authorities.

1/ Includes government assumption of K 161 million in external debt provided for the new Nitrogen Chemicals of Zambia fertilizer plant, of which K 66 million was recorded as capital investment and K 95 million as net lending.

Table 10. Zambia: Budget Financing, 1974-81

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	1980	1981 Budget
Total financing	-86.5	344.3	272.9	262.1	203.1	302.0	491.8	219.4
External	37.1	84.8	30.1	19.0	20.5	137.9	262.9	51.2
Inflow	(58.2)	(100.8)	(52.9)	(57.6)	(60.0)	(180.3)	(299.1)	(98.8)
Outflow	(21.1)	(16.0)	(22.8)	(38.6)	(39.5)	(42.4)	(36.2)	(47.6)
Domestic nonbank	40.2	17.7	2.6	20.6	14.8	17.9	41.7	40.0
Inflow	(50.7)	(35.1)	(24.6)	(46.3)	(42.0)	(41.0)	(65.0)	(69.0)
Outflow	(10.5)	(17.4)	(22.0)	(25.7)	(27.2)	(23.1)	(23.3)	(29.0)
Domestic bank	-127.0	239.7	237.2	219.8	93.0	59.8	232.8	128.2
Other	-36.8	2.1	3.0	2.7	74.8	86.4	-45.6	--
				(In per cent)				
Memorandum items:								
Bank financing/GDP	-6.8	15.3	12.3	10.9	4.2	2.3	7.7	3.5
Bank financing/Overall deficit	-146.8	69.6	86.9	83.9	45.8	19.8	47.3	58.4
Total debt service payments/GDP 1/	4.0	6.5	5.6	7.0	7.3	6.6	6.1	...
				(In kwacha)				
Sinking Fund Contributions	3.6	3.5	3.4	3.5	3.4	3.4	3.0	...
Domestic	2.3	3.2	3.1	3.2	3.0	3.1	2.9	...
Foreign	1.3	0.3	0.3	0.3	0.4	0.3	0.1	...

Sources: Ministry of Finance, Financial Reports (Annual), 1974-80; Estimates of Revenue nd Expenditure, 1981; and data provided by the Zambian authorities.

1/ Including Sinking Fund Contributions.

as capital expenditure and net lending declined. Current expenditures grew nearly 33 per cent, to K 721.3 million, and rose 9 percentage points as a share of total government expenditure, accelerating a long-term trend away from capital outlays in favor of recurrent expenditures (Table 11). The reduction in budgetary subsidies achieved in the previous year was short-lived, and subsidy outlays more than doubled, rising to 4 per cent of GDP (Appendix Table IX). However, these movements were largely due to the Government's payment of its statutory obligation to reimburse NAMBOARD for its operating losses which had accumulated since 1977; subsidies excluding those to meet NAMBOARD's operating losses declined from K 42 million in 1978 to K 31 million. After four years of constraint, "other" constitutional and statutory expenditures, which mainly comprise defense spending, rose more than two fifths, reflecting regional political uncertainties prevailing at that time. Personal emoluments and Recurrent Departmental Charges (RDCs) rose by 10 and 29 per cent, respectively, as the Turner Report's recommendation to reduce inequalities in the government salary structure through a fixed absolute wage increase for most employees was implemented. Government wage payments are recorded under both headings, with relatively unskilled workers receiving their wages under the RDC classification; the greater rate of increase for RDCs reflects the relative importance of fixed wage increase in their salary structure and some increase in government transportation costs. The share of RDCs other than those for wages and transportation continued to decline, further exacerbating existing problems of fully utilizing existing capital stock and employee services. Although capital expenditure decreased, the allocation was shifted to emphasize outlays supporting projects to develop the economic base, particularly agriculture, transport, and commerce and industry (Appendix Table X).

Expenditures rose a further 39 per cent in 1980, to K 1,283 million, as trends initiated in the previous year became more pronounced. Current expenditures rose 35 per cent, to K 1,039 million, as subsidies doubled, rising to 17 per cent of total government outlays and 7 per cent of GDP. This increase was primarily due to lowered fertilizer prices and the poor 1979 harvest, which necessitated the importation of relatively expensive maize to be sold at fixed prices to the milling companies, but some traditional crops such as tobacco required higher export subsidies. Personal emoluments rose by 30 per cent through the creation of new positions and the granting of the first general wage increase in three years, averaging 22 per cent, effective August 1. The salary increases relating to semi-skilled employees absorbed most of the 20 per cent increase in RDCs, adding to operational difficulties caused by shortages of departmental inputs. Constitutional and statutory expenditures rose by one fourth, as outlays associated mainly with defense procurement rose by a similar amount and external interest charges rose by 43 per cent. The trend in favor of current expenditure was reversed in 1980, as capital outlays doubled to K 187 million and their share of total expenditure rose correspondingly to 15 per cent. However, this rise was largely due to the inclusion of K 66 million in capital outlays related to the financing of the Nitrogen Chemicals of Zambia (NCZ) fertilizer plant expansion, which had little financial

Table 11. Zambia: Economic Classification of Central Government Current Expenditures, 1974-81

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	1980	1981 Budget
Personal emoluments	100.8	120.5	142.9	148.9	154.3	170.2	221.6 1/	238.7
Recurrent departmental charges	96.5	112.3	126.1	129.7	124.3	160.7	193.5	197.7
Subsidies	47.4	82.8	59.8	66.2	42.1	105.3	213.7	124.7
Constitutional and statutory	132.2	210.1	187.3	197.6	208.4	270.1	337.0	236.2
Interest	(39.2)	(42.3)	(60.6)	(71.8)	(90.1)	(103.3)	(122.1)	(129.8)
Internal	[19.9]	[24.4]	[37.1]	[49.7]	[56.4]	[59.5]	[59.5]	[75.0]
External	[19.3]	[17.9]	[23.5]	[22.1]	[33.7]	[43.8]	[62.6]	[54.8] 3/
Other 2/	(93.0)	(167.8)	(126.7)	(125.8)	(118.3)	(166.8)	(214.9)	(106.4)
Other payments	25.3	36.5	48.1	53.9	51.2	65.0	73.7	83.3
Total current expenditure	402.2	562.2	564.2	596.3	580.3	771.3	1,039.5	880.6
				(In per cent)				
Memorandum items:								
Current expenditure/ GDP	21.6	33.8	29.2	29.5	26.4	29.4	34.2	24.2
Current expenditure/ Total expenditure	71.4	68.5	76.8	77.1	74.5	83.6	81.0	81.1

Sources: Ministry of Finance, Financial Reports (Annual), 1974-80; Estimates of Revenue and Expenditure, 1981; and data provided by the Zambian authorities.

1/ Includes K 17 million in salary increases which were due in 1980 but not paid until January 1981.
2/ Primarily defense.
3/ Excludes charges on Fund purchases, which have been assumed by the Bank of Zambia.

impact in 1980. Net lending was essentially unchanged but comprised two exceptional items: NAMBOARD repaid K 71 million in debt deriving from past government transfers of commodity grants, and lending expanded by K 95 million as a result of the transaction involving the NCZ plant.

3. Revenues

Total revenues rose by 8 per cent in 1979, to K 621 million, as tax revenues increased despite the granting of tax reductions to provide relief from inflation and to stimulate production (Table 12). The Zambian Government has been obliged to serve contradictory objectives through its tax policy as it balances efforts to diversify the economy with revenue requirements. Income taxes rose only 3 per cent, as the company income tax was reduced 2 percentage points to 48 per cent; an employment tax credit system was introduced to increase employment opportunities, and the rates of the highly progressive personal income tax were adjusted downward. Taxes on domestic goods and services increased 13 per cent, primarily due to greater use of petroleum products and despite negligible growth in the important sumptuary tax on beer, which was raised K 0.05/bottle. The ratio of taxes on domestic goods and services to private consumption expenditure decreased, however, reflecting the limited scope of these taxes and overall growth in consumption expenditure. Taxes on international trade were sharply higher, rising 35 per cent, primarily as a result of import growth.

Tax receipts were exceptionally buoyant in 1980, rising 32 per cent to K 685 million, on the strength of the first substantial mining revenues in five years and the natural elasticity of the tax system. Taxes on international trade continued to demonstrate the greatest rate of growth, rising 43 per cent on the nearly 50 per cent expansion in the importation of goods. The normal elasticity of the income tax was evident as the rate structure was unchanged and receipts increased 22 per cent. The increase in taxes on domestic goods and services was broadly distributed despite the financial difficulties of the breweries which caused mid-year suspension of the K 0.02/bottle tax increase on clear beer announced in the budget. Tobacco tax increases of between 10 and 17 per cent and K0.02/liter price increases for gasoline stimulated excise tax receipts. Nontax revenues were only slightly improved, as capital grants decreased despite a sizable increase in SIDA funding for a number of projects.

4. The 1981 budget

The 1981 budget was prepared in the context of two successive years of poor economic performance, during which budgetary discipline, particularly in regard to the provision of public subsidies, steadily deteriorated. The budgetary measures for 1981 aim to restrict the growth in aggregate demand and hence reduce domestic absorption. This is to be achieved by restraining current expenditures and increasing public revenues, raising the efficiency of parastatal operations, and promulgating sound economic pricing throughout the economy so that the level of domestic bank financing needed to support

Table 12. Zambia: Central Government Revenue, 1974-81

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	1980	1981 Budget
Mining revenues	339.2	59.3	11.6	0.1	0.1	-9.8	41.7	2.0
Mineral tax	203.2	-9.3	1.9	—	—	-0.8	—	1.0
Company income tax	60.5	61.0	9.7	0.1	0.1	-9.0	41.7	1.0
Withholding tax	24.5	(7.6	—	—	—	—	—	—
Dividends	51.0	(	—	—	—	—	—	—
Taxes on incomes	110.5	142.6	159.1	198.6	217.7	223.3	271.3	318.2
Company income tax	46.2	64.7	61.9	72.0	82.9	86.9	113.1	134.1
Personal income tax	61.3	64.8	74.0	88.9	96.7	98.4	119.5	128.8
Other	3.0	13.1	23.2	37.7	38.1	38.0	38.7	55.3
Taxes on domestic goods and services	86.0	125.2	151.6	179.5	208.8	236.6	273.4	323.0
Tobacco	12.2	17.9	15.9	18.7	22.2	23.7	27.7	31.8
Beer	39.8	57.9	67.5	71.4	88.5	90.5	104.2	126.9
Liquor	0.9	1.0	2.3	1.2	1.3	1.2	4.4	1.8
Soft drinks	3.4	4.6	6.2	7.1	10.8	10.7	14.5	16.4
Petroleum products	16.4	24.1	35.3	47.8	54.3	75.3	82.1	89.2
Other 1/	13.3	19.7	24.4	33.3	31.7	35.2 2/	40.5	56.9
Of which: domestic sales tax	(10.0)	(14.3)	(17.7)	(25.6)	(31.7)	(34.2)	(40.5)	(46.9)
Taxes on international trade	60.9	63.2	60.5	61.5	50.7	68.4	98.1	115.4
Import duties	37.8	36.8	29.0	29.6	27.2	34.9	49.1	52.0
Sales tax on imports 3/	23.1	26.4	31.5	31.9	23.5	33.5	49.0	63.4
Total tax revenue	596.6	390.4	382.8	439.7	477.3	518.5	684.5	758.6
Nontax revenues	54.2	58.9	72.8	38.4	80.3	74.3	83.2	66.2
Interest on loans and investments	20.3	19.9	18.1	14.1	12.6	13.0	15.5	16.0
Court and office fees	17.7	19.3	24.2	22.6	24.9	31.7	41.5	37.7
Other	16.2	19.7	30.5	1.7	42.8	29.6	26.2	12.5
Grants	0.2	13.0	5.2	32.6	18.7	27.8	23.7	41.9
Total nontax revenues	54.4	71.9	78.0	71.0	99.0	102.1	106.9	108.1
Total revenue	651.0	462.3	460.8	510.7	576.3	620.6	791.4	866.7
				(In per cent)				
Memorandum items:								
Domestic indirect taxes/Private consumption expenditure	13.0	15.3	20.5	22.5	21.5	18.5	16.9	...
Taxes on international trade/Imports of goods	12.0	10.6	12.9	11.6	10.3	11.4	11.1	...
Total revenue/GDP	34.8	29.4	24.0	25.4	26.2	23.7	26.1	23.8
Nonmining revenue/Nonmining GDP (excluding subsistence agriculture)	27.7	33.2	32.0	32.7	33.1	28.7	29.9	...

Sources: Ministry of Finance, Financial Reports (Annual), 1974-80; Estimates of Revenue and Expenditure, 1981; and data provided by the Zambian authorities.

1/ Except for domestic sales tax revenues, primarily excise duties on sugar.
2/ Excludes K 9.0 million in unallocated tax arrears.
3/ Import surtax until April 1, 1975.

the budget can be reduced. Within this overall objective, indigenous industries also received some production incentives intended to stimulate domestic output. As a result of these factors the overall deficit was budgeted to decline by more than half, to K 219 million, or 6 per cent of estimated GDP, while bank financing was to be reduced by nearly half, to K 128 million, or 4 per cent of estimated GDP.

a. Revenues

Revenues are budgeted to increase by nearly 10 per cent in 1981, rising to K 867 million, with nonmineral taxes increasing by nearly 18 per cent to K 757 million. The resumption of mineral tax revenues in 1980 was short-lived, and mining companies have accumulated extensive depreciation allowances to be carried forward, making resumption of significant revenues from this historically important source unlikely in the near term. Confronted with the loss of these revenues, the budget continued recent policy initiatives to diversify the tax system. Many of these measures simply increase existing specific excise taxes to protect their real revenue capacity against the effects of inflation: cigarette taxes were raised from K 0.02 to K 0.05 per pack depending on quality (providing estimated revenue of K 2.4 million), and petroleum taxes from K 0.008 to K 0.03 per liter depending on grade (K 7.0 million). Diesel fuel continues to be taxed at a lower rate to equalize transport costs in regions not served by rail. In addition, several taxes formerly suspended due to liquidity problems in the production companies have been reimposed, including the K 0.02/bottle duty increase on clear beer (K 2.6 million) and the K 0.06/kg levy on sugar (K 5.0 million). Other important revenue measures include domestic sales tax increases ranging between 2 1/2 and 5 percentage points on numerous items (K 3.0 million), a rise in the sales tax on imports from 10 to 12 1/2 per cent (K 10.0 million), and reinstatement of the company income tax at 50 per cent (K 5.5 million). Most of the tax incentives to stimulate domestic production will decrease revenues, but the provision prohibiting companies from deducting their Selective Employment Tax liabilities for income tax purposes will provide an additional estimated K 9.0 million. The tax of 20 per cent is on expatriate worker salaries and is intended to promote domestic employment.

The cumulative impact of these discretionary tax increases is estimated at K 50 million, which will be somewhat offset by tax decreases. Tax incentives to benefit agriculture establish a maximum tax rate of 25 per cent on farm income, accelerate depreciation on farm equipment (to two years), and provide special import duty exemptions on fertilizer and other items. Moreover, industries for which production is deemed to have "priority" in the national interest will be exempt from the company income tax for at least five years, as will any dividends they distribute, and the allowable recovery of capital expenditures not utilized during the period of tax exemption can be postponed until the end of the tax holiday. The most significant tax reductions, however, were accorded to the personal income tax, as pension incomes were exempted from tax and the income tax structure was revised, with standard allowances increased and tax brackets widened to to offset the effects of inflation. These changes had the effect of reducing tax liabilities by as much as 25 per cent for individuals with incomes between K 9,000 and K 13,000, although inclusion of a new 80 per cent tax rate will impose higher tax liabilities for some individuals with high incomes.

Nontax revenues are projected to remain nearly constant in 1981, as the K 18 million increase in capital grants, largely due to increased SIDA and EC funding of various projects, will be roughly offset by the absence of any transfers from the Bank of Zambia as a result of its assumption of charges on previous Fund purchases from the Government. Reflecting these factors, the ratio of tax receipts to total revenues will increase from 81 per cent in 1980 to an estimated 87 per cent in 1981. (A summary of Zambia's tax system as of August 1981 is shown in Appendix III).

b. Expenditures

The 1981 budget incorporates a number of policy initiatives to constrain public expenditure, and overall expenditure is projected to decline by nearly 15 per cent, to K 1,087 million. These economies are to be achieved primarily through reductions in current expenditure, which will remain about four fifths of total outlays at K 881 million. Decreases in subsidies, which are to decline K 89 million, or 41 per cent, and in the "other" component of constitutional and statutory, which will be reduced by K 104 million, or 49 per cent, comprise the most significant economies. The decrease in subsidies is primarily due to the elimination of expensive maize imports because of the adequate harvest in 1981, which is to be augmented by the adoption of more appropriate pricing policies for goods and services provided by the public sector. In conjunction with budgetary measures, consumer price increases for maize were announced in January 1981, and the fertilizer subsidy was decreased by price increases announced at mid-year. The decline in "other" constitutional and statutory payments reflects the easing of political tensions in this region, reducing procurement requirements for military hardware and making possible a shortening in the term for mandatory tenure in the National Service from 18 months to 6. Restraint in other expenditure categories is reflected in their negative real rates of growth. Personal emoluments and recurrent departmental charges are budgeted to increase by less than 8 and 3 per cent, respectively, which may be conservative, as they do not appear to reflect the full effects of the wage increase averaging 22 per cent effective August 1, 1980, and the previous restraint on RDC expenditure. To contain wage expenditures, the Government will not create any additional jobs except for required technical positions. The decline in external interest payments reflects the Bank of Zambia's assumption of charges on Fund purchases, which have heretofore been borne by the Treasury. The 13 per cent increase in other payments is mainly due to an increase in the provision of grants, primarily for grants-in-aid to the university.

Capital expenditures and net lending levels are prepared in accordance with the new three-year investment plan, which incorporates increased emphasis on projects with quick pay off periods, particularly those focusing on agricultural development and the rehabilitation of past investment projects. Although the amount of expenditure has been decreased by 15 per cent in conjunction with budgetary limitations, the absolute and relative shares of capital expenditure for projects in the economic sectors have been increased over recent levels, from an average of about 60 per cent in 1975-80 to 63 per cent in the 1981 budget. Moreover, the budgeted shares for agriculture and industry of about 26 per cent and 11 per cent, respectively, are large increases over recent practice. In contrast, the budgeted levels for transport and communications, which are relatively well developed in Zambia, are sharply decreased, while the budget share for social services will decline slightly, to about 10 per cent of all outlays.

The budgetary deficit of K 219 million was projected to be financed primarily by bank borrowing, although other domestic financing through the traditional sources of the Pension and Provident Funds will also be important. Foreign borrowing, generally tied to specific development projects, would remain substantial at only a slightly diminished level from 1980 levels, once the nonrecurrent effect caused by the Government's assumption of the NCZ loan is discounted.

c. Revised estimates

Initial tax collections have exceeded original estimates, particularly for income tax receipts, and 1981 revenues are, as of end-June, projected to total K 900 million, a further increase of 4 per cent. Revised estimates project some slippage in current expenditures to a level of K 949 million, or 8 per cent over original estimates, primarily in personal emoluments and recurrent departmental charges relating to the wage increases granted in the second half of 1980, but also including the Government's assumption of some local government salary obligations. Original capital expenditure estimates have been unchanged, despite some difficulties in project implementation which may preclude expenditure targets being achieved. However, any shortfall in project implementation may be absorbed by payment of domestic arrears relating to road construction undertaken in previous years. As of June 1981 the estimated deficit was revised to K 255 million, of which K 150 million is to be financed by the domestic banking system.

5. Nonfinancial public enterprises

a. Organizational structure

Nonfinancial Public Enterprises (NPEs) have assumed a leading role in the Zambian development effort and dominate the industrial sector. NPEs now comprise over one third of the total work force, about two fifths of total economic value-added and, through the Government's majority ownership of the mining companies, are responsible for nearly all of Zambia's foreign exchange earnings. After the rapid growth of the parastatal sector through acquisition immediately following independence, its relative size has not significantly expanded in scope since the mining companies were included in 1970.

Of the 8 NPEs, the most important is Zambia Industrial and Mining Corporation, Ltd. (ZIMCO), which comprises 114 companies and associate companies regarded as commercial in nature (Appendix Table XI). Of these, 39 industrial firms are organized under INDECO. The principal fields of commerce served by these companies (and their number) are: industrial (45), mining (20), agriculture (11), energy (6), finance (10), transport (6), hotels (2), trading (9) and others (5). Many of these are wholly owned subsidiaries of ZIMCO, but there are significant exceptions, including those of the two principal mining companies, Nchanga Consolidated Copper Mines, Ltd. (NCCM), and Roan Consolidated Mines, Ltd. (RCM), in which ZIMCO retains approximately 60 per cent equity participation.

The other seven NPEs, which are wholly owned statutory boards more explicitly considered as instruments to effect social policy, are significantly less important than ZIMCO in terms of sales and resource needs. Historically, the most important of these enterprises is the National Agriculture Marketing Board (NAMBOARD). In its former role as country-wide maize distributor, NAMBOARD served as official conduit for the substantial maize and fertilizer subsidies provided by the Government. Under the reorganization effected March 1, 1981, cooperatives will have authority over the purchase and sale of maize within provinces and the public sale of fertilizer, reducing NAMBOARD functions to those of transporting maize between surplus and deficit provinces, maize importation, and the transport of fertilizer to central distribution points. Although the intent of this reorganization was to improve the efficiency of the internal distribution system in the medium term, it will have the immediate effect of reducing the scale of NAMBOARD operations and transferring responsibility for the subsidies outside the NPE sector.

Five of the other NPEs are also marketing boards, of which the Tobacco Board of Zambia (TBZ) is typical. The TBZ buys tobacco at a target price determined as cost plus profit from producers for resale at world market prices. The intent of this procedure was to stimulate tobacco production while taking advantage of distributional and marketing economies of scale through centralization to earn a surplus for the marketing agency, but in practice foreign sales have not covered domestic costs, and the TBZ has required substantial subsidies. The other marketing boards are: the Cold Storage Board (CSB), which primarily purchases meat from suppliers for resale to domestic wholesalers; the Dairy Produce Board (DPB), which buys, processes, and sells fresh milk and milk products; and LINTCO and ZAMHORT, which, respectively, purchase cotton and fruit for resale. The seventh NPE, the National Housing Authority, is responsible for the provision of subsidized housing and operates in cooperation with local government authorities.

ZIMCO is organized under the technical auspices of the Ministry of Commerce and Industry, but its subsidiary companies are organized under ministries which are more directly related to their operations. The mining companies, for example, are under the authority of the Ministry of Mines. The Finance Ministry has one member on the boards of many NPEs, but in practice exercises little authority over company decision-making. The marketing boards are under the auspices of the Ministry of Agriculture and Water Development, while the Housing Authority is organized under the Ministry of Local Government and Housing.

b. Economic performance

The diversity of the NPEs makes it difficult to assess their performance, despite generally comprehensive financial reporting prepared on a timely basis. The five marketing boards frequently require subsidies to meet operating expenses, but these deficits appear to result primarily from intentional social policies. The rapid increase in NAMBOARD's deficit from 1978 to 1980, for example, was largely due to the requirement that NAMBOARD sell maize to the millers at prices below procurement levels. In 1980 the differential between producer and selling prices for the 4.2 million bags of domestically procured maize was K 1.50/bag, or nearly 15 per cent of the K 10.20/bag selling price, while the price differential on the 1.7 million bags of imported maize necessitated by the poor domestic harvest approached 100 per cent. Handling and distribution charges entirely borne by NAMBOARD constituted an additional subsidy estimated at K 5.50/bag on domestic maize, with costs substantially higher on imports. Fertilizer sales also constituted an important subsidy, with the price differential and handling costs on the 270,000 tons procured requiring an estimated K 350/ton. Most of the deficits in the other marketing boards appear to result from similar prescribed relationships between purchasing and selling prices which fail to permit sufficient operating margins, while the National Housing Authority is authorized to subsidize the construction of suitable housing.

Economic appraisal of the corporations organized under ZIMCO is simplified by the official determination that these firms operate profitably and in accordance with commercial principles. In this respect, firms normally purchase inputs competitively, and their output frequently competes in the market with goods supplied from other sources, often imported items. In addition, private stockholders in those corporations which are not entirely government-owned urge favorable rates of return on their investment.

By application of strict economic criteria, ZIMCO's performance has not been satisfactory. Nearly all (85 per cent) of ZIMCO's improved financial performance in the year ending March 31, 1980, a year in which revenues increased 34 per cent to K 2,400 million and after-tax profits quadrupled to K 190 million, was due to favorable developments in the mining sector. With a decline in mining receipts in the next year, after-tax profits fell to K 78 million, or less than 2 per cent of total assets (Appendix Table XII). The Government's return on its equity participation in fiscal year 1981 was slightly less than 2 per cent, K 16 million on total investment of K 665 million, little of which was transferred to the budget. Moreover, these figures provide an optimistic view of actual corporate returns, as they subsume government loans that have been extended under preferential terms, which in certain cases are converted to equity participation in lieu of debt service, and conservative deductions for capital depreciation.

A number of factors have contributed to this unsatisfactory performance, including foreign and domestic market conditions, inappropriate managerial decisions (particularly in regard to the allocation of investment), an aging capital stock, and a shortage of material inputs, in part caused by the general scarcity of foreign exchange. However, perhaps the most important factors have been constraints on ZIMCO's ability to respond to market factors as a fully commercial enterprise would, particularly with respect to the pricing mechanism. Until recently, prices of ZIMCO products have been subject to an extensive system of formal controls, which operated at a number of levels up to the Cabinet itself. The determination of an appropriate price level was normally based on percentage markups over historic costs, rather than on the achievement of a specific target rate of return. The intent of this practice was to encourage efficient production practices, but in practice it acted to penalize domestic producers, as firms found it difficult to substantiate cost increases for indigenous products. Moreover, lags in the approval of price changes for important commodities have resulted in the prices for many ZIMCO products being sustained at below-equilibrium levels. This practice has been justified on the basis that it protects the consumer, but in most cases these price controls have provided little benefit to the consumer even in the short term, as goods tend to disappear from official markets. As a result of the policies, firms have been unable to maintain output levels in the absence of conditions which allow them to cover capital charges.

Given these marketing conditions, many ZIMCO companies have found it difficult to secure adequate funds to maintain business operations. Companies are rarely able to generate risk capital internally; indeed, in some instances excise taxes have been rescinded and the funds remitted to the respective corporations to resolve cash-flow shortages. Even for those industries where profitability is achieved, depreciation charges, normally calculated by straight-line schedules based on original costs, frequently must be supplemented to fully cover maintenance and replacement costs, depleting funds available for capital expansion. The commercial banking system often requires government guarantees before extending loans to parastatals, a practice which has become so common that the Government initiated a 1 per cent surcharge on such loans in 1981. Many companies have consequently become reliant on capital infusions and loans provided by the Government, a practice which has been sharply restricted by recent budgetary constraints and the policy of undertaking major development projects, most notably expansion of the Nitrogen Chemicals of Zambia (NCZ) fertilizer plant, which absorb most of the limited funds available.

As a result, many of the long-term physical impediments to output growth, such as inadequate maintenance, an aging capital stock, and resultant low capacity utilization levels, have their origins in the sector's financial structure. In response, the Government has recently inaugurated a reform of the pricing mechanism with the intent of making prices more responsive to market factors (See Section II, 1a above).

IV. Money and Banking

1. Introduction

The banking system in Zambia comprises a central bank (the Bank of Zambia) and six commercial banks, all of which are subsidiaries of foreign banks except one which is government owned. There are also insurance companies and other financial institutions, mostly government owned, designed to channel funds to specific areas of economic activity, such as agriculture and housing. Of these institutions, the National Savings and Credit Bank of Zambia and the National Building Society come closest to the commercial banks in the nature of their operations, since the major proportion of their liabilities is in time and savings deposits. However, the combined assets of these two institutions were only about 11 per cent of the corresponding total for the whole banking system in 1980.

The Bank of Zambia is responsible for the formulation and implementation of monetary policy. A summary of its accounts is shown in Appendix Table XIII. It prescribes the minimum liquidity and reserve requirements for the commercial banks and may call for special deposits from them; it also sets ceilings on their loans and advances. The Bank of Zambia in its capacity as lender of last resort may also provide rediscounting facilities, although this instrument of monetary policy has only occasionally been used.

2. Recent monetary and credit developments

Recent monetary developments have largely reflected the policy measures which were implemented under the two-year stabilization program introduced in April 1978. This program was formulated against the background of a sharp acceleration in credit demands, particularly from the Government and the mining companies, and at a time of substantial excess liquidity within the banking system. As part of the stabilization effort, the 1978 budget took action--mainly on the expenditure side--aimed at reducing government recourse to the banking system, while in the mining sector cost-saving measures and the depreciation of the kwacha were designed to contain mining company borrowing from the Bank of Zambia. In these circumstances the main purpose of monetary policy was to control private sector credit and to prevent the excess liquidity from being converted into increased expenditures. In line with this objective, interest rates on time and savings deposits were raised on average by one percentage point in April 1978; at the same time, lending rates were raised in order to discourage credit demand (Appendix Table XIV). Further, the excess reserves of the commercial banks were frozen through the imposition of lending ceilings, while the introduction of a 100 per cent reserve requirement on commercial banks' liabilities related to external payments arrears also had the effect of significantly tightening the banks' liquidity position.

These various monetary measures succeeded in slowing domestic credit expansion from 30 per cent in 1977 to 18 per cent in 1978 (Tables 13 and 14). Again, the bulk of this increase went to the Government and the mining companies; however, the marked improvement in fiscal performance in 1978, and the expanded level of foreign financing, meant a sharp reduction in the Government's domestic bank borrowing from K 220 million in 1977 to K 93 million in 1978. The deceleration in domestic credit expansion in 1978 coincided with a substantial overall balance of payments deficit; as a result, broad money declined by 8.5 per cent over the year as a whole, and average money balances remained unchanged.

In 1979 monetary and credit developments again reflected the restrictive monetary stance adopted under the stabilization program. Total domestic credit expansion slowed even further to 8 per cent over the year. Despite a reversal in the budgetary situation, government recourse to the banking system registered the smallest increase--K 60 million or 6 per cent--since 1975, following a sharply increased net inflow of external budgetary resources. The mining sector's credit needs also eased as a result of the substantial improvement in copper export performance, and a large net repayment was made to the Bank of Zambia. These improvements enabled the authorities to redirect credit resources to the illiquid nonmining private sector, without jeopardizing overall credit objectives. Credit to this sector rose by 31 per cent in 1979, after declining by 11 per cent in the previous year. The modest expansion in total domestic credit and the large balance of payments surplus recorded in the year led to a 30 per cent increase in broad money in 1979. The rise in average money balances over their 1978 levels, however, was only 7 per cent, compared with the 19 per cent increase in nominal GDP over the year.

Following the expiration of the stabilization program in April 1980, the monetary stance relaxed considerably, and the rate of credit expansion over the year doubled to 16 per cent. The major reason was the further sharp deterioration in the budgetary situation, which left a large financing gap despite a near doubling in net external financing. Government borrowing from the banking system to fill this gap amounted to K 233 million in 1980, a 21 per cent increase over the previous year. However, the authorities did succeed in containing the increase in credit to the nonmining private sector to 10 per cent in 1980, while the improved liquidity position of the mining companies enabled them to make a further repayment of debt outstanding to the Bank of Zambia. Despite the buildup in overall credit demand, money supply growth eased considerably to 9 per cent over the year because of the large balance of payments deficit incurred. Average money balances increased by 21 per cent, however, well above the 15 per cent increase in nominal GDP over the year. The growth in money supply in 1980

Table 13. Zambia: Monetary Survey, 1977-81

(In millions of kwacha; end of period)

	1977	1978	1979	1980				1981	
				Mar.	June	Sept.	Dec.	Mar.	June
Net foreign assets	...	-777.3	-621.6	-630.7	-673.0	-740.4	-828.8	-909.8	-958.6
Net foreign assets of the banking system	(-183.5)	(-311.5)	(-283.1)	(-317.6)	(-366.2)	(-377.2)	(-387.9)	(-384.5)	(-452.8)
External payments arrears 1/ 2/	(...)	(-465.8)	(-338.5)	(-313.1)	(-306.8)	(-363.2)	(-440.9)	(-525.3)	(-505.8)
Domestic credit	1,260.9	1,483.5	1,604.1	1,620.2	1,801.7	1,777.2	1,859.2	1,946.6	2,013.0
Claims on Government (net) 3/	(791.1)	(1,061.8)	(1,121.6)	(1,168.4)	(1,317.8)	(1,278.6)	(1,354.4)	(1,447.8)	(1,478.1)
Claims on private sector	(469.8)	(421.7)	(482.5)	(451.8)	(483.9)	(498.6)	(504.8)	(498.8)	(534.9)
Assets = Liabilities	1,077.4	706.2	982.5	989.5	1,128.7	1,036.8	1,030.4	1,036.8	1,054.4
Money plus quasi-money	698.7	639.4	832.2	837.7	881.7	866.5	907.1	891.3	896.0
Money	(386.5)	(391.7)	(513.3)	(457.1)	(473.2)	(465.9)	(509.4)	(522.1)	(529.0)
Quasi-money	(312.2)	(247.7)	(318.9)	(380.6)	(408.5)	(400.6)	(397.7)	(369.2)	(367.0)
Other items (net) 2/	378.7	66.8	150.3	151.8	247.0	170.3	123.3	145.5	158.4

Sources: Bank of Zambia, Quarterly Statistical Review; and data provided by the Zambian authorities.

1/ Based on data obtained from commercial banks' special reserve deposits related to external payments arrears. These differ from those in the balance of payments (Table 15 and Appendix Table XVI) due to exchange rate changes, timing differences, etc.

2/ Because separate data are unavailable on external payments arrears for 1977, they are included in "other items (net)."

3/ Excludes Government Sinking Fund Account held by Bank of Zambia and, in 1981, Fund charges paid by Government but subsequently assumed by Bank of Zambia.

Table 14. Zambia: Monetary and Credit Developments, 1977-81

(Annual percentage changes)

	1977	1978	1979	1980	1981 1/
Domestic credit	30.0	17.7	8.1	15.9	8.3
Claims on Government (net)	38.5	34.2	5.6	20.8	9.1
Claims on private sector	17.7	-10.2	14.4	4.6	6.0
Money plus quasi-money (end-year basis)	12.0	-8.5	30.2	9.0	-1.2
Money	2.6	1.3	31.0	-0.8	3.8
Quasi-money	26.6	-20.7	28.7	24.7	-7.7
Money plus quasi-money (average balances)	20.3	—	7.0	20.8	...
Money	10.0	—	11.9	12.6	...
Quasi-money	37.7	—	--	33.1	...

Sources: Bank of Zambia, Quarterly Statistical Review; and data provided by the Zambian authorities.

1/ End-December 1980 to end-June 1981.

took the form entirely of time and savings deposits, reflecting for the most part the buildup of surplus funds in many enterprises unable to obtain raw materials and other inputs because of foreign exchange difficulties. This increase in the commercial banks' deposit liabilities, which was not matched by any growth in their liquid asset holdings, meant some tightening in the liquidity position of the banking system. The commercial banks' combined liquidity ratio fell to 58.1 per cent in 1980 from 61.4 per cent in the previous year; nevertheless, the banks remained relatively liquid compared to the statutory minimum liquidity ratio of 30 per cent. (A summary of the commercial banks' accounts is given in Appendix Table XV.)

Restoration of a cautious monetary stance was a major element in the medium-term program introduced by the authorities in March 1981. The program envisages a sustained reduction in the domestic bank borrowing requirement of the Government, thereby allowing sufficient credit to the private sector and parastatal enterprises, whose share of total credit has fallen from 51 per cent to 27 per cent in the last five years. In the first six months of 1981, total domestic credit grew by 8 per cent, with credit to Government increasing by 9 per cent. The overall increase was offset by a sharp fall in net foreign assets, leading to a slight decline in money supply over the period. In line with the program's objective of containing inflationary and balance of payments pressures, the rediscount rate was raised in March by 1 percentage point to 7.5 per cent, and the interest rate on Treasury bills by 1.5 percentage points to 6 per cent. Furthermore, the preferential lending rates to agriculture (9.5 per cent) and manufacturing (10 per cent) were eliminated, the maximum lending rate of 12 per cent being applied to all sectors.

3. Other financial institutions

The nonbank financial sector in Zambia plays a potentially important role in mobilizing financial resources for development purposes, but in recent years this potential has not been fully realized. Institutions such as the Zambia National Provident Fund (total investments of K 238 million in 1980) and the Zambia State Insurance Corporation (total investments of the life division of K 92 million in 1980) have grown strongly through their own operations; these institutions now provide at least half of the domestic nonbank financing of government deficits, as well as important loan facilities to the parastatal sector. The activities of the Development Bank of Zambia have also expanded steadily, and by end-June 1981 some K 60 million had been disbursed for projects mainly in the manufacturing and agricultural sectors. However, the lending operations of the Zambia National Building Society and the National Savings and Credit Bank of Zambia, have grown more slowly, in line with the sluggish increases in their deposit base.

The Agricultural Finance Company (AFC) is a major source of agricultural credit, and its seasonal lending has grown considerably in recent years. However, its ability to expand credit facilities further, particularly for medium-term lending, has been constrained by the sharp deterioration in its repayment rates. Compared to a rate of almost 90 per cent in the early 1970s, the AFC's recovery rate for the 1979/80 agricultural season was only 48 per cent; this reflected the impact of poor climatic conditions, as well as manpower difficultues facing the company.

V. External Sector

1. Overall developments

International trade plays an important role in the economy of Zambia, and foreign trade accounts for about 70 per cent of gross domestic product. With exports consisting almost entirely of copper, for which Zambia is a price taker in the world market, and because of the country's dependence on imported oil to satisfy an important part of its commercial energy requirements, the economy is highly exposed to external developments. Faced with a long-term deterioration in real copper prices, the production capacity in the mining sector has stagnated. Efforts at export diversification in agriculture have met with limited success, and the volume of exports has declined in recent years. Moreover, because of the heavy dependence on foreign capital, technology, and personnel in the mining sector, and because of the high transport costs associated with Zambia's land-locked position, payments on services and private transfers have absorbed about 60 per cent of export earnings. However, grants in terms of projects and commodities, which amounted to 4 per cent of imports of goods and services, have provided some support to the economy and the balance of payments. Zambia's ability to finance its current deficit has also been severely constrained by the cyclical variation in copper price and the extent of the accumulation of external payment arrears, which together have adversely affected the creditworthiness of the country.

Following a large balance of payments deficit in 1978, caused mainly by severe transportation disruptions and transport bottlenecks at Dar es Salaam, which resulted in a 10 per cent decline in copper shipment, Zambia's external position improved sharply in 1979. An overall balance of payments surplus of SDR 173 million was recorded, mainly on account of a large decumulation of copper stocks as the transportation situation improved, a surge in copper prices on the world market, and rising export volume and prices for cobalt, Zambia's only other important export. At the same time, external payments arrears were sharply reduced, and there was a substantial increase in foreign reserves. In 1980 the overall balance of payments swung from a surplus position to a deficit of SDR 213 million, largely attributable to a marked deterioriation in the terms of trade, a decline in export volume, and a substantial increase in service payments (Tables 15 and 16). For the first time in several years, export receipts were insufficient to cover import payments, and the trade account moved into a deficit of SDR 109 million. This development reflected the recurring transport difficulties at Dar es Salaam which adversely affected copper

Table 15. Zambia: Balance of Payments, 1977-81

(In millions of SDRs)

	1977	1978	1979	1980 Prel. Actual	1981 Projections
Exports, f.o.b.	768	662	1,065	908	979
Imports, c.i.f.	-711	-617	-735	-1,017	-954
Trade balance	57	45	330	-109	25
Services and unrequited transfers, net					
Investment income	-114	-109	-97	-163	-194
Other services	-58	-64	-71	-127	-160
Private transfers	-83	-85	-86	-95	-100
Government transfers	13	20	27	26	53
Total	-242	-238	-227	-359	-401
Current account	-185	-193	103	-468	-376
Nonmonetary capital, net					
Government	17	53	134	100	58
Mining companies	-15	-15	-23	26	110
Other (including errors and omissions)	-60	-52	-56	114	20
Total	-58	-14	55	240	188
SDR allocation	--	--	15	15	15
Overall balance	-243	-207	173	-213	-173
Financing					
Use of Fund resources, net	--	149	73	6	312
Purchases	(19)	(149)	(99)	(50)	(359) 1/
Repurchases	(-19)	(--)	(-26)	(-44)	(-47)
Payments arrears (decrease -)	170	102	-145	111	-100
Other foreign assets, net (increase -)	73	-44	-101	96	39
Memorandum items:					
Gross international reserves 2/ (at end-period)	54.6	39.2	60.7	61.3	39.4 3/
In weeks of imports, c.i.f.	4.0	3.3	4.3	3.1	2.1

Source: Bank of Zambia; Central Statistical Office; and staff estimates.

1/ Including the purchase under the CFF at SDR 59.3 million.
2/ Excluding gold, which is 0.217 million fine troy ounces.
3/ End-July 1981.

shipment, lagging cobalt sales, a larger requirement for maize imports, higher petroleum prices, and much higher import prices partly associated with Zambia's external payments arrears. The deterioration in the trade account was compounded by a sharp increase in service payments, due mainly to the increase in port charges, air fares, and travel expenses for educational purposes, with the result that the current account recorded a deficit of SDR 468 million in 1980. Total net capital inflow at SDR 240 million was more than four times the level reached in the previous year. External payments arrears, which had declined by SDR 145 million in 1979, rose sharply, reaching SDR 461 million at the end of 1980 (Appendix Table XVI). Zambia's gross international reserves of SDR 61 million at end-December 1980 were equivalent to only about three weeks' imports, compared with over four weeks at the end of 1979.

Table 16. Zambia: Foreign Trade Volume and Unit Value, 1977-81

(Percentage changes from the preceding year; in terms of kwacha)

	1977	1978	1979	1980 1/	1981 2/
Volume					
Exports	-12.3	-12.6	17.9	-16.5	5.5
Imports	1.7	-24.7	3.1	18.9	-18.2
Unit value					
Exports	8.7	6.7	40.2	2.2	2.2
Imports	14.8	23.7	17.7	24.1	14.7
Terms of trade	-5.3	-13.7	19.1	-17.6	-10.9

Sources: International Financial Statistics; and staff estimates.

1/ Preliminary.
2/ Projection.

In 1981 Zambia's external position is expected to remain under great pressure. In addition to the depressed world market price for copper during the first half of 1981, copper production was hampered by a number of strikes in the mining industry. Although the labor-related problems are at present under control and copper production has returned to normal, copper shipments for 1981 are expected to be at about the previous year's level and about 13 per cent below the level reached in 1979. Total export earnings in terms of SDRs are expected to increase by 8 per cent to SDR 979 million in 1981. Given Zambia's tight foreign exchange situation and the lower freight costs associated with the increasing use of the southern route for international trade purposes, the authorities aim at containing import payments to SDR 954 million, with a resulting trade surplus projected at SDR 25 million. Although net payments on services and transfers are projected to increase markedly, the current account deficit is expected to narrow to SDR 376 million, mainly on account of the expected surplus in the trade account. After taking into account the expected net capital inflow at SDR 188 million, an overall deficit of SDR 173 million is currently projected for 1981. Based on the foregoing, there will be an increase in net foreign assets of SDR 39 million, in addition to the reductions of SDR 100 million in external payments arrears as called for in the program under the current extended arrangement. At end-July 1981 payments arrears amounted to SDR 537 million, and Zambia's gross international reserves declined to SDR 39.4 million, equivalent to about two weeks of imports.

2. Merchandise trade

About 90 per cent of Zambia's export earnings derive from copper, and for this reason total export earnings are very vulnerable to the volatility of copper prices on the world market. Because of its wide industrial application, the price of copper is not only sensitive to changes in economic activity in the industrial countries but is also affected at times by speculative demand. Over the years the annual variation in Zambia's export earnings has been affected more severely by cyclical changes in the copper price than by fluctuations in the export volume. Of the remaining 10 per cent of export earnings, 6 per cent are accounted for by cobalt, which is a by-product of copper mining. As a super alloy used mainly for the manufacture of aircraft gas turbine engines and in the electrical and machinery industries, the demand for cobalt is also sensitive to the economic climate in the industrial countries. Other minor minerals such as lead and zinc, and agricultural crops constitute the remainder of export earnings. Against this background there has been little or no progress towards diversification of exports, while the export volume of copper and other mineral products except cobalt have declined or stagnated (Chart 1). In 1980 the SDR value of exports fell by 15 per cent. While there was a nominal increase in export prices, export volume fell by more than 16 per cent, mainly due to transport bottlenecks at Dar es Salaam and lagging cobalt sales. In 1981 the country's export performance is expected to be further affected by declining prices on the world market for copper, cobalt, and lead. However, because of the strengthening of the U.S. dollar, the SDR value of exports is expected to increase by 8 per cent to SDR 979 million.

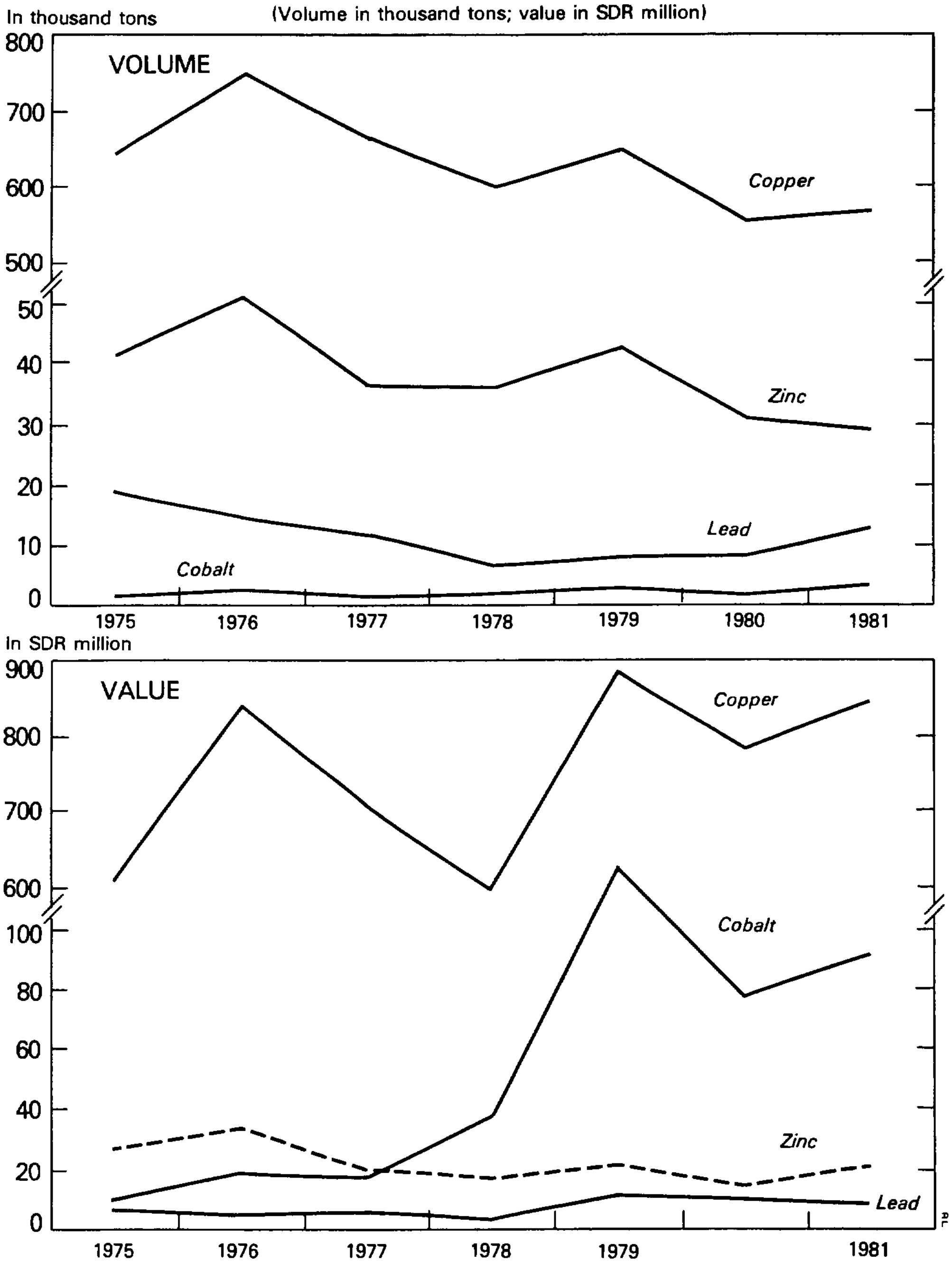
In 1980 export earnings from copper declined by 11 per cent, after an increase of more than 50 per cent in the previous year. While the price of copper advanced nominally, copper shipments fell by 14 per cent, mainly on

CHART 1

ZAMBIA

EXPORTS OF MAJOR COMMODITIES, 1975-81

(Volume in thousand tons; value in SDR million)



Sources: Data provided by the Zambian authorities and staff estimates.

account of transport bottlenecks at Dar es Salaam, the main port for Zambian copper exports at the time, which drastically curtailed shipments, particularly at the end of 1980 (Appendix Table XVII). In addition to the depressed world market price for copper during the first half of 1981, copper production was seriously hampered by a series of strikes in the mining industries, associated with a general dissatisfaction of workers with conditions in the industry. Because of this labor-related problem, copper shipments fell by 14 per cent from the level normally reached during the first half of the year. Although copper shipments for 1981 are expected to recover to reach about the previous year's level, the SDR value of export earnings from copper is expected to increase by 7 per cent, mainly on account of the strengthening of the U.S. dollar.

Export earnings from cobalt fell steeply in 1980, after a threefold increase in the preceding year. The export volume of cobalt fell by 36 per cent, essentially due to higher interest rates in the United States, the largest user of cobalt, which discouraged stock building, and to the inflexibility in Zambia's pricing policy in relation to the weak world demand for cobalt. In December 1980 major cobalt producers, including Zaire, Zambia, and the Philippines, agreed to maintain the producer price at US$25 per pound, although Zambia at the time sold its cobalt at the average price of US$22 per pound, allowing for large quantity purchases and quality differences. In June 1981 the U.S. Government purchased 5.2 million pounds of cobalt from Zaire at US$15 per pound. Since then, cobalt prices have varied between US$12-17 per pound. In spite of the recent developments in cobalt prices, Zambia's export earnings from cobalt are expected to increase by 18 per cent for 1981 as a whole, mainly on account of the drawdown of the excess stocks that were accumulated in the previous year. Stocks began to accumulate in late 1980, and by the end of June 1981 amounted to 2,350 tons.

Export earnings from lead and zinc, which account for about 3 per cent of Zambia's total merchandise exports, fell by 24 per cent in 1980. Both were lower in price, owing to the exceptionally high average price realized in the previous year. In 1981 the combined export earnings from lead and zinc are expected to level off at SDR 27 million. Zambia's other minor exports, consisting of agricultural products, account for about 1 per cent of total exports. These exports declined by 5 per cent to SDR 17 million in 1980. In 1981 larger supplies of agricultural products are expected because of more favorable weather conditions. However, export earnings from these agricultural products are expected to remain at SDR 17 million.

Merchandise imports rose by 38 per cent in 1980. About 18 per cent of this increase was attributable to the higher cost of petroleum imports, which rose by 47 per cent, although a substantial increase in volume was also recorded. In addition to higher import prices, there were also significant increases in the volume of all major import categories, with the volume of total imports recording an increase of 19 per cent. The payments for imports of major industrial commodities and foodstuffs rose by more than 40 per cent. Within the latter category, maize imports increased more than fivefold. The value of fertilizer imports also registered an increase during the year (Appendix Tables XVIII and XIX).

In 1981, given Zambia's tight foreign exchange situation and the lower freight costs associated with the increasing use of the southern route, import payments are expected to decline by 6 per cent. The decline is at the expense of import volume, which is estimated to fall by 18 per cent; import prices are expected to rise further, although at a slower rate. The import value of petroleum products is expected to rise by 13 per cent, with the volume targeted at the previous year's level. Half of the petroleum products are expected to be utilized by the mining industry. Import payments for basic foodstuffs and other commodities designated as essential by the Government are expected to hold up at the higher level of 1980. 1/ During the first half of 1981 the value of new import licenses issued and that of revalidated import licenses under the new import licensing procedure amounted to SDR 450 million on an f.o.b. basis.

3. Services and transfers

Zambia's payments on services and transfers have traditionally been very large, accounting for three fifths of merchandise exports in the past few years. The reasons relate to the high transportation costs associated with Zambia's landlocked position and the heavy dependence on foreign capital, technology, and personnel in the mining industry, although more recently large payments for interest on external borrowing (including Fund drawings) were also recorded.

The net payments on services rose by more than 70 per cent in 1980, mainly on account of higher payments for investment income, higher outlays for air fares and foreign travel for educational purposes, and increasing port charges. There was little change in the net payments on private transfers and net receipts on government transfers, which include grants in terms of projects and commodities.

In 1981 the net payments on services and transfers are expected to increase further by 12 per cent. As in the preceding year, this increase is mainly due to the larger payments for interest income on external borrowing, air fares and foreign travel, and port charges. Net payments on private transfers are expected to be virtually unchanged, whereas net receipts on government transfers are expected to double, mainly because of the expected increase in grants for the Government's investment-related projects.

1/ These are soap and detergents, edible fats and cooking oil, salt, dairy products, maize and stock feeds, candles, baby foods, toilet paper, matches, medicines and drugs, fertilizer, and rice.

4. Capital transactions and reserves

In 1980 the capital account recorded a surplus of SDR 240 million, which is four times the level of surplus reached in the preceding year. This was mainly because of the larger drawdown on foreign credit facilities by the mining companies and the large unrecorded inflow, which included errors and omissions. The net external borrowing by the Government declined by 25 per cent, reflecting the lower new borrowing. The other item in the capital account (which included errors and omissions) has traditionally registered a large unexplained outflow, possibly including unregistered imports and defense-related expenditures. However, in 1980, this item recorded a sharp inflow of SDR 114 million, for which no adequate explanation is as yet available.

In 1981 net official external borrowing is expected to decline sharply to SDR 58 million, mainly due to larger repayments, although new borrowing is also expected to decline. Because of the large investment planned by the mining companies in copper- and cobalt-related projects, the net foreign loan drawdown by the mining companies is expected to increase by fourfold to SDR 110 million, with a resulting capital account surplus projected at SDR 188 million.

Gross official reserves amounted to SDR 69.5 million at end-1980, which was virtually unchanged from end-1979. These reserves fell to SDR 53.1 million at end-June 1981, the equivalent of nearly three weeks of imports (Table 17).

5. External debt

Data on Zambia's external debt are not current; the most recent data reported by the IBRD are for the period ending December 31, 1979. According to the IBRD data, Zambia's disbursed external public debt amounted to US$1,538 million, or 46 per cent of GDP. Debt contracted on commercial terms constituted 36 per cent of this total, whereas loans from international agencies accounted for 25 per cent. Bilateral government loans represent the remainder of the total outstanding debt; the People's Republic of China, the Federal Republic of Germany, the United Kingdom, and the United States are among the largest creditors (Appendix Table XX).

Based on the outstanding debt at the end of 1979, external debt service payments, excluding Fund purchases, amounted to US$313 million in 1980, equivalent to 23 per cent of current account receipts. Including Fund purchases, these payments amounted to US$370 million, equivalent to 27 per cent of current receipts. Interest payments accounted for only 2 per cent of GDP in 1980, and this ratio is expected to remain unchanged in 1981 (Appendix Table XXI).

Table 17. Zambia: International Reserves, 1977-81

(In millions of SDRs; end of period)

	1977	1978	1979	1980	1981 March	1981 June
Gross official reserves	60.5	46.2	69.0	69.5	48.8	53.1
Gold	5.8	7.0	8.2	8.2	8.2	8.2
SDRs	11.4	12.1	4.2	--	0.7	0.4
Foreign exchange	43.3	27.1	56.6	61.3	39.9	44.5
Bank of Zambia	(42.1)	(25.4)	(55.0)	(59.0)	(36.4)	(43.4)
Government	(1.2)	(1.7)	(1.6)	(2.3)	(3.5)	(1.1)
Official liabilities 1/	222.6	330.4	382.2	431.2	394.5	506.8
Net official reserves	-162.1	-284.2	-313.2	-361.7	-345.7	-453.7
Commercial banks (net)	-37.0	-20.0	36.8	-17.0	-29.7	11.7
Assets	8.8	25.7	73.4	44.0	49.8	57.2
Liabilities	45.8	45.7	36.6	61.0	79.5	45.5
Net foreign assets of the banking system	-199.1	-304.2	-276.4	-378.7	-375.4	-442.0
External payments arrears	-393.9	-495.9	-350.6	-461.1	-544.6	-529.0
Net foreign assets	-593.0	-800.1	-627.0	-839.8	-920.0	-971.0
Memorandum item:						
Gross official reserves in weeks of imports, c.i.f.	4.4	3.9	4.9	3.6	2.7	2.9

Sources: Bank of Zambia, Annual Report, 1980; and data provided by the Zambian authorities.

1/ Including use of Fund resources.

6. Exchange and trade system 1/

a. Summary of the system

Zambia's exchange and trade system has remained very restrictive, and the serious balance of payments situation has not allowed Zambia to relax restrictions. Since September 1965, when Zambia joined the IMF, adjustments have been made in the degree of restrictiveness of the exchange system, mostly in the direction of greater reliance on restrictions, particularly in the period from 1975 to early 1978. This trend was halted after the introduction of the two-year stand-by arrangement in April 1978. Until April 28, 1981 there were minor changes which affected the provisions covering invisibles and capital. Beginning April 29, 1981 the authorities introduced a number of changes in Zambia's exchange and import licensing system, in an effort to prevent the further increase in external arrears on import and import-related payments and to achieve a better control over the issuance of the import licenses. The new system has given priority to increasing essential imports.

Because of Zambia's present tight foreign exchange situation, foreign exchange is not made available for the importation of goods considered nonessential, and even for essential goods allocations of foreign exchange have been sharply reduced. Changes have been made repeatedly in the basic travel allowance for private individuals since 1968. At present, the allowance is K 500 per year. Business travel is subject to a maximum limit of K 120 per person per day for up to 15 days per year and is limited to 2 trips per year. Restrictions on transfers of profits and dividends, which were introduced in 1968, remain in effect after several adjustments. Even with the introduction of these restrictions on payments and transfers for imports and invisibles, the shortage of foreign exchange has been such that substantial external arrears, especially on import payments, have been rising, involving new restrictions on payments and transfers for current international transactions.

b. Exchange rate developments

The kwacha was depreciated by 20 per cent on July 9, 1976, when it was pegged to the SDR at K 1 = SDR 1.08479 as against the previous implied rate of K 1 = SDR 1.35767, resulting from the kwacha being pegged to the U.S. dollar at K 1 = US$1.5556. On March 17, 1978 the kwacha was depreciated by 10 per cent, and since then the exchange rate for the kwacha has been fixed at K 1 = SDR 0.976311. The U.S. dollar is the intervention currency, and the rates of the Bank of Zambia for the U.S. dollar are based on the daily calculation of the U.S. dollar-SDR rate. Between the first quarter

1/ For a comprehensive description, see IMF Annual Report on Exchange Arrangements and Exchange Restrictions, 1981. For changes in 1981, see also Appendix I.

of 1978 and the first quarter of 1981 the nominal trade-weighted effective exchange rate of the kwacha (in which the pound and the U.S. dollar account for about half of the weights) depreciated by 9 per cent (Chart 2). Within this period there are two phases in the changes in the nominal effective exchange rate of the kwacha. The first is the period to the first quarter of 1980, when there were few movements in the effective exchange rate; in the period after the first quarter of 1980 when the effective exchange rate of the kwacha depreciated by more than 9 per cent. Over the same period the rate of inflation in Zambia was higher than the average for its major trading partners, and the trade-weighted exchange rate of the kwacha, adjusted for movements in relative prices, appreciated by 19 per cent.

c. Imports and import payments

All imports by the private sector, including parastatal organizations, require licenses, which are issued on the basis of expected foreign exchange availability, with preference given to pharmaceuticals, fuels, raw materials, and intermediate goods for further processing in Zambia. Alcoholic beverages, tobacco, durable consumer goods, and other consumer goods are licensed restrictively. No licenses are being issued for specified luxury consumer goods or for items that are produced locally.

Since April 29, 1981 a number of changes in the import licensing system have been effected. The Bank of Zambia suspended commercial banks' authority to approve applications for payments in respect of imported goods. Importers must now obtain the approval of the Bank of Zambia before the letters of credit can be opened by the commercial banks. All imports except those financed by suppliers' credits must be financed by letters of credit with minimum terms of 90 days. All financial arrangements entered into by importers with foreign suppliers for the supply of goods on credit must also be approved by the Bank of Zambia. The commercial banks will be notified every six months with regard to the total amount of letters of credit that each bank may open, and the limit may not be exceeded. However, 30 per cent of the value of letters of credit to be opened will be reserved specifically for the importation of 13 essential commodities. 1/ In addition, importers who intend to import into Zambia goods which do not involve payment in foreign exchange will be required to obtain the prior approval of the Bank of Zambia before applying to the Ministry of Commerce and Industry for a "no currency" import license.

In practical terms, importers must get the import licenses approved by the ministerial committee on foreign exchange allocation before presenting them for the approval by the Bank of Zambia. The importers

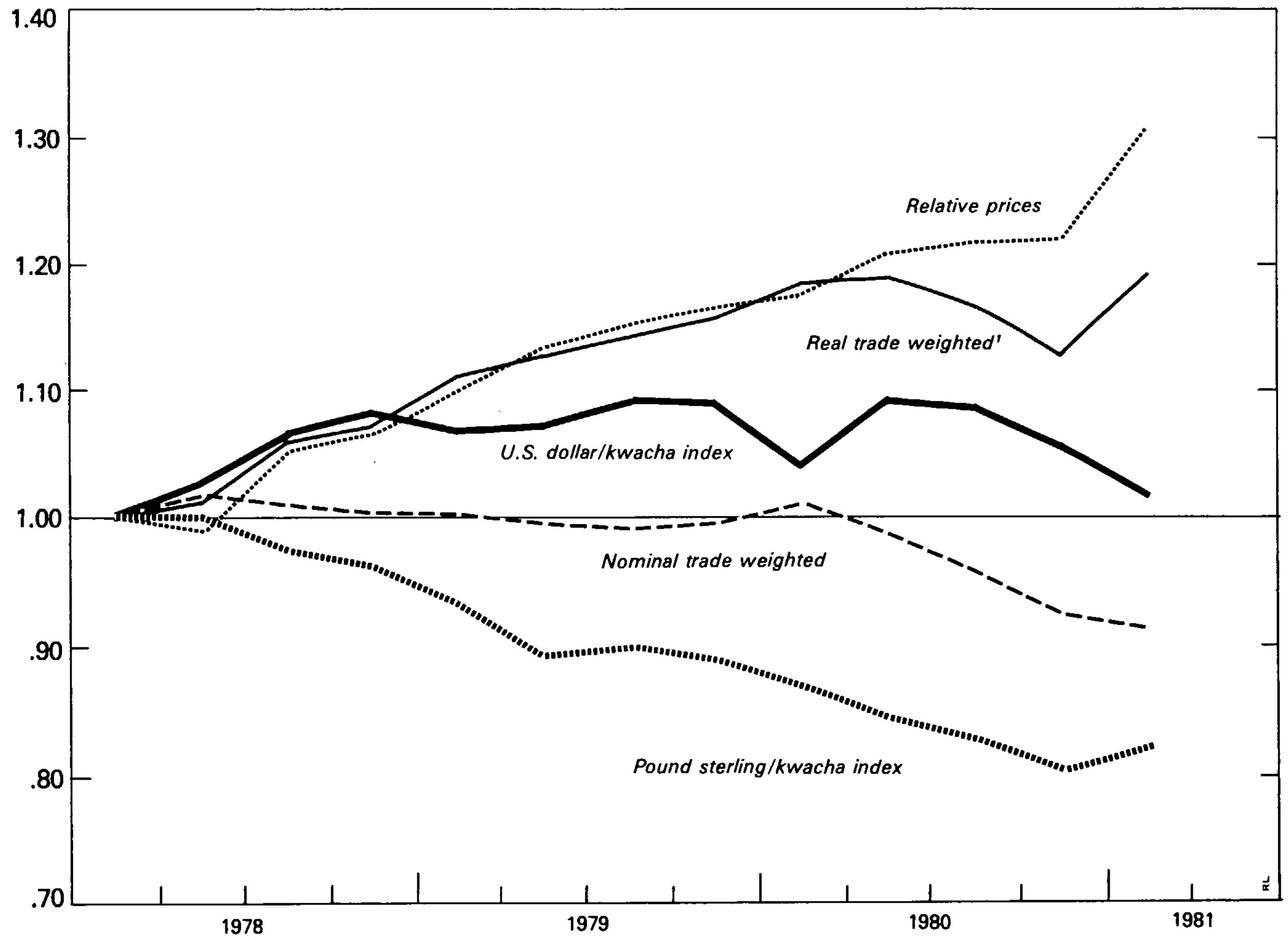
1/ These are soaps and detergents, edible fats and cooking oil, salt dairy products, maize and stockfeeds, paraffin and petroleum products, candles, baby foods, toilet paper, matches, medicines and drugs, fertilizers, and rice.

CHART 2

ZAMBIA

INDICES OF EFFECTIVE EXCHANGE RATE AND OTHER INDICATORS

(1978 Q1 = 100)



Source: Staff computation.

[1]Nominal rates adjusted for movements in price in Zambia relative to a weighted average of prices in major trading partners.

may then submit the licenses to the commercial banks for the issuance of letters of credit. The commercial banks are required to submit a weekly return to the Bank of Zambia on letters of credit opened, stating, e.g., the value of letters of credit.

d. Invisibles and capital transactions

Over the years the basic travel allowance was reduced substantially compared with the one in existence in September 1965, viz., K 10 a day for adults with a maximum of K 450 per year (K 1 = US$2.80). However, in 1978 and 1979 the business travel allowance was raised, and at present it amounts to K 120 per day for up to 15 days a person per calendar year and for not more than 2 trips per year. The basic travel allowance, which was K 300 per adult per year, was raised to K 500 per year on January 28, 1980. Since August 12, 1980 Zambian agricultural producers have been eligible for "generous holiday allowances," provided their output of maize, wheat, and soybeans exceeds certain minimum levels. For non-Zambian agricultural producers, entitlements to foreign exchange are made available in the equivalent of K 0.50 per bag produced of maize, wheat, and soybeans above certain minimum levels.

The regulations on remittances by foreign nationals employed in Zambia have changed repeatedly in the direction of a less liberal treatment than in 1965. At present, foreign nationals employed on contracts entered into after December 4, 1971 are allowed to remit one third of their earnings, while those recruited and still employed under a contract entered into prior to that date are allowed to remit one half of their earnings. However, in 1978 it was announced that foreign nationals are not eligible for remittances of gratuities, leave pay, and terminal benefits at the expiry of a contract if they have been availing themselves of resident allowances instead of the facility for transfer of earnings. In March 1980 it was announced that only one third of total leave pay could be transferred abroad and only within the overall limit of K 8,000, including the full amount of any gratuity.

Restrictions on transfers of profits and dividends were introduced in 1968. At present profits and dividends of companies whose head offices are abroad may be transferred up to 15 per cent of the nonresident share of the equity capital or 50 per cent of net profits accruing to nonresident owners of incorporated companies, whichever is smaller. Expatriate farmers are permitted to remit 12.5 per cent of their after-tax profits. A further 10 per cent may be held to their credit every year for eventual remittance when they leave Zambia. Since September 1979 expatriate farmers have been permitted to submit applications for remittances of 12.5 per cent of their share of annual after-tax profits earned from partnerships or private limited companies engaged in farming. Previously, remittances were restricted to profits derived only from private farming activity.

With regard to capital transfers, inward transfers are not restricted but all borrowing outside Zambia, except short-term financing of imports, is subject to approval of the exchange control authorities. Outward transfers are normally not permitted for residents, and regulations exist for transfers by nonresidents aimed at spreading repatriation of capital over a period longer than three years. In 1978 it was announced that proposals for reinvestment of unremitted profits and dividends arising from past foreign investments would be considered if the reinvestment were in agricltural or manufacturing sectors. Such approved reinvestments would qualify for repatriation of income in the same manner as income from existing foreign investments. Starting in January 1981 the remittances of liquidation proceeds is not permitted on discontinued business of foreign-controlled companies or branches in Zambia of companies whose head offices are situated abroad.

e. Payments arrears

External payments arrears began to accumulate in August 1975, and by the time the two-year stand-by arrangement was introduced amounted to K 478 million. The anticipated reduction in arrears subsequent to the introduction of the program did not occur, because of unexpected transportation difficulties affecting copper exports, and they rose further to K 508 million at end-1978. However, because of the large decumulation of copper stocks as transportation improved, arrears declined in 1979 and up until the end of May 1980, when they reached their lowest level of K 300 million. Since then arrears have increased sharply, reaching K 550 million by the end of July 1981. Of the outstanding amounts, 69 per cent represented arrears on imports and import-related items, 10 per cent dividends and profits, and the remainder loan repayments, port clearing, freight, and other invisibles. The accumulation of arrears reflects in part the fact that some of the foreign exchange requirements have not been taken into account, or have been underestimated, in determining foreign exchange allocations for imports when licenses are issued. There are no arrears on service payments on contractual debt.

In the administration of arrears, settlements are generally made in chronological order. However, in certain cases special allocations are made for settlement of arrears related to payments for essential goods, in order to ensure continued supplies and, in some cases, to prevent disruption in existing credit arrangements. 1/ Whenever payments for imports of goods and services fall due, residents must deposit the local currency equivalent of the foreign exchange with the commercial banks, which are required in turn to transfer them to the Bank of Zambia. When the foreign exchange eventually is made available for settlement, the importer must cover the cost in local currency at the prevailing exchange rate. On deposits lodged with commercial banks (in excess of K 8,000), the depositor earns interest at 2 per cent per annum.

1/ Payments for priority imports (e.g., fuel, fertilizers, and certain pharmaceuticals) are made on a cash basis.

Changes in the Exchange and Trade System

Changes in 1981

January 20. The Bank of Zambia will not consider any application for the takeover of any company in Zambia which is owned wholly or partly by persons or companies resident in foreign countries. Similarly, the Bank of Zambia will not consider until further notice any application for remittance of liquidation proceeds on discontinued business of foreign-controlled companies or branches in Zambia of companies whose head offices are situated abroad. The Bank of Zambia will no longer permit any individuals or companies to open bank accounts in other countries even if the account is to be used for conducting business.

April 29. The Bank of Zambia suspended commercial banks' authority to approve applications for imports. Until further notice, all applications to establish letters of credit or to pay for due bills of exchange will need the approval of the Bank of Zambia. Applications must be accompanied by a supplier's invoice, import license, evidence of receipt of goods in Zambia if goods have already been received, and a clean report of finding by the Société Générale de Surveillance.

Local importers are not permitted to avail themselves of short-term overseas financing facilities without the specific prior approval of the Bank of Zambia.

May 1. No bills of exchange, acceptances or any such other instruments may be placed in the payment pipeline unless they are approved by the Bank of Zambia.

Overseas bills of exchange held by commercial banks in Zambia and placed in the payment pipeline prior to May 1, 1981 will be allowed to run their full course but may not be replaced by other bills of exchange or rolled-over at maturity.

All bills of exchange and other instruments negotiated prior to May 1, 1981 will require registration with the Bank of Zambia accompanied by the following documents: (1) evidence of the order by the Zambian importer; (2) supplier's invoice; and (3) import licenses together with a report by the Société Générale de Surveillance.

All imports into Zambia must be financed by letters of credit with minimum terms of 30 days except imports under suppliers' credits:

a. The approval of the Bank of Zambia must be obtained before any letter of credit is issued by a commercial bank. This applies in respect of letters of credit allowing for usance drawings and those issued against the provision of external cash cover upon which sight drawings will be made. As hitherto, the opening of letters of credit will be subject to normal banking practice. Importers will be required to provide evidence to the commercial bank that the goods have been imported into Zambia, within 30 days of clearing the goods or within 6 months from the date stated in the exchange control form I, whichever is earlier.

The Bank of Zambia will notify commercial banks every six months as regards the total amount of letters of credit each bank may open. This limit may not be exceeded. Thirty per cent of all letters of credit to be opened will be reserved specifically for the importation of essential commodities, i.e., soaps, detergents, edible fats and cooking oil, salt, dairy products, maize and stockfeeds, paraffin and petroleum products, candles, baby foods, toilet paper, matches, medicines and drugs, fertilizer, and rice.

b. All arrangements entered into by importers with foreign suppliers for the supply of goods on credit must be approved by the Bank of Zambia. This applies to both existing supplier credit lines which the importer may wish to continue utilizing and to proposed new credit lines. All such credit line arrangements are required to be incorporated into a formal document, to be issued by the foreign supplier of credit, giving the following information: (1) maximum total amount in foreign currency to be financed over the duration of the facility and the maximum rate of utilization; (2) terms of drawings; and (3) rate of interest to be charged on outstanding drawings.

All applications in respect of existing lines of credit which importers may wish to continue to use are to be submitted to the Bank of Zambia without delay. As regards credit lines in the course of negotiation or to be arranged in future, importers may not enter into any commitments without the prior approval of the Bank of Zambia.

All applications arising from the foregoing are to be submitted through the importer's commercial bank. Commercial banks are required to submit to the Bank of Zambia a weekly return of credit opened and due to mature in the next 90 days. This return must provide the following information: (1) the name of the importer; (2) the Bank of Zambia's approval number; (3) the import license number; (4) the Société Générale de Surveillance number; (5) the amount of credit; and (6) due date.

May 23. All residents who intend to import into Zambia goods which do not involve payments in foreign exchange will be required to obtain the approval of the Bank of Zambia before applying to the Ministry of Commerce and Industry for a "no currency" import license. All applications must be accompanied, where applicable, by the following information: (1) the evidence of payment made for goods and freight; (2) the evidence of the source of foreign exchange; and (3) any other document which authenticates that payment has been made in foreign exchange.

June 14. All imports into Zambia will be financed by letters of credits with minimum terms of 90 days. All other conditions that were effective May 1 remain unchanged.

Table I. Zambia: Gross Domestic Product by Industrial Origin, 1977-80

(In millions of kwacha)

	1977	1978	1979	1980 1/
		(At current prices)		
Agriculture, forestry, and fishing	321.5	357.8	375.0	433.8
Of which: subsistence sector	(211.5)	(245.0)	(270.0)	(295.0)
Mining and quarrying	233.7	286.8	483.7	515.8
Manufacturing	314.0	383.9	433.3	511.2
Electricity, gas, and water	50.5	48.5	51.8	54.0
Construction	108.5	105.4	106.2	110.0
Commerce 2/	261.4	301.1	361.8	455.6
Transport, communications, and storage	134.4	142.1	168.8	200.1
Financial services 3/	155.5	166.5	190.9	204.9
Community, social, and personal services	345.5	382.0	420.2	492.3
Import duties	49.0	50.0	60.0	80.0
Less: imputed bank service charges	-22.5	-23.5	-28.8	-30.5
GDP	1,951.5	2,200.6	2,622.9	3,027.2
		(As per cent of total)		
Agriculture, forestry, and fishing	16.5	16.3	14.3	14.3
Of which: subsistence sector	(10.8)	(11.1)	(10.3)	(9.7)
Mining and quarrying	12.0	13.0	18.6	17.0
Manufacturing	16.0	17.4	16.5	16.9
Electricity, gas, and water	2.6	2.2	2.0	1.8
Construction	5.5	4.8	4.0	3.6
Commerce 2/	13.4	13.7	13.8	15.1
Transport, communications, and storage	6.9	6.4	6.4	6.6
Financial services 3/	8.0	7.6	7.3	6.7
Community, social, and personal services	17.7	17.4	16.2	16.3
Import duties	2.5	2.3	2.3	2.6
Less: imputed bank service charges	-1.2	-1.7	-1.1	-1.0
GDP	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ Provisional.
2/ Including hotels and restaurants and business services.
3/ Including insurance and real estate.

Table II. Zambia: Gross Domestic Product by Industrial Origin, 1977-80

(In millions of kwacha at constant (1970) prices)

	1977	1978	1979	1980 1/
Agriculture, forestry, and fishing	168.2	169.0	153.4	166.5
Of which: subsistence sector	(105.8)	(108.5)	(105.8)	(109.0)
Mining and quarrying	469.7	504.8	405.3	411.1
Manufacturing	141.4	152.0	151.9	152.7
Electricity, gas, and water	57.8	58.3	62.6	66.7
Construction	90.4	82.0	77.6	68.6
Commerce 2/	146.8	148.0	146.8	156.6
Transport, communications, and storage	61.5	62.1	64.3	67.1
Financial services 3/	93.6	88.8	94.2	89.1
Community, social, and personal services	190.0	191.0	188.6	189.3
Import duties	16.0	12.0	11.5	13.0
Less: imputed bank service charges	-11.0	-9.2	-10.1	-8.9
GDP	1,424.4	1,458.8	1,342.1	1,371.8
	(As per cent of total)			
Agriculture, forestry, and fishing	11.8	11.6	11.4	12.1
Of which: subsistence sector	(7.4)	(7.4)	(7.9)	(7.9)
Mining and quarrying	33.0	34.6	30.2	30.0
Manufacturing	9.9	10.4	11.3	11.1
Electricity, gas, and water	4.1	4.0	4.7	4.9
Construction	6.3	5.6	5.8	5.0
Commerce 2/	10.3	10.1	10.9	11.4
Transport, communications, and storage	4.3	4.2	4.8	4.9
Financial services 3/	6.6	6.1	7.0	6.5
Community, social, and personal services	13.3	13.1	14.1	13.8
Import duties	1.1	0.8	0.8	0.9
Less: imputed bank service charges	-0.8	-0.6	-0.7	-0.6
GDP	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ Provisional.
2/ Including hotels and restaurants and business services.
3/ Including insurance and real estate.

Table III. Zambia: Gross Domestic Product by Type of Expenditure, 1977-80

	1977	1978	1979	1980 1/
	(In millions of kwacha at current prices)			
Government consumption	553.3	591.0	680.8	835.3
Private consumption	724.5	971.7	1,279.1	1,767.7
Gross fixed investment	668.0	555.0	472.0	594.0
Final expenditure	1,945.8	2,117.7	2,431.9	3,197.0
Changes in stocks	7.0	100.0	-74.0	55.0
Net exports of goods and nonfactor services	-1.3	-17.1	265.0	-224.8
Exports	788.4	749.2	1,179.0	1,066.9
Less: imports	789.7	766.3	914.0	1,291.7
GDP	1,951.5	2,200.6	2,622.9	3,027.2
	(In millions of kwacha at constant (1970) prices)			
Government consumption	277.0	255.7	247.6	258.0
Private consumption	407.5	476.4	523.8	638.0
Gross fixed investment	304.0	213.0	154.0	162.0
Final expenditure	988.5	945.1	925.4	1,048.0
Changes in stocks	-0.2	91.0	-50.0	30.0
Net exports of goods and nonfactor services	495.6	498.2	398.3	230.4
Exports	813.0	747.7	638.3	488.5
Less: imports	317.4	249.5	240.0	258.1
Statistical discrepancy	-59.5	-75.5	68.4	63.4
GDP	1,424.4	1,458.8	1,342.1	1,371.8
Memorandum item:				
GDP at 1970 prices, adjusted for changes in terms of trade 2/	928.2	954.8	859.4	849.9

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ Provisional.
2/ I.e., exports deflated by the import price.

Table IV. Zambia: Area Under Cultivation for Selected Crops, 1976/77-1979/80

(In hectares)

	1976/77	1977/78	1978/79	1979/80
Maize	485,000	595,000	335,800	540,000
Groundnuts	102,000	137,000	43,200	25,552
Sunflower seeds	24,000	23,900	24,800	30,791
Cotton	10,509	21,440	24,000	30,300
Soya beans	1,200	2,200	2,200	3,700
Wheat	1,700	1,585	1,600	2,400
Tobacco	...	3,700	4,700	...
Rice	...	...	3,100	5,100
Sugar	9,600	10,300	10,000	10,000

Source: Data provided by the Zambian authorities.

Table V . Zambia: Producer Prices of Main Agricultural Products, 1976/77-1981-82

(In kwacha)

Commodity	Unit	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Maize	90 kg bag	6.30	6.80	9.00	11.70	13.50	16.00
Groundnuts	80 kg bag	25.00	28.60	32.00	32.70	42.70	48.00
Sunflower seed	50 kg bag	10.00	12.50	13.70	16.40	17.60	20.75
Soya beans	90 kg bag	17.00	21.50	25.50	33.00	36.30	42.31
Wheat	90 kg bag	16.00	18.00	20.00	26.00	26.00	36.00
Paddy rice	80 kg bag	14.40	14.40	16.10	18.60	18.60	28.00
Seed cotton	kg	0.40	0.46	0.46	0.46	0.46	0.47
Virginia tobacco	kg	1.04	1.21	1.32	1.51	1.51	1.51

Source: Data provided by the Zambian authorities.

Table VI. Zambia: Index of Retail Prices in Urban Areas, 1976-June 1981

(1975 = 100)

	Weights	1976	1977	1978	1979	1980	1981 June
Low-income index 1/	100.0	118.8	142.3	165.6	181.6	202.9	235.0
Food, beverages, and tobacco	68.0	122.3	146.8	169.4	184.5	211.5	249.3
Clothing, footwear, and accessories	9.9	116.4	155.8	193.4	226.6	244.2	256.8
Rent, fuel, and lighting	10.6	101.4	109.4	115.9	119.4	123.4	134.4
Furniture and household goods	4.4	120.4	159.0	187.5	213.1	226.6	272.8
Other	7.1	111.5	138.0	149.7	163.6	178.3	186.1
High-income index 2/	100.0	116.1	136.0	152.6	169.8	189.4	209.8
Food, beverages, and tobacco	36.0	122.9	161.9	162.2	172.8	195.7	231.5
Clothing, footwear, and accessories	9.8	118.5	148.1	176.0	212.7	237.8	252.9
Rent, fuel, and lighting	19.5	104.5	105.8	107.7	113.0	125.2	128.1
Furniture and household goods	7.9	117.1	150.0	180.9	204.2	216.7	255.9
Medical care and health services	1.5	109.1	126.7	135.5	144.4	171.5	188.4
Transport and communication	13.7	117.9	149.9	156.3	181.6	209.6	219.8
Recreation, entertainment, and education	6.3	110.9	125.5	149.2	182.3	199.0	217.0
Other	5.3	109.6	142.1	167.4	189.1	201.5	213.4

Sources: Central Statistical Office, Monthly Digest of Statistics; and data provided by the Zambian authorities.

1/ For urban households with monthly incomes of less than K 125.
2/ For urban households with monthly incomes in excess of K 400.

Table VII. Zambia: Average Annual Earnings 1/ by Economic Sector, 1974-78

(In kwacha)

Sector	Group	1974	1975	1976	1977	1978
Agriculture, forestry,	Zambian	445	453	604	639	723
and fishing	Non-Zambian	2,602	2,524	3,490	3,547	2,667
Mining and quarrying	Zambian	1,701	1,478	2,510	2,632	2,521
	Non-Zambian	6,629	6,784	10,304	10,704	7,940
Manufacturing	Zambian	1,071	1,179	1,696	1,529	1,878
	Non-Zambian	5,866	5,657	8,650	7,758	9,672
Electricity and water	Zambian	803	1,042	1,482	1,509	1,442
	Non-Zambian	6,062	7,835	7,819	8,263	9,686
Construction and allied	Zambian	716	764	906	883	1,199
repairs	Non-Zambian	4,371	6,868	4,109	4,436	6,754
Transport and communi-	Zambian	1,397	1,834	1,830	2,103	2,059
cations	Non-Zambian	4,653	7,377	5,301	6,359	6,924
Distribution, restaurants,	Zambian	1,019	1,018	1,420	1,564	2,042
hotels	Non-Zambian	5,066	5,316	7,743	7,873	8,942
Finance, insurance,	Zambian	1,356	1,641	1,927	2,031	1,912
business services	Non-Zambian	6,947	7,528	6,696	7,148	9,825
Community social, personal	Zambian	1,299	1,259	1,370	1,384	1,622
services	Non-Zambian	4,168	3,859	4,149	4,034	4,047
All sectors	Zambian	1,122	1,140	1,478	1,566	1,740
	Non-Zambian	5,389	5,572	6,858	7,086	6,887

Source: Central Statistical Office, Monthly Digest of Statistics.

1/ Average annual cash earnings based on December quarter. Earnings in kind, and employers' contribution to pension funds, are not included.

Table VIII. Zambia: Numbers in Paid Employment 1/by Economic Sector, 1975-80

	Group	1975	1976	1977	1978	1979 2/	1980 2/
Agriculture, forestry, and fishing	Zambian	34,960	32,360	30,510	30,320	32,570	37,130
	Non-Zambian	1,530	1,150	1,400	1,070	2,020	2,460
	Total	36,490	33,510	30,910	31,390	34,590	39,590
Mining and quarrying	Zambian	56,510	54,190	55,590	54,800	52,860	54,970
	Non-Zambian	10,250	12,510	8,500	7,850	6,360	5,720
	Total	67,760	66,700	64,090	62,650	59,220	60,690
Manufacturing	Zambian	41,680	41,830	43,780	43,480	48,030	46,590
	Non-Zambian	2,990	2,730	2,670	2,400	2,670	2,400
	Total	44,670	44,560	46,450	45,880	50,700	48,990
Electricity and water	Zambian	4,520	5,210	7,250	6,670	7,520	7,580
	Non-Zambian	380	370	310	280	290	280
	Total	4,900	5,580	7,560	6,950	7,810	7,860
Construction and repairs	Zambian	69,220	51,300	47,710	42,680	37,790	41,950
	Non-Zambian	4,590	3,490	3,030	2,340	2,340	1,680
	Total	73,810	54,790	50,270	45,020	40,130	43,630
Transport and communications	Zambian	20,730	20,540	19,370	21,120	20,800	24,130
	Non-Zambian	1,610	1,490	1,170	990	1,100	1,240
	Total	22,340	22,030	20,540	22,110	21,900	25,370
Distribution, restaurants, and hotels	Zambian	32,980	31,810	31,130	31,260	31,720	31,090
	Non-Zambian	3,260	2,400	1,940	2,010	1,650	1,580
	Total	36,240	34,120	33,070	33,270	33,370	32,670
Finance, etc.	Zambian	16,070	16,880	16,700	19,730	19,320	19,710
	Non-Zambian	1,910	1,950	1,450	1,260	1,200	1,440
	Total	17,980	18,830	18,150	20,990	20,520	21,150
Community, social and personal services	Zambian	88,660	92,190	93,280	94,420	96,810	97,970
	Non-Zambian	6,990	7,000	6,840	6,630	6,930	6,170
	Total	95,650	99,190	100,120	101,050	103,740	104,140
All sectors	Zambian	365,330	346,310	345,320	344,480	347,420	361,120
	Non-Zambian	33,510	33,090	27,310	24,830	24,560	22,970
	Total	398,840	379,400	372,630	369,310	371,980	384,090

Source: Central Statistical Office, Monthly Digest of Statistics.

1/ Average for the June quarter, excluding domestic service.
2/ Preliminary estimates

Table IX. Zambia: Budgetary Subsidies, 1974-81

(In millions of kwacha)

	1974	1975	1976	1977	1978	1979	1980	1981 Budget
Total subsidies	47.4	82.8	59.8	66.2	42.1	105.3	213.7	124.7
Maize	12.3	19.8	22.0	26.4	18.0	12.0	97.2	39.9
Fertilizer	8.4	32.9	22.1	17.7	12.2	6.3	50.0	37.9
Marketing agencies 1/	6.8	3.8	9.5	15.9	5.4	5.2	11.5	25.8
NAMBOARD	--	--	--	--	--	74.6	23.8	--
Others	19.9	26.3	6.2	6.2	6.5	7.2	31.2	21.1
of which: tobacco	(2.9)	(3.4)	(2.2)	(2.3)	(2.7)	(3.5)	(19.5)	(11.8)
Rural Development Council	(1.0)	(1.1)	(0.7)	(1.1)	(1.2)	(1.1)	(0.8)	(0.4)
Cold Storage Board	(0.8)	(2.3)	(1.0)	(2.0)	(2.0)	(1.6)	(2.0)	(3.0)

Sources: Ministry of Finance, Financial Reports (Annual), 1974-80; Estimates of Revenue and Expenditure, 1981; and data provided by the Ministry of Finance.

1/ Covers subsidies on a variety of crops and agricultural inputs channeled through rural cooperatives.

Table X. Zambia: Government Investment, 1977-81

(In millions of kwacha; and in per cent)

	1977		1978		1979		1980 1/		1981 1/	
	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent	Amount	Per cent
Economic sectors	104.6	59.2	114.9	57.9	129.7	85.7	136.9	71.6	142.4	63.0
Agriculture	24.1	13.7	38.5	19.3	40.6	26.8	47.0	24.6	59.7	26.0
Commerce and industry	5.9	3.3	9.7	4.9	26.5	17.5	43.6	22.8	23.8	11.0
Power	10.8	6.1	8.6	4.3	--	--	2.1	1.1	2.1	1.0
Transport	54.9	31.1	45.7	22.9	49.6	32.8	25.8	13.5	40.5	18.0
Communications	7.0	4.0	4.5	2.3	4.7	3.1	7.3	3.8	2.0	1.0
Mining	1.3	0.7	2.2	1.1	4.4	2.9	4.7	2.5	4.9	2.0
Information and broad-casting	0.6	0.3	5.7	2.9	3.9	2.6	6.4	3.3	9.4	4.0
Social sectors	25.4	14.4	17.7	8.9	13.3	8.8	19.7	10.3	29.6	13.0
Education	14.7	8.3	7.9	4.0	5.3	3.5	7.3	3.8	12.6	6.0
Health	4.5	2.6	2.1	1.0	0.9	0.6	4.4	2.3	7.5	3.0
Others	6.2	3.5	7.7	3.9	7.1	4.7	8.0	4.2	9.5	4.0
Administrative sectors	17.4	9.9	22.1	11.1	15.0	9.9	19.2	10.0	31.3	14.0
Provinces	12.9	7.3	13.6	6.8	7.4	4.9	15.5	8.1	22.5	10.0
Others (net) 2/	16.2	9.2	30.7	15.5	-14.1	-9.3	--	--	--	--
Total	176.5	100.0	199.1	100.0	151.3	100.0	191.3	100.0	225.8	100.0

Source: Data provided by the Zambian authorities.

1/ Original budget estimates.
2/ Including other net lending.

Table XI. Principal Subsidiary and Associated Companies of ZIMCO, by Sector, March, 1980

Company	ZIMCO Equity Participation (In per cent)
Industrial	
Anros Industries, Ltd.	80
Chilanga Cement, Ltd.	100
Choma Milling Company, Ltd.	100
Consolidated Tire Services, Ltd.	100
Crushed Stone Sales, Ltd.	100
Eagle Travel, Ltd.	51
General Pharmaceuticals, Ltd.	100
INDECO, Ltd. (Industrial Development Corporation, Ltd.)	100
Indeco Milling, Ltd.	100
Indeco Properties, Ltd.	100
Indeconsult, Ltd.	100
Kabwe Industrial Fabrics, Ltd.	100
Kafironda, Ltd.	54
Kafue Estates, Ltd.	100
Kafue Textiles of Zambia, Ltd.	55
Kapiri Glass Products, Ltd.	85
Kasama Vehicle Assemblers, Ltd.	60
Livingstone Motor Assemblers, Ltd.	70
Luangwa Industries, Ltd.	100
Lusaka Engineering Company, Ltd.	60
Mansa Batteries, Ltd.	79
Metal Fabricators of Zambia, Ltd.	51
Monarch Zambia, Ltd.	100
Motor Parts Distributors, Ltd.	100
Mwaiseni Properties, Ltd.	100
Nakambala Estates, Ltd.	78
National Breweries, Ltd.	51
National Milling Company, Ltd.	51
Nitrogen Chemicals of Zambia, Ltd.	100
Norgroup Plastics, Ltd.	100
ROP (1975), Ltd.	100
Rucom Industries, Ltd.	100
Supa Baking, Ltd.	100
Welding Electrodes, Ltd.	51
Zambezi Saw Mills (1968), Ltd.	100
Zambia Breweries, Ltd.	55
Zambia Clay Industries, Ltd.	100
Zambia Oxygen, Ltd.	51
Zambia Sugar Company, Ltd.	78
Zamefa Sales, Ltd.	51
ASSOCIATE COMPANIES	
Duncan, Gilbey and Matheson (Z), Ltd.	40
Dunlop Zambia, Ltd.	23
Nkwazi Manufacturing Company, Ltd.	5
Scaw, Ltd.	2
Mining	
Nchanga Consolidated Copper Mines, Ltd.	60
RCM Drilling, Ltd.	60.6
RCM House Properties, Ltd.	60.6
Roan Consolidated Mines, Ltd.	60.6
Zambia Engineering Services, Ltd.	60
JOINTLY OWNED BY RCM AND NCCM	
Copper Industry Services Bureau	60.3
Copperbelt Power Company, Ltd.	60.3
Maamba Collieries, Ltd.	100
Memaco Services, Ltd.	100
Metal Marketing Corporation of Zambia, Ltd.	100
Mindeco Lumwana, Ltd.	60
Mindeco Noranda, Ltd.	51
Mindeco Small Mines, Ltd.	100
Mines Air Services, Ltd.	60.3
Mining Timbers, Ltd.	60.3
Mokambo Development Company, Ltd.	51
Mulungushi Investments, Ltd.	60.3
Ndola Lime Company, Ltd.	60.3
Zambia Appointments, Ltd.	60.3
Agriculture and Rural Development	
African Farming Equipment Company, Ltd.	78
Agricultural Finance Company, Ltd.	100
Cattle Finance Company, Ltd.	100
Kalola Farms, Ltd.	100
Kawambwa Tea Company, Ltd.	100
Poultry Development Company, Ltd.	100
Rural Air Services, Ltd.	100
Rural Development Corporation, Ltd.	100
Zambia Agricultural Development Company, Ltd.	100
Zambia Pork Products, Ltd.	100
Zambia Seed Company, Ltd.	100
Energy	
Shell and BP Zambia, Ltd.	51
Tazama Pipelines, Ltd.	67
Zambia Electricity Supply Corporation, Ltd.	100
Zambia National Energy, Ltd.	100
ASSOCIATE COMPANIES	
Agip (Z), Ltd.	50
Indeni Petroleum Refinery Company, Ltd.	50
Finance	
Atlas Properties of Lusaka, Ltd.	100
Atlas Properties of Ndola, Ltd.	100
Auto Care, Ltd.	75
Avondale Housing Project, Ltd.	100
CBZ Properties, Ltd.	99.8
City Radio and Refrigeration (1975), Ltd.	100
Mutual Properties, Ltd.	100
Zambia National Commercial Bank, Ltd.	99.8
Zambia National Insurance Brokers, Ltd.	70
Zambia State Insurance Corporation, Ltd.	100
Transport	
Contract Haulage, Ltd.	100
National Air Charters, Ltd.	100
United Bus Company of Zambia, Ltd.	100
Zambia Airways Corporation	100
Zambia Railways	100
ASSOCIATE COMPANY	
Zambia Tanzania Road Services, Ltd.	35
Hotels	
National Hotels Development Corporation, Ltd.	100
Zambia Hotel Properties, Ltd.	80
Trading	
Consumer Buying Corporation of Zambia, Ltd.	67
Medical Stores, Ltd.	100
Mwaiseni Stores, Ltd.	75
National Drug Company, Ltd.	51
National Import and Export Corporation, Ltd.	10
NIEC Agencies, Ltd.	51
NIEC Overseas Services Zambia, Ltd.	100
NIEC Stores, Ltd.	100
Zambia National Wholesale and Marketing Company, Ltd.	100
Others	
Posts and Telecommunications Corporation	100
Transport Holdings of Zambia, Ltd.	100
Zambia National Building Society	Administered
Zimco Properties, Ltd.	100
Zimco Services, Ltd.	100

Table XII. ZIMCO Group Financial Statistics for Year Ended March 31, 1981

(In millions of kwacha) 1/

Sector	Revenues	Profit (loss) before tax	Profit (loss) after tax	Dividends	Total assets	Total debt	Total equity capital	Total reserves	Debt-equity ratio	Profit (loss) as a share of assets (in per cent)
Mining	1,129.5	62.3	65.6	10.5	1,861.3	771.5	371.5	714.4	41/59	3.5
				7.3			238.3	424.3		
Energy	328.4	9.8	9.8	2.0	648.5	450.2	90.5	107.8	69/31	1.5
				1.0			86.1	96.4		
Trading	187.2	6.3	2.9	0.2	96.9	71.7	9.9	15.4	74/26	3.0
				0.1			9.9	15.4		
Finance	--	27.1	21.8	4.5	638.2	432.8	6.0	199.4	68/32	3.4
				4.5			6.0	199.4		
Transport	191.2	(14.6)	(14.6)		323.3	200.2	119.7	10.6	62/38	(4.5)
							119.7	10.6		
Hotels	15.2	0.2	0.2		29.9	21.3	10.2	(1.5)	71/29	0.7
							10.2	(1.5)		
Industry	526.9	4.9	(5.2)	4.9	748.3	611.7	144.0	(7.4)	82/18	(0.7)
				2.9			125.3	(13.7)		
Agriculture	22.0	(3.8)	(3.8)		79.4	33.5	45.0	0.9	42/58	(4.8)
							45.0	0.9		
Miscellaneous	41.6	1.5	1.4		112.9	86.8	25.0	1.1	77/23	1.2
							25.0	1.1		
Total	2,441.9	93.7	78.2	22.1	4,538.6	2,679.8	821.6	1,040.5	59/41	1.7
				15.8			665.3	732.7		

Source: Data provided by ZIMCO.

1/ Government-ZIMCO participation presented below total figures. Figures are net of intercompany transactions.

Table XIII. Zambia: Summary Accounts of the Monetary Authorities, 1977-81

(In millions of kwacha; end of period)

	1977	1978	1979	1980				1981	
				Mar.	June	Sept.	Dec.	Mar.	June
Foreign assets (net)	-149.43	-291.04	-320.84	-343.85	-379.00	-380.93	-370.55	-354.15	-464.76
Foreign assets	55.78	47.35	70.68	90.17	70.79	58.38	71.19	49.95	54.35
Gold	(5.42)	(7.19)	(8.36)	(8.36)	(8.36)	(8.36)	(8.36)	(8.36)	(8.36)
SDR holdings	(10.48)	(12.41)	(4.32)	(11.35)	(12.99)	(1.60)	(--)	(0.71)	(0.43)
Foreign exchange	(39.88)	(27.75)	(58.00)	(70.46)	(49.44)	(48.42)	(62.83)	(40.88)	(45.56)
Foreign liabilities 1/	205.21	338.39	391.52	434.02	449.79	439.31	441.74	404.09	519.11
Domestic credit	462.04	1,092.18	1,017.01	1,018.19	1,054.14	1,174.54	1,240.29	1,323.49	1,445.00
Claims on Government (net)	276.46	942.73	869.58	894.06	935.12	1,056.19	1,111.84	1,206.43	1,260.71
Securities	(192.94)	(730.21)	(651.89)	(597.24)	(502.15)	(683.39)	(742.10)	(717.86)	(725.72)
Deposits 2/	(-20.52)	(-34.28)	(-39.45)	(-118.58)	(-254.73)	(-194.56)	(-191.50)	(-310.33)	(-356.75)
Advances	(63.00)	(178.24)	(178.24)	(178.24)	(178.24)	(178.24)	(178.24)	(178.24)	(178.24)
Total other claims	185.58	149.45	147.43	124.13	119.02	118.35	128.45	117.06	184.29
Claims on mining sector 3/	(123.63)	(114.50)	(80.93)	(61.93)	(61.93)	(61.93)	(61.93)	(61.93)	(65.93)
Claims on commercial banks	(39.87)	(8.18)	(6.82)	(3.75)	(3.79)	(3.75)	(3.75)	(4.68)	(0.45)
Other assets	(22.08)	(26.77)	(59.68)	(58.45)	(53.30)	(52.67)	(62.77)	(50.45)	(117.91)
Reserve money	222.36	240.15	246.58	232.47	250.05	270.17	284.76	275.80	289.61
Currency in circulation	136.87	154.80	151.81	143.99	146.89	170.13	174.55	173.51	182.71
Bankers' deposits	85.49	85.35	94.77	88.48	103.16	100.04	110.21	102.29	106.90
Special reserve deposits on liabilities related to external payments arrears	--	465.79	338.50	313.08	306.82	363.18	440.89	525.29	505.77
Quasi-money deposits 4/	6.32	5.15	3.35	10.00	--	9.51	9.57	9.59	--
Capital and reserves	30.21	30.21	30.21	30.21	30.21	30.21	30.21	30.21	30.21
SDR allocation	22.67	25.19	40.20	55.22	55.22	55.22	55.22	69.96	69.96
Other liabilities	31.05	34.64	37.33	33.36	32.84	65.32	49.09	58.49	84.69

Sources: Bank of Zambia, Quarterly Statistical Review; and data provided by the Zambian authorities.

1/ Includes use of Fund resources.
2/ Excluding Government Sinking Fund Account held by Bank of Zambia.
3/ Includes K 0.50 million to end-1979 and K 4.50 million thereafter in credit to the nonmining sector.
4/ Deposits of the mining companies.

Table XIV. Zambia: Structure of Interest Rates, 1977-81

(In per cent per annum)

	1977	1978	1979	1980	1981 March
Bank of Zambia					
Rediscount rate	6.00	6.50	6.50	6.50	7.50
Commercial banks					
Overdrafts (minimum)	8.25	9.50	9.50	9.50	9.50
Maximum rate on loans	11.00	12.00	12.00	12.00	12.00
To agriculture	9.00	9.50	9.50	9.50	12.00
To manufacturing	9.00	10.25	10.25	10.25	12.00
Bills discounted (up to 120 days)					
Minimum	9.00	9.50	9.50	9.50	9.50
Fixed deposits					
3-6 months	6.25	7.00	7.00	7.00	7.00
6-12 months	6.75	7.50	7.50	7.50	7.50
Over 12 months (minimum)	7.25	8.25	8.25	8.25	8.25
Short-term deposits	3.75	4.75	4.75	4.75	4.75
Savings accounts	6.00	7.00	7.00	7.00	7.00
Treasury bills	4.38	4.38	4.50	4.50	6.00

Source: Data provided by the Zambian authorities.

Table XV. Zambia: Summary Accounts of the Commercial Banks, 1977-81

(In millions of kwacha; end of period)

	1977	1978	1979	1980				1981	
				Mar.	June	Sept.	Dec.	Mar.	June
Assets									
Reserves	99.92	117.37	122.66	121.84	122.86	128.43	126.59	126.62	125.41
Currency holdings	18.43	23.94	25.65	20.25	21.44	33.12	23.48	22.97	22.78
Deposits with Bank of Zambia 1/	81.49	93.43	97.01	101.59	101.42	95.31	103.11	103.65	102.63
Special reserve deposits on liabilities related to external payments arrears	--	465.79	338.50	313.08	306.82	363.18	440.89	525.29	505.77
Foreign assets (net)	-34.08	-20.54	37.73	26.11	12.76	3.73	-17.34	-30.39	11.98
Foreign assets	8.14	26.26	75.22	61.37	53.15	45.85	45.13	51.00	58.58
Foreign liabilities	42.22	46.80	37.49	35.26	40.39	42.12	62.47	81.39	46.60
Domestic credit									
Claims on Government (net)	514.62	119.07	252.05	274.39	282.70	222.42	242.58	251.31	238.31
Loans and advances	(13.66)	(4.40)	(1.01)	(4.23)	(2.05)	(1.04)	(--)	(0.09)	(0.09)
Treasury bills	(466.97)	(85.75)	(231.61)	(240.07)	(252.98)	(184.63)	(232.87)	(232.71)	(219.37)
Other securities	(65.90)	(56.41)	(49.69)	(49.69)	(46.03)	(42.04)	(42.23)	(42.28)	(39.51)
Deposits	(31.91)	(27.49)	(30.26)	(19.60)	(18.36)	(5.29)	(32.52)	(23.77)	(20.66)
Claims on private sector	346.68	307.71	402.08	390.41	422.50	437.21	443.41	437.45	469.55
Loans and advances to public and statutory bodies	(317.52)	(297.17)	(386.33)	(379.44)	(411.36)	(428.41)	(431.21)	(429.41)	(464.83)
Bills of exchange	(29.16)	(10.54)	(15.75)	(10.97)	(11.14)	(8.80)	(12.20)	(8.04)	(4.72)
Other assets	159.95	187.31	223.87	148.24	176.23	183.22	217.89	220.78	195.49
Liabilities									
Demand deposits	268.03	260.82	387.12	333.38	347.71	328.91	358.34	371.61	369.06
Time and savings deposits	305.81	242.56	315.53	370.62	406.51	391.10	388.12	359.62	366.95
Liabilities to the Bank of Zambia	39.87	8.18	6.82	3.75	3.79	3.75	3.75	4.68	0.48
Bills payable	7.79	8.25	15.39	20.45	12.58	13.02	14.26	16.85	28.05
Other liabilities	465.51	656.91	652.03	545.97	553.27	601.43	689.50	778.27	782.02

Sources: Bank of Zambia, Quarterly Statistical Review; and data provided by the Zambian authorities.

1/ Differs from figures in Summary Accounts of Monetary Authorities because of items-in-transit.

Table XVI. Zambia: External Payments Arrears, 1978-81

(In millions of kwacha, end of period) 1/

	Origin of arrears							
	Imports	Dividends and profits	Import interest	Overdrawn for letters of credit	Personal remittances	Other 2/	Total	Changes fro preceding per
1978								
December	354.5	27.0	—	15.2	37.3	73.9	507.9	—
1979								
March	319.8	29.2	—	4.0	40.2	81.7	474.9	-33.0
June	281.2	26.6	—	2.3	32.7	78.3	421.1	-53.8
September	278.3	25.7	14.4	0.9	14.5	68.9	402.7	-18.4
December	265.5	25.4	10.3	1.9	2.7	53.3	359.1	-43.6
1980								
January	261.8	26.9	10.5	3.0	3.7	61.5	367.4	8.3
February	257.7	26.9	15.0	4.8	4.6	62.2	371.2	3.8
March	220.4	26.0	15.9	2.2	3.7	48.6	316.8	-54.4
April	226.0	27.4	14.6	3.0	4.3	56.2	331.5	14.7
May	188.5	30.7	15.5	3.9	0.7	60.4	299.7	-31.8
June	196.0	33.0	16.1	12.5	1.9	66.2	325.7	26.0
July	211.4	45.4	16.1	4.9	3.2	78.0	359.0	33.3
August	224.8	52.0	16.9	8.8	5.8	78.3	386.6	27.6
September	222.7	47.6	17.3	10.5	1.6	101.5	401.2	14.6
October	237.7	35.1	18.2	9.3	6.3	88.1	394.7	4.5
November	244.6	37.0	21.0	20.4	7.7	100.9	431.6	36.9
December	268.1	37.8	20.6	34.3	8.8	110.7	472.3	40.7
1981								
January	278.3	39.4	23.0	42.4	10.8	93.1	487.0	14.0
February	285.6	41.2	24.0	40.5	12.0	108.1	511.4	24.0
March	299.7	42.8	25.7	60.9	14.3	114.4	557.8	46.4
April	328.5	47.0	26.1	72.6	16.7	124.3	615.2	57.4
May	325.8	48.5	27.2	20.4	19.3	93.1	534.3	-80.9
June	327.3	53.4	24.7	23.8	19.0	93.6	541.8	7.5
July	329.4	53.9	29.1	18.5	18.4	100.7	550.0	8.2

Source: Bank of Zambia.

1/ SDR/K = K 0.976311.
2/ Including loan repayments, port clearing, freight, and other invisibles.

Table XVII. Zambia: Exports of Major Commodities, 1977-81

(Values in millions of kwacha)

	1977	1978	1979	1980 Prel.	1981 Proj. 1/
Copper					
Volume					
(in thousand tons)	667	590	647	558	566
Price					
In US$ per lb	0.60	0.62	0.89	0.91	0.84
In K per ton	1,044	1,111	1,555	1,578	1,657
Freight (K per ton)	77	97	148	130	130
f.o.b. (K per ton)	967	1,014	1,407	1,448	1,527
Export values	645	598	910	808	864
Cobalt					
Volume (in tons)	1,682	1,793	2,974	1,896	3,080
Price					
In US$ per lb	5.77	11.88	25.50	24.85	16.0
In K per ton	10,037	21,296	44,542	43,194	31,560
Freight (K per ton)	525	660	830	1,000	1,000
f.o.b. (K per ton)	9,512	20,636	43,712	42,194	30,560
Export values	16	37	130	80	94
Other metals	24	21	33	25	28
Zinc	(18)	(18)	(21)	(19)	(20)
Lead	(6)	(3)	(12)	(6)	(8)
Other	22	19	18	17	17
Total exports, f.o.b.	707	675	1,091	930	1,003

Sources: Zambian authorities; and staff estimates.

1/ Exchange rates: US$1.14483 per SDR; K0.89468 per US$; US$1.11771 per K; SDR 0.976311 per K.

Table XVIII. Zambia: Merchandise Imports, 1977-81

(Value in millions of kwacha)

	1977	1978	1979	1980 Prel.	1981 Proj.
Petroleum products					
Volume (1980 = 100)	102	102	92	100	100
Price (1980 = 100)	44	44	71	100	113
Value	67	68	97	155	175
Fertilizer					
Value	10	15	16	46	50
Maize					
Value	--	--	12	68 1/	27 1/
Other					
Value	453	410	473	614	576
Total imports	530	493	598	883	828
Freight and insurance	125	137	155	159	149
Total imports, c.i.f.	655	630	753	1,042	977

Sources: Zambian authorities; and staff estimates.

1/ Grants in terms of maize imports valued at K 21 million in 1980 and K 12 million in 1981.

Table XIX. Zambia: Merchandise Imports Classified by SITC, f.o.b. 1/ 1977-81

(In millions of kwacha)

	1977	1978	1979	1980 2/	1981 3/
Food, beverages, and tobacco	30	32	39	47	50
Crude material, oils and fats	18	16	21	20	20
Mineral fuels and related material	81	87	106	193	195
Chemicals	59	65	79	108	100
Machinery and transport equipment	205	176	205	304	265
Other manufactured goods	137	117	148	211	198
Total	530	493	598	883	828

Source: Central Statistical Office.

1/ Standard International Trade Classification.
2/ Preliminary.
3/ Projections.

Table XX. Zambia: Outstanding External Public and Publicly Guaranteed Debt as of end-1979 1/

(In millions of U.S. dollars)

Debt disbursed and outstanding	1,537.8
Suppliers' credits:	
Germany, Federal Republic of	154.9
Italy	5.0
Japan	5.7
South Africa	1.2
Sweden	9.3
United Kingdom	28.3
Yugoslavia	9.3
	213.7
Financial institutions:	
Bahamas	2.0
France	0.5
Germany, Federal Republic of	8.1
Italy	41.2
Netherlands	7.2
Zimbabwe	9.0
United Kingdom	62.1
United States	13.1
Multiple lenders	167.9
	311.1
Bonds:	
United Kingdom	24.8
International organizations:	
African Development Bank	6.6
IBRD	334.5
Special Arab Fund for Africa	12.7
IMF Trust Fund	30.3
Other	0.9
	385.0
Foreign governments:	
Austria	1.5
Bulgaria	5.3
Canada	36.7
China, People's Republic of	271.5
Czechoslovakia	—
Denmark	2.4
Finland	9.5
Germany, Federal Republic of	33.9
Japan	62.8
Netherlands	9.4
Romania	2.5
Sweden	16.3
United Kingdom	66.6
United States	81.2
U.S.S.R.	3.6
	603.2

Source: IBRD.

1/ Debt with original maturity of one year or more.

Table XXI. Zambia: External Debt Service Payments, 1977-81

(In millions of U.S. dollars)

	1977	1978	1979	1980 1/	1981 1/
Total	179.5	190.4	142.8	313.4	238.3
Amortization	120.2	145.8	91.1	227.6	156.0
Interest payments	59.3	44.6	51.7	85.8	82.3
Due to:					
Suppliers:					
Total	18.4	15.6	15.0	76.9	60.9
Amortization	14.0	13.4	12.2	60.7	48.7
Interest payments	4.4	2.2	2.8	16.2	12.2
Financial institutions:					
Total	115.0	120.1	59.0	141.7	73.5
Amortization	91.6	112.4	50.2	114.8	52.4
Interest payments	23.4	7.7	8.8	26.9	21.1
International organizations:					
Total	25.8	32.8	45.2	43.3	46.7
Amortization	6.0	7.2	15.9	16.4	18.4
Interest payments	19.8	25.6	29.3	26.9	28.3
Foreign governments:					
Total	20.3	21.9	23.6	51.5	57.2
Amortization	8.6	12.8	12.8	35.7	36.5
Interest payments	11.7	9.1	10.8	15.8	20.7

Source: IBRD.

1/ Debt service projections based on debt outstanding, including undisbursed, as of December 31, 1979.

Zambia: Summary of Tax System, August 1981

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1. Taxes on income and profits			
1.1 Taxes on companies			
1.11 General Business Tax			
1.111 Selective Employment Tax	A flat tax rate on expatriate employees payable by employers. The tax is intended to encourage employment of native Zambians.	The tax is not deductible for income tax purposes.	20 per cent of the expatriate employee' salary.
1.12 Taxes on mining companies	A flat rate tax on the profits of mining companies. The tax is collected on a P.A.Y.E. basis.	Losses may be carried forward without limitation or written off against the profits of an associated noncontinuous mine. All prospecting and exploration expenditures are deductible in the year in which they are incurred. Mining companies established after the imposition of the mineral tax are not subject to any tax until their initial capitalization and subsequent capital expenditures have been fully recovered. On the other hand, the unredeemed balances of capital expenditures of the existing companies are to be written off over a 20-year period or over the life of the mine, whichever is shorter. In addition to the above, provision is made for the remission of all or a part of the mineral tax paid by new mining companies in cases where the average after-tax rate of return to equity capital over a period of three years, starting from the year in which the tax is first paid, is less than 12 per cent. Refunds thus obtained are not liable to the company income tax (see 1.122 below). This benefit does not extend to existing companies, except in the case of new companies formed to develop new mines outside the jurisdiction of the parent companies. The Minister of Finance also has the power to exempt any mining company from the payment of the mineral tax; however, this power is normally exercised only in the case of certain small mines.	The mineral tax is levied at 51 per cei on copper mining; 20 per cent on lead, cobalt, and zinc mining; 15 per cent o: amethyst and beryl mining; and 10 per on gold, bismuth, selenium, nickel, uranium, silver, and cadmium mining. The implications of the remission provision in the case of new copper mines together with the company income tax (see 1.122 below) is that for earnings from these mines there is in fact a sliding scale in the overall rate of p taxation ranging from a minimum of 22. per cent, when all the mineral tax is refunded, to a maximum of 73.05 per ce: when none of the mineral tax is refund depending on the average after-tax rat of return to equity capital. Copper companies with a before-tax rate of re of 15.39 per cent or less will pay an overall tax of 22.05 per cent of profi those with a before-tax rate of return between 15.40 per cent and 44.52 per c will pay an overall tax of between 22. per cent and 73.05 per cent; and those with a before-tax rate of return of 44 per cent or more will pay an overall t of 73.05 per cent.
1.121 Mineral Tax (Mineral Tax Act of 1970 and amendments)			
1.122 Company Income Tax (Income Tax Act of 1970 and amendments)	A flat rate tax on the profits of mining companies after the deduction of the mineral tax (see 1.121 above).	In addition to the mineral tax itself, the deductions are the same as those under the mineral tax (see 1.121 above). There are provisions for the remission of the company income tax paid by new mining companies or for the exemption of a mining company from the payment of the tax by the Minister of Finance. Refunds of the mineral tax paid by new mining companies are not liable to the company income tax (see 1.121 above).	The company income tax is levied at 50 per cent. See 1.121 above for a discussion of the overall rate of profits taxation in the case of new copper mines.

Zambia: Sumary of Tax System, August 1981 (continued)

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
Taxes on other companies			
Company Income Tax (Income Tax Act of 1966 and Amendments)	A flat rate tax on the profits of corporations. Partners in partnerships are subject to personal rather than company income tax.	Losses may be carried back for one year and forward indefinitely. Statutory corporations which are wholly owned by the Zambian Government, but not companies which are owned by the statutory corporations, are exempt from the company income tax. Cooperatives with an annual gross income per member of K300 or more are taxed only on income generated by transactions with nonmembers; cooperatives with an annual gross income per member of less than K 300 are not taxed at all. Dividends and interest received from abroad by residents are taxable, but credit is given for foreign taxes paid. There are three types of specific capital allowances: investment, initial, and wear and tear (regular). Investment and initial allowances may be taken in the year in which the investment is undertaken, while regular allowances may be taken in the investment and subsequent years. The investment allowance is 10 per cent on industrial buildings and 20 per cent on industrial equipment and does not affect the allowance basis. The initial allowance of 10 per cent is given only on industrial buildings and does reduce the allowance basis. The regular allowances are 5-10 per cent (straight-line) on industrial buildings, 2 per cent (straight-line) on nonindustrial buildings used for business purposes, and from 30 to 50 per cent (declining balance) depending on usage for industrial equipment. Farmers are allowed the cost of investment on farm improvements and farm works in the year in which the investment is undertaken, and farm income is subject to a maximum tax rate of 25 per cent. In anticipation of the Industrial Development Act, which has not yet been completed, approved "priority" enterprises will be exempt from income taxes for a period of at least five years, as will any dividends they distribute. Any unrecovered allowances or business losses not utilized during the relief period can be used after termination of the tax holiday.	The company income tax is levied at 50 per cent.
Taxes on individuals			
Personal income tax (Income Tax Act of 1966 and Amendments)	A progressive tax on global personal income received either in money or in kind. Income received or losses sustained by a married woman are treated as income of or loss incurred by her husband.	The value of housing services provided by employers is excluded from taxable income, as are allowances paid for passage and for the education of children abroad with certain limitations. Also excluded are interest on Post Office Savings Bank deposits and on development bonds as well as the first K200 of other unearned income. Income paid into the Zambia National Provident Fund or other approved pension funds is also excluded. Capital gains are taxed only if they result from the regular commercial activities of the individual, or if the asset was acquired for the specific purpose of reselling it at a profit rather than as a source of income. Therefore, capital gains in the usual sense of the term are excluded from taxable income. Contributions to charitable organizations up to a maximum of 10 per cent of taxable income are deductible. Similarly, 20 per cent of premiums paid on life insurance policies up to a maximum of K 400 may be deducted, as may interest paid on home mortgages. Income from farming is taxed at a maximum rate of 25 per cent. Basic personal allowances are given of K600 for a single person and K1,500 for a married couple. In addition, there is a child's allowance of K225 for up to a maximum of six children and an extra allowance of K500 for blind or handicapped persons. Pensioners over age 60 receive their pensions tax free.	The rate schedule of the personal income tax is as follows: Taxable Income Per Annum (Kwacha) — Rate (Per cent) First 1,000 — 5 Next 1,500 — 10 Next 1,500 — 15 Next 2,500 — 20 Next 2,500 — 30 Next 3,000 — 45 Next 3,000 — 60 Next 5,000 — 70 Next 5,000 — 75 Excess — 80

Zambia: Summary of Tax System, August 1981 (continued)

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
1.22 Personal levy	A tax on global personal income received either in money or in kind and collected on a PAYE basis.	Persons with taxable incomes of less than K120 per annum are exempt.	The rate schedule of the personal levy is as follows: (see schedule below) These rates amount to somewhat more than 1 per cent of taxable income at the bottom end of each bracket for the lower-income groups and to about 2 per cent of taxable income at the bottom end of each bracket for groups with incomes of K400 per annum or more. Within each bracket the percentage declines as income rises.
1.3 Other			
1.31 Withholding taxes	A tax levied on payments to nonresidents in lieu of other taxes and withheld by the payer. An exception to this is the withholding tax on rental payments; after the end of the tax year the nonresident recipient of rental payments will be assessed in the usual way and the tax withheld at source will be allowed as a credit or refunded if necessary.	None.	The average withholding tax rates are 30 per cent on management and consultant fees and public entertainment fees; 25 per cent on payments of dividends, interest, and royalties; and 15 per cent on rents. Actual levels depend on the individual's country of residence.
2. Taxes on property			
2.1 Real estate taxes			
2.11 Rates	A tax collected by local governments on the rateable value of urban property, which is defined as the commercial market value of land and improvements without regard to freehold or leasehold status.	Rates are collected only on urban property; rural property is not taxed.	The percentage rates are set annually by each local council, subject to approval by the Minister of Local Government and Housing. The percentages applied to land are typically much higher than those applied to improvements, with the relative rates usually ranging from 2:1 to 10:1 (5:1 is common).
2.2 Death and gift taxes			
2.21 Estate tax	The estate tax applies to the entire estate of persons resident in Zambia, with the exclusion of real estate located outside Zambia, which real estate is, however, taken into account in the determination of the tax rate. A nonresident is taxable on his Zambian estate only.	Estates of less than K60,000 are exempt, and a surviving spouse is exempt from one half of the tax on the first K50,000 of taxable estate. Relief is also given for amounts left to close relatives and when assets change hands more than once within a five-year period.	The rate structure of the estate duty is unusual in that the successive rates apply to the entire amount of the estate. Therefore, the marginal rates at the bottom end of the estate brackets exceed 100 per cent. The rate structure is as follows: (see schedule below)

Personal levy rate schedule:

Taxable Income (Kwacha)	Tax (Kwacha)
Less than 120	Exempt
120 - 200	1.25
201 - 300	2.50
301 - 400	4.00
401 - 600	8.00
601 - 800	12.00
801 - 999	16.00
1,000 or over	20.00

Estate tax rate structure:

Estate Amount (kwacha)	Tax Rate Applying to Entire Estate (per cent)
Less than 30,000	Exempt
30,001 to 40,000	4
40,001 to 80,000	5
80,001 to 140,000	6
140,001 to 200,000	7
200,001 to 400,000	8
400,001 to 600,000	9
600,001 or more	10

Zambia: Summary of Tax System, August 1981 (continued)

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3. Taxes on domestic goods and services			
3.1 Selective excise taxes			
3.11 Sales tax (Customs and Excise (Amendment) (No. 2) Act of 1973)	An ad valorem tax on the domestic production of many items, including biscuits, clothing, fencing wire, footwear, radios, soaps and detergents, sugar, tires and tubes, hotel services, furniture, motor-car batteries, paints, varnishes and lacquers, perfumery, cosmetics and toilet preparations.	(a) Foods made from materials supplied by an individual for personal use/consumption; (b) complimentary services/supplies; (c) manufacturers whose production is less than K 5,000 in value per annum; and (d) others as determined by the Minister of Finance.	The basic tax rate is 10 per cent, but a number of items such as paint products, confectionery sugar, and phonograph records are taxed at 15 per cent.
3.12 Tobacco			
3.121 Excise tax on cigarettes and other tobacco products (Customs and Excise (Amendment) Act of 1973)	A specific tax levied on the domestic production of cigarettes and other tobacco products.	Tobacco products made from duty paid tobacco or from roll tobacco for personal or domestic use only and not for resale or profit. Tax on snuff has been suspended.	The rate schedule is as follows: (see below)

Product	Tax
Cigarettes	
0.95 kilogram per 1,000 or less	K 15.00 per 1,000
Over 0.95 to 1.04 kilogram per 1,000	K 19.00 per 1,000
Over 1.04 kilogram per 1,000	K 28.50 per 1,000
Manufactured tobacco	
Cigarette	K2.25 per kilogram
Cigar	K1.65 per kilogram
Pipe	K1.10 per kilogram

The excise tax on cigarettes, which is by far the most important, ranges from K 0.20 to K 0.32 per package of 20, depending on quality.

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.13 Liquor			
3.131 Excise tax on alcoholic beverages (Customs and Excise (Amendment) Act of 1973)	A specific tax levied on the domestic production of alcoholic beverages.	Fermented liquor, other than opaque beer, containing more than 3 per cent of proof spirit when personal manufacture for own use/consumption and not for resale or profit.	The rate schedule is as follows: (see below)

Product	Tax
Beer	
Regular beer, ale, and stout	K 8.99 per decaliter
Chibuku (opaque beer)	K per decaliter
Liquor	
Brandy, gin, vodka, whiskey, and rum	K4.00 per proof liter
Liqueurs and others	K2.70 per proof liter
Ethyl alcohol and undenatured neutral spirit	K 2.00 per proof liter

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.132 Surtax on chibuku (opaque beer)	An additional specific tax levied on the domestic production of chibuku (opaque beer), the proceeds of which are transferred in their entirety to rural authorities on the basis of population and need.	Opaque beer (chibuku) fermented in vessels of, or less than, 23 decaliters in capacity. An allowance of K 0.04 per decaliter when sold through local authority taverns.	The tax is K0.29 per decaliter when the chibuku is sold through public beer halls and K0.33 per decaliter when sold through private beer halls.
3.14 Hydrocarbon oils			
3.141 Excise tax on hydrocarbon oils (Customs and Excise (Amendment) Act of 1973)	A tax either specific or ad valorem levied on the domestic production of hydrocarbon oils.	The production of aviation gasoline and low sulphur fuel oil are exempt. The mass transit system, United Bus Company of Zambia, receives a tax concession.	Product / Tax: Gasoline K 2.30 per decaliter; Diesel oil K 1.30 per decaliter; Fuel oil 10 per cent per decaliter
3.15 Other excises			
3.151 Excise tax on soft drinks	A specific tax levied on the domestic production of soft drinks.	None.	The tax is K 3.10 per decaliter.
3.152 Entertainment tax	A specific tax levied on the sale of cinema and theater tickets.	None.	The tax ranges from K 0.02 to K 0.10 per ticket depending on the type of ticket.

Zambia: Summary of Tax System, August 1981 (continued)

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
3.153 Excise tax on sugar	A specific tax levied on the domestic production of sugar.	None.	The tax is K 0.06 per kilogram.
3.2 Betting and gambling taxes			
3.21 Tax on State Lottery winnings	A flat rate tax on individual State Lottery of Zambia winnings withheld at source.	The first K 1,000 of individual winnings are exempt.	The tax is levied at 10 per cent.
3.3 Taxes on specific services			
3.31 Passenger service charge	A service charge levied on all passengers traveling by air.	Head of mission of any Commonwealth country entitled to diplomatic privileges; members of the diplomatic or permanent consular service of any foreign country; and children under the age of two years.	The service charge is K 8.00 per passenger for international flights and K 2.00 for domestic flights.
3.4 Business and professional licenses			
3.41 Liquor licenses	An annual license fee levied on establishments selling or serving liquor.	None.	The license fees range from K75 to K300 per annum depending on the type of establishment.
3.42 Trading licenses	An annual license fee levied on individuals and firms engaged in wholesale or retail commercial trade.	None.	The license fee is K300 per annum for wholesalers and ranges from K2 to K50 per annum for retailers.
3.43 Education levy	A nondeductible levy on incorporated or registered businesses.	None.	K 200 per annum.
3.5 Motor vehicle taxes			
3.51 Motor vehicle licenses	An annual license fee levied on motor vehicles.	None.	The amount of the license fee is determined by the type of vehicle and by its weight (except for motorcycles and motor scooters). The license fee is K8 per annum for motorcycles and motor scooters, and ranges from K20 to K60 per annum for private passenger cars, K45 to K115 per annum for hire passenger cars, K25 to K300 per annum for buses, K10 to K170 per annum for trailers, and K15 to K250 per annum for trucks, in each case depending on weight.
3.52 Excise tax on motor vehicles (Customs and Excise (Amendment) Act of 1974)	A tax levied on motor vehicles assembled locally.	None.	The tax on motor vehicles falling within BTN headings Nos. 87.02.91, 87.02.93, and 87.02.98, ranges from 5 per cent to 40 per cent as follows: (a) value not exceeding K 2,000 each for duty purposes--5 per cent; (b) value exceeding K 2,000 but not exceeding K 2,250--15 per cent; (c) value exceeding K 2,250 but not exceeding K2,500--25 per cent; and (d) value exceeding K 2,500--40 per cent.

Zambia: Summary of Tax System, August 1981 (concluded)

(In kwacha)

Tax	Nature of Tax	Exemptions and Deductions	Rates
4. Taxes on international trade			
4.1 Taxes on imports			
4.11 Customs duties			
4.111 Customs tariff (Customs and Excise Act of 1966)	A one-column tariff levied on imports into Zambia. Most duties are computed ad valorem based on the f.o.b price in the country of supply, but a few are specific or a combination of ad valorem and specific. In general, the tariff is levied for revenue purposes, although in particular cases duties are applied for the protection of domestic industry.	In general, food, raw materials, and capital and intermediate goods which are regarded as essential are duty free.	There are four basic rates of customs duties: 10 per cent for other capital items used for business purposes; 15 per cent on goods which are widely consumed by the lower-income groups but are not essential; 30 per cent as the standard rate on nonessential consumer goods; and 50 per cent on luxury goods consumed mainly by the higher income groups. In fact, the duty rate on many luxury imports, including televisions, fans, and precious stones, has been raised to 75 per cent, and on items such as washing machines and vacuum cleaners, it has been raised to 100 per cent. The duty rate is K 8.00 per proof liter on brandy, gin and vodka: K 7.50 on whisky and rum; and K 6.50 on liqueurs. On wine, the duty rate is K 1.00 per liter on table wine (less than 25 per cent proof), K 1.20 on dessert wine (more than 25 per cent proof), and K 2.00 on sparkling wine. On beer, the (protective) duty rate is K 1.80 per liter. On passenger cars, if the value of the car does not exceed K 1,000, the percentage rate of duty is arrived at by subtracting K 100 from the value of the car and dividing the balance by 20: if the value of the car exceeds K 1,000 but does not exceed K 2,000, the percentage rate is arrived at by subtracting K 500 from the value of the car and dividing the balance by 10; and if the value of the car exceeds K 2,000, the percentage rate is arrived at simply by dividing the value of the car by 10.
4.112 Customs sales tax (Customs and Excise (Amendment) Act of 1973)	A flat rate sales tax levied on all dutiable imports. The sales tax is computed ad valorem based on the f.o.b. price in the country of supply.	Imports which are exempted from the customs tariff (see 4.111 above) are also exempted from the sales tax.	The rate of the sales tax is 12 1/2 per cent.
Other taxes			
5.1 Stamp taxes			
5.11 Stamp duties	A tax applied to a number of legal and commercial documents. The tax is collected by the application of adhesive stamps, which may be purchased at post offices or from other government agencies, to the document in question.	Recently, bank checks and commercial receipts were exempted from the tax.	The rates vary with the type of document and, in some cases, with the size of the transaction covered.
Social Security contributions			
6.1 Zambia National Provident Fund (Zambia National Provident Fund Act of 1965).	A contribution deducted from wages received by employees up to a maximum of K120 per month, which amount is matched by a similar contribution made by employers.	Wages in excess of K120 per month are exempt. Coverage does not include casual workers, government employees, or aliens covered by equivalent programs abroad.	The contribution of employees is computed as 5 per cent of wages received (2.5 per cent if wages are K1.50 per day or less) with a maximum contribution of K6 per month. The contribution of employers is computed as 5 per cent of total wages paid, with a maximum contribution of K6 per month per employee.

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