FOR AGENDA

EBS/82/212

CONFIDENTIAL

November 23, 1982

To: Members of the Executive Board

From: The Secretary

Subject: Zambia - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Zambia for a purchase equivalent to SDR 34 million under the compensatory financing facility. A draft decision appers on page 12.

It is proposed to bring this subject to the agenda for discussion on Monday, December 13, 1982.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZAMBIA

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research and African Departments

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

Approved by Charles F. Schwartz and J.B. Zulu

November 22, 1982

The Managing Director has been informed that the Zambian authorities will shortly request a purchase of SDR 34 million (16.1 per cent of quota) under the compensatory financing decision. The request is being made with respect to a shortfall in merchandise exports based on actual data for the 12-month period ended June 1982. If approved, the proposed purchase would raise the member's purchases outstanding under the facility from 33.9 per cent to 50 per cent of quota, and Fund holdings of the member's currency from 368.7 per cent to 384.8 per cent of quota. A waiver of the limitation of Article V, Section 3(b)(iii) of the Fund's Artilces of Agreement will be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Zambia, is presented in four sections and an annex. The sections deal with: (1) the balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and export prospects; and (4) staff appraisal and proposed decision. The relations of Zambia with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

Zambia's balance of payments has been under great pressure in recent years, with the exception of 1979 when the price of copper rose sharply resulting in a significant improvement in the trade surplus and an overall balance of payments surplus. In 1980 and 1981, however, the merchandise trade account deteriorated under the influence of a sharp expansion in imports, partly related to larger requirements for maize imports, and partly to higher prices, particularly for petroleum, as well as a decline in export receipts in response to lower prices for Zambia's principal exports of copper and cobalt. The deterioration in the trade account was compounded by a rapid expansion in service payments, particularly payments for interest on external debt, overseas travel and education. As a result, the current account swung from a surplus of SDR 103 million in 1979 (4 per

Table 1. Zambia: Balance of Payments, 1978-82

(In millions of SDRs)

	1978	1979	1980	1981 Prel.	1982 Proj.
A. Current account	-193	103	-399	-596	-479
Trade balance	45	330	-39	-151	-46
Exports, f.o.b.	(662)	(1,065)	(978)	(898)	(874)
Imports, c.i.f.	(-617)	(-735)	(-1,017)	(-1,049)	(-920)
Services and unrequited transfers, net	-238	-227	-360	-445	-433
Investment income	(-109)	(-97)	(-163)	(-214)	(-222)
Other services	(-64)	(-71)	(-129)	(-155)	(-143)
Private transfers	(-85)	(-86)	(-94)	(-99)	(-104)
Government transfers	(20)	(27)	(26)	(23)	(36)
B. Capital account, net	-14	55	171	254	247
Government	(53)	(134)	(100)	(45)	(116)
Mining companies	(-15)	(-23)	(26)	(100)	(96)
Other (including errors and omissions)	(-52)	(-56)	45	109	(35)
C. SDR allocation	--	15	15	15	--
D=A+B+C. Overall balance	-207	-173	-213	-327	-232
E. Financing	207	173	213	327	232
Use of Fund resources, net	149	73	6	312	-86
Purchases	(149)	(99)	(50)	(359)	(--)
Repurchases	(--)	(-26)	(-44)	(-47)	(-86)
Payments arrears (decrease -)	102	-145	110	39	113 1/
Other foreign assets, net (increase -)	-44	-101	97	24	205
Memorandum items:					
Gross international reserves 2/ (at end-period)	39.2	60.7	61.3	40.7	45.0 1/
In weeks of imports, c.i.f.	3.3	4.3	3.1	2.0	2.5 1/
External payments arrears	496.6	351.6	461.6	500.6	614.0 1/

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

1/ End-July 1982.
2/ Excluding gold, which is 0.217 million fine troy ounces.

cent of GDP) to a deficit of SDR 596 million (20 per cent of GDP) in 1981. Net capital inflows increased over the same period to reach SDR 254 million, but covered less than half of the current account deficits, and external payments arrears rose steeply over the period, reaching SDR 500.6 million at the end of 1981. Zambia's gross international reserves at that time were SDR 39.4 million, equivalent to only two weeks' imports, compared with over four weeks' import coverage at the end of 1979.

In 1982, Zambia's external position has remained weak, but some decline in the current account and overall deficits should occur as a result of lower imports and service payments due to the extreme scarcity of foreign exchange. Export receipts are projected to decline to SDR 874 million because of lower copper prices, while imports are expected to decline by 12 per cent in nominal terms to SDR 920 million; the deficit on the trade account will be SDR 46 million, compared with SDR 151 million in 1981. Net service payments and transfers are projected to decline somewhat, and the current account deficit is thus projected to decline from SDR 596 million in 1981 to SDR 479 million. Net capital payments, at SDR 247 million, should be similar to 1981, and on this basis an overall deficit of SDR 232 million is projected for 1982. At end-July 1982, external payments arrears amounted to SDR 614 million, and Zambia's gross international reserves were equivalent to SDR 45 million, representing two and one half weeks' imports.

b. Cooperation with the Fund

On May 8, 1981 the Executive Board approved an extended arrangement in the amount of SDR 800 million, the equivalent of 378.25 per cent of Zambia's quota. This arrangement was in support of a three-year program aimed at restoring financial balance and increasing the rate of growth of the economy through diversification away from the dominant mining sector towards other economic activity, in particular agriculture. Performance during the first year of the program was mixed, with substantial progress towards achievement of the target set for fiscal adjustment and considerable improvement in the agricultural sector, but disappointing performance otherwise, largely as a result of a sharp deterioration in the terms of trade and a substantially weaker balance of payments position. Although Zambia was able to purchase the SDR 300 million scheduled for the first year of the program, it was unable to meet performance criteria at end-December 1981. Discussions on a new stand-by arrangement to replace the extended arrangement began in December 1981 and were carried forward on the basis of further contacts between the staff and the authorities in Toronto, and subsequently, in Washington. The discussions are to be continued by a staff mission to Zambia in November 1982, which also will conduct the 1982 Article IV consultation discussions. Following a request from the authorities, the extended arrangement was canceled effective July 3, 1982.

Zambia's exchange system is very restrictive. Since 1965, when Zambia joined the Fund, adjustments have been made in the degree of restrictiveness of the exchange system, mostly in the direction of much greater reliance on restrictions, particularly during the period from 1975 to early 1978. The existing restrictive practices are subject to approval of the Fund in accordance with the provisions of Article VIII, Section 2. 1/ Such approval was last given on November 18, 1981, and extends until December 31, 1982 or the next Article IV consultation, whichever comes first. Apart from the further increase in external payments arrears noted above, only one measure subject to approval under Article VIII appears to have been introduced since the last consultation; a 10 per cent levy on the kwacha equivalent of foreign exchange sold in respect of travel and overseas education, with certain specified exemptions, was announced in the 1982 budget address. The levy is collected by authorized foreign exchange dealers, including commercial banks, at the time foreign exchange is purchased, and gives rise to a multiple currency practice that has not been approved by the Fund. This matter and the accumulated external payments arrears will be raised with the authorities during the forthcoming discussions later in November on the Article IV consultations and a possible stand-by arrangement. The outcome of these discussions and recommendations concerning Executive Board action on Zambia's restrictive system will be reflected in the staff's report.

2. Estimation of the export shortfall

In the shortfall year ended June 1982, Zambia's export earnings based on actual data declined from the previous year's level of SDR 917 million by just over 2 per cent to SDR 894.2 million, or 7 per cent from the average level of SDR 959.4 million for the two pre-shortfall years. The decline is considered to be temporary, since export earnings in the two post-shortfall years are projected to rise by 20 per cent to an average level of SDR 1,071.1 million. On the basis of these export movements, the shortfall for the year ended June 1982 is calculated at SDR 94.4 million, which is nearly three times as large as the amount of the proposed purchase of SDR 34 million (Table 2).

The last compensatory financing purchase made by Zambia was in October 1981 (EBS/81/194, 9/25/81) for an amount of SDR 59.3 million in respect of a shortfall for the year ended June 1981, estimated at the time to be SDR 256.7 million. On the basis of actual exports for the year ended June 1982 and current projections for the year ending June 1983, the shortfall is now calculated to be SDR 118.4 million. 2/

1/ A description of these restrictions is contained in SM/81/196, Zambia - Staff Report for the 1981 Article IV consultation, and SM/81/208, Zambia - Recent Economic Developments.

2/ The export data for all three years ended June 1979, 1980 and 1981 have been substantially revised by the Zambian authorities since the 1981 CF request, and the shortfall of SDR 118.4 million for the year ended June 1981 is calculated on the basis of the original figures for the three actual years (1979-81). If the revised figures for the three actual years are used, the shortfall is calculated to be SDR 26.7 million.

Table 2. Zambia: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending June				
				Judgmental Projections 1/	
	1980	1981	1982	1983	1984
Exports	1,003.8	917.0	894.2	987.2	1,162.1
Shortfall			94.4		
Proposed purchase			34.0		

1/ Based on the judgmental projections of earnings from the main commodity exports, as given in Table 3. The shortfall would exceed the amount of the proposed purchase so long as the value of projected exports for the two post-shortfall years does not decline below an average of SDR 914.9 million, which is 2 per cent above the level of exports in the shortfall year.

3. Causes of the shortfall and export prospects

To the overall shortfall of SDR 94.4 million, copper contributed SDR 76.3 million and cobalt SDR 23.4 million (Table 3). Lead contributed less than SDR 1 million, while zinc and other exports recorded excesses of SDR 2.1 million and SDR 11.1 million, respectively. The large shortfall for copper is attributable primarily to lower prices associated with weak world industrial demand during the recession (Table 4). The shortfall for cobalt is entirely attributable to price weakness for the same reason; Zambia was able almost to double the volume of its cobalt exports at prices much lower than in 1980/81. Projected price increases are mainly responsible for the expected recovery in export values of copper in 1982/83 and 1983/84, whereas increases in both volumes and prices are responsible for the projected increases in cobalt values.

a. Copper

Zambia's production of copper in 1981/82, at 586 thousand tons, was actually about 1 per cent above the 1980/81 level, but again transport difficulties, mostly on the Tazara route to Dar-es-Salaam kept exports down to 582 thousand tons, 2 per cent below the pre-shortfall average. The continuing world recession, particularly in the construction and transportation industries which are major users of copper, caused demand to remain weak. A deficit of 38 thousand tons between western world refined copper production and consumption for 1980/81 is estimated to

Table 3. Zambia: Export Earnings and Shortfalls by Major Commodities

	Years Ending June								Shortfall	
	1977	1978	1979	1980	1981	1982	1983	1984	Geometric	Arithmetic
	(In millions of SDRs)									
Total exports	870.3	661.8	921.1	1,003.8	917.0	894.2	987.2	1,162.1	94.4	98.7
Copper	801.7	600.5	798.4	830.7	822.8	790.4	875.4	1,033.9	76.3	80.2
Cobalt	17.5	20.5	78.4	132.6	46.6	41.3	60.0	74.1	23.4	29.6
Zinc	22.8	19.5	21.0	24.5	18.7	26.8	25.4	29.3	-2.1	-1.9
Lead	4.8	5.6	4.9	5.6	5.2	5.1	5.6	6.8	0.5	0.6
Others	23.5	15.7	18.4	10.4	23.7	30.6	20.8	18.0	-11.1	-9.9
	(Percentage changes)									
Total exports		-24	39	9	-9	-2	10	18		
Copper		-25	33	4	-1	-4	11	18		
Cobalt		17	282	69	-65	-11	45	24		
Zinc		-14	8	17	-24	43	-5	15		
Lead		17	-13	14	-7	-2	10	21		
Others		-33	17	-43	128	29	-32	-13		

Sources: Zambian authorities, and Fund staff estimates.

Note: The export data for copper, cobalt and "other exports" in 1978/79, 1979/80 and 1980/81 differ significantly from those used in EBS/81/194, 9/25/81, as a result of revisions made subsequently by the Zambian authorities. The figures used in EBS/81/194 are as follows:

	Years Ended June		
	1979	1980	1981
	(In millions of SDRs)		
Total exports	1,189.5	956.8	850.7
Copper	1,080.0	797.7	765.3
Cobalt	78.5	125.5	51.9
"Other exports"	5.0	3.1	8.8

Table 4. Zambia: Value, Volume and Unit Value by Major Commodities

(In terms of SDRs)

	Value Share in Total Exports in 1982 (In Per Cent)	Years Ending June								Shortfall in Per Cent of Level in Shortfall Year
		1977	1978	1979	1980	1981	1982	1983	1984	
Value	96.6	98	75	105	115	103	100	112	133	12.0
Copper	88.4	101	76	101	105	104	100	111	131	9.7
Cobalt	4.6	42	50	190	321	113	100	145	179	56.6
Zinc	3.0	85	73	78	91	70	100	95	109	-8.0(excess)
Lead	0.6	94	110	96	110	102	100	110	133	10.4
Volume		119	106	109	103	98	100	102	105	1.6
Copper		122	107	111	103	101	100	101	103	1.6
Cobalt		69	62	76	107	52	100	117	138	-2.1(excess)
Zinc		108	119	102	108	84	100	103	106	-0.2(excess)
Lead		112	124	101	61	92	100	112	124	-4.9(excess)
Unit value		82	71	96	112	105	100	110	126	10.3
Copper		83	71	91	102	103	100	109	127	7.8
Cobalt		61	80	250	300	218	100	124	130	60.2
Zinc		79	61	77	85	83	100	92	104	-7.6(excess)
Lead		84	89	95	181	111	100	98	108	16.3

have turned into a surplus of some 12 thousand tons in 1981/82, in spite of substantial closures of mine and plant capacity during the year. These closures have occurred almost entirely in developed countries, and in the United States alone it is estimated that the copper industry is currently operating at about 60 per cent of capacity. The weakness of world demand has been reflected in the copper price. The London Metal Exchange (LME) spot price, on which most sales outside North America are based, at 72.7 cents per pound for 1981/82, was 16 per cent lower than in 1980/81, although in SDR terms the fall was only 8 per cent. The Zambian export unit value of 70 cents per pound was 12 per cent lower than for the previous year in dollar terms, but only 3 per cent lower in SDR terms.

For the post-shortfall period, conservative projections have been made for the volume of Zambia's copper exports, representing annual increases of about 1 per cent. It is possible that these projections could be exceeded if an increased availability of foreign exchange permits needed rehabilitation of capital plant and more efficient maintainance of mining and transport equipment.

The price projections depend on the timing of world economic recovery, although particular occurrences, such as interruptions in the flow of supplies from major copper producing countries could cause temporary surges. It seems reasonable to accept that copper prices reached their lowest point in June 1982, when the LME spot price averaged 59 cents per pound. For the following four months, it has averaged nearly 66 cents per pound. World copper stocks have risen only slowly during 1982 and are currently at very little more than normal levels. In recent months, interest rates have fallen sharply and there is an incentive for consumers to raise their stocks above the present levels. In 1983, labor contracts in the U.S. copper mining industry are due for renegotiation at mid-year. Traditionally, consumers tend to build up their stocks in the first half of the year when these negotiations are held, as a precaution against a strike. If world economic recovery gets under way next year, copper prices are likely to rise rapidly from the extremely low levels of 1982, which in the case of a large number of producers have been below production costs. It is true that some of the mines and plants which were closed over the past 18 months could be restored to production, but that would take time and depend on the level of the copper price. The reopening of some units may not prove economic. No substantial new capacity is planned to come into production before 1985. Taking factors such as the above into account, the unit value of Zambian copper exports is forecast to rise by 9 per cent in 1982/83 and by 16 per cent in 1983/84, in SDR terms. In U.S. dollar terms the increases forecast are 4 per cent and 16 per cent, respectively.

On the volume and price assumption detailed above, Zambia's export earnings from copper are projected to rise by 11 per cent in 1982/83 and by 18 per cent in 1983/84. The shortfall for 1981/82 on the basis of these movements is calculated to be SDR 76.3 million.

b. Cobalt

After Zaire with an annual mine output of about 15,000 tons, Zambia with a current output of close to 3,000 tons, is the second most important supplier of cobalt, whose chief use is for the manufacture of super-alloys for turbine engines. The metal is produced in association with copper, and present output is substantially below capacity because of weak world demand and the high level of Zambian stocks.

Zambia's earnings from cobalt reached a peak of nearly SDR 133 million in 1979/80, when world demand was strong and Zambia was able to realize an average export unit value of SDR 19.4 per pound (US$25.2) for the 3,100 tons exported. In 1980/81, however, world demand weakened as the recession deepened and consumers reduced their cobalt stocks to a minimum, and turned to cheaper substitutes such as nickel. Zambia was able to export only 1,500 tons at an average price of SDR 17.7 per lb. (US$14.1) and its stocks at the end of June 1981 had risen to 2,700 tons, more than three times the level held a year earlier.

In the shortfall year ended June 1982, Zambia has been an aggressive seller of good quality cobalt at whatever market price it has been able to obtain. Its export sales of 2,700 tons were 80 per cent higher than in the previous year and the realized price of SDR 6.5 per pound (US$7.3) was 54 per cent lower. Production, at 2,700 tons, was 10 per cent smaller than in 1980/81 and stocks were reduced by 38 tons. Export earnings from cobalt, of SDR 41.3 million in the shortfall year, were 11 per cent lower than for the previous year, but 47 per cent below the pre-shortfall average.

A recovery in both export volume and export unit value is forecast for the post-shortfall period ending June 1984. In the same way as for copper, this recovery is based on an anticipated improvement in the world economy beginning in 1983 and strengthening in 1984. Production capacity, as well as the still high level of stocks, can permit export volume to be expanded rapidly, and although export unit prices are most unlikely to regain pre-shortfall year levels for a long time, significant increases from the level of the shortfall year are expected in 1982/83 and 1983/84. Zambia is already reported to have obtained prices under forward contracts of approximately SDR 8.7 per pound (US$9.5). On the assumptions noted above, export volume is forecast to increase by approximately 17 per cent per annum in the post-shortfall period and unit prices by 24 per cent in 1982/83 and by a further 5 per cent in 1983/84. These volume and price projections imply a recovery growth in the value of cobalt exports of 45 per cent in 1982/83 and of 24 per cent in 1983/84. The shortfall estimated for cobalt in 1981/82 is SDR 23.4 million.

c. Lead and zinc

These minerals, which are mined together currently account for less than 4 per cent of Zambia's total exports.

Zinc exports increased in value by nearly 43 per cent in 1981/82 as a result of increases of about 20 per cent in both volume and unit price. The production facilities had been rehabilitated to permit the additional output, and zinc concentrates were able to command better prices than in the previous year. Very little change is however forecast for the post-shortfall period, and an export excess of SDR 2.1 million is calculated for zinc in 1981/82.

The small shortfall of SDR 0.5 million calculated for lead is entirely attributable to lower prices. The unit value of these exports fell by 10 per cent in the shortfall year and is only expected to recover moderately by 1983/84. Volume, on the other hand, increased by 9 per cent and is expected to continue to increase at a slightly faster rate in the post-shortfall period.

d. Other exports

An export excess of SDR 11.1 million is estimated for these exports which accounted for 4 per cent of total exports in the shortfall year. Ordinarily, these exports consist of agricultural items, of which tobacco is the most important, and miscellaneous manufactures, but in the shortfall year, almost half (SDR 14.9 million) consisted of metal by-products which had previously been stockpiled. The by-products include small amounts of gold, silver and base metals, and their export in 1981/82 virtually eliminated the stockpile. They are not expected to be significant in the post-shortfall period, but moderate increases are projected for tobacco and the other traditional nonmetallic exports.

4. Staff appraisal and proposed decision

The Zambian authorities are expected to request a purchase equivalent to SDR 34 million under the compensatory financing facility in respect of a shortfall calculated for the 12 months ended June 1982. The proposed purchase, which is equivalent to 16.1 per cent of the member's quota, would raise Zambia's outstanding purchases under the facility to 50 per cent of quota.

Zambia's balance of payments continued to worsen in 1981. In spite of an increase of SDR 83 million in net capital inflows, the overall deficit increased to SDR 327 million, because of a deterioration of SDR 197 million in the current account, largely owing to reduced receipts from exports and increased service payments. Gross international reserves at the end of 1981 had fallen to the equivalent of only two weeks of imports and there was a further large increase in external payments arrears. Some improvement in the balance of payments due exclusively to reduced imports caused by a critical shortage of foreign exchange is projected for 1982, with the overall deficit expected to fall by SDR 95 million to SDR 232 million. Gross international reserves at the end of July 1982 were little changed, and equivalent to two and a half weeks of the projected level of imports, but external payments arrears had risen further by SDR 114 million. The staff considers that Zambia's balance of payments need justifies the proposed purchase.

In May 1981, the Executive Board approved an extended arrangement in support of a three-year program. Performance during the first program year was mixed; substantial progress was achieved in the fiscal area and in the agricultural sector, but performance was disappointing in all other areas largely as a result of a sharp deterioration in the terms of trade. Zambia was unable to meet performance criteria at end-December 1981, and the arrangement was subsequently cancelled (July 3, 1982) at the request of the authorities. In view of the substantially changed external circumstances affecting the Zambian economy compared to those assumed in the EFF program, discussions on a new stand-by arrangement began in December 1981 and are expected to continue in November, on the occasion of the 1982 Article IV consultation discussions.

Since it joined the Fund in 1965, Zambia has maintained exchange restrictions subject to Fund approval in accordance with Article VIII, Section 2. Such approval was last given on November 18, 1981 and extends until the 1982 Article IV consultation discussions, which are scheduled to take place during November 1982. Since the last consultation, there has been an intensification of restrictions in two areas: an increase in payments arrears and a 10 per cent levy on the kwacha equivalent of foreign exchange sold in respect of certain current transactions (travel and overseas education). The restrictions maintained by the country are a reflection of the acute balance of payments difficulties being faced by Zambia, which are partly related to the sharp decline in export earnings during the protracted recession in industrial countries. The November mission, which is also expected to discuss a possible stand-by arrangement with Zambia, will raise with the authorities the issue of unapproved restrictions; specifically, the mission will stress that cooperation with the Fund involves the adoption of measures directed toward eventual elimination of exchange restrictions. As is usual in all CFF cases, the request by Zambia is expected to include a statement that it will cooperate with the Fund in efforts to find appropriate solutions to its balance of payments difficulties.

Export earnings for the year ended June 1982 (SDR 894.2 million) were 7 per cent below the average level of earnings for the two pre-shortfall years (SDR 959.4 million), and are estimated to be 16 per cent below the average for the two post-shortfall years (SDR 1,071.1 million). The estimated shortfall of SDR 94.4 million is nearly three times the amount of the purchase proposed.

Out of the overall net shortfall, copper contributed by far the largest share (SDR 76 million); cobalt contributed SDR 23 million and lead less than SDR 1 million. Zinc and "other exports" incurred export excesses of SDR 2 million and SDR 11 million, respectively. The large shortfalls for copper and cobalt are very largely attributable to price factors associated with extremely weak world demand during the recession. The volume of Zambia's copper exports declined by only one per cent while the volume of its cobalt exports almost doubled. With an improvement in world economic conditions expected in the post-shortfall period, the prices of copper and cobalt are projected to increase and the volume of Zambia's exports of these metals are also expected to do so, but more moderately. The staff believes that external economic factors were primarily responsible for the export shortfall, and that it is therefore attributable largely to factors beyond the member's control. The staff also considers that it is temporary in character, since exports are projected to recover during the post-shortfall period.

The staff considers that the expected request will meet all the requirements set forth in the compensatory financing decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request by the Government of Zambia for a purchase equivalent to SDR 34 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Zambia: Relations with the Fund
(As of October 31, 1982)

Date of membership:	September 23, 1965
Quota:	SDR 211.5 million
Status:	Article XIV
Exchange system:	The Zambian kwacha is pegged to the SDR, with the present rate of K 1 = SDR 0.976311 having been maintained since March 17, 1978. The U.S. dollar is the intervention currency, and the Bank of Zambia's rates for the U.S. dollar are based on the U.S. dollar/SDR rate calculated by the Fund for the preceding day. Zambia's exchange and trade system remains very restrictive. A multiple currency practice arising from a 10 per cent levy on foreign exchange purchases was introduced in early 1982; this has not been approved by the Executive Board. Zambia maintains restrictions arising from external payments arrears.
Fund holdings of Zambian kwacha:	SDR 779.77 million, or 368.7 per cent of quota, of which SDR 187.5 million (88.64 per cent) were under credit tranches, SDR 77.6 million (36.7 per cent) under the CFF, SDR 3.2 million (1.5 per cent) under the oil facility, SDR 77.0 million (36.4 per cent) under the EFF, and SDR 223.0 million (105.4 per cent) under the Enlarged Access Policy.
SDR position:	There are no holdings; (net cumulative allocation is SDR 68.3 million).
Gold distribution (four distributions):	65,043 fine ounces
Direct distribution of profits from gold sales: (July 1, 1976-July 31, 1980):	US$12.07 million
Trust Fund loan disbursement (second period):	SDR 42.77 million

Technical assistance:	The Central Banking Department is currently providing a research advisor and an advisor to the Governor of the Bank of Zambia.
Last Article IV consultation:	Discussions held in Lusaka in August 1981; Executive Board discussion on November 18, 1981.
Other staff contacts:	Use of Fund resources missions visited Lusaka in December, 1981 and April, 1982. Zambian delegations held discussions at the Fund in January and September, 1982.