

0404

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 93/73

10:00 a.m., May 19, 1993

M. Camdessus, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors

T. C. Dawson

H. Fukui

D. Kaeser

A. Kafka

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R. Marino

L. J. Mwananshiku

D. Peretz

C. V. Santos

Alternate Executive Directors

A. A. Al-Tuwaijri

B. Szombati, Temporary

A. Törnqvist, Temporary

N. Tabata

S. Shimizu, Temporary

A. Raza, Temporary

K.-T. Hettrakul

Hon C.-W., Temporary

A. V. Mozhin

A. Vori, Temporary

H. Dognin, Temporary

P. A. Merino, Temporary

M. A. Hammoudi, Temporary

B. S. Dlamini

O. Havrylyshyn

B. Esdar

Y. Y. Mohammed

J. Jamnik, Temporary

G. J. Matthews, Temporary

Yang X., Temporary

S. del C. Olgiati, Temporary

L. Van Houtven, Secretary and Counsellor
S. W. Tenney, Assistant

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Also Present

IBRD: L. McKay, Africa Regional Office. African Department: M. Touré, Counsellor and Director; E. L. Bornemann, Deputy Director; A. I. Abdi, O. P. Brekk, A. M. Farah, H. Hino, L. J. Lipschitz, D. Rehm, J. T. Reitmaier, R. C. Williams. Central Asia Department: H. Neiss, Director; Y. Horiguchi. External Relations Department: M. R. Kelly, Deputy Director. Fiscal Affairs Department: A. A. Tait, Deputy Director; R. S. Krelove. Legal Department: J. M. Ogoola. Middle Eastern Department: P. Chabrier, Director. Policy Development and Review Department: J. T. Boorman, Director; T. Leddy, Deputy Director; A. Basu, R. M. Brooks, T. Kosugi. Research Department: F. Larsen. Secretary's Department: A. Jbili, A. Leipold, A. Mountford. Southeast Asia and Pacific Department: K. Saito, Director. Treasurer's Department: D. Williams, Treasurer; H. Flinch, D. Gupta. Western Hemisphere Department: S. T. Beza, Counsellor and Director; C. Cha. Office of the Managing Director: P. R. Narvekar, Special Advisor; G. R. Saunders, Personal Assistant; J. Prust. Advisors to Executive Directors: S. K. Fayyad, G. Y. Glazkov. Assistants to Executive Directors: G. M. Blome, S. B. Creane, C. D. Cuong, N. P. Hahnemann, M. E. Hansen, W. Ch. Keller, R. Kibria, J. Mafararikwa, F. Moss, C. F. Pillath, P. Rubianes, R. Thorne, Wang X.

1. REPORT BY MANAGING DIRECTOR

The Managing Director stated that, during his recent visit to Japan, he had met with the Prime Minister, the Finance Minister, and other senior government officials. The Japanese authorities expected some recovery in the domestic economic situation, as confidence was clearly improving. Recent information suggested that the recession was bottoming out and the recovery should take hold in the second half of 1993. The Japanese authorities agreed with Fund management and staff that timely implementation of the fiscal package currently under consideration by the Diet would be crucial to bringing about the expected recovery.

The Japanese authorities supported the recent moves to strengthen the Fund's surveillance process, the Managing Director said. They were contributing to the global strategy to stimulate growth by supporting domestic demand in Japan, and they were ready to cooperate in reaching global solutions to the issues of trade and development assistance. In that connection, the Japanese authorities considered that a successful conclusion of the Uruguay Round of multilateral trade negotiations was essential for the future of the multilateral trade system, and they would prepare proposals for action to be announced at the forthcoming Tokyo Summit. The Japanese authorities had expressed strong support for increased financial aid to the Russian Federation and other economies in transition. They warmly welcomed the speediness and nature of the Fund's response to the needs of those countries through the creation of the systemic transformation facility. At the same time, the Japanese authorities had emphasized that aid to other developing countries should not be neglected. They planned to propose a comprehensive aid initiative for consideration at the Tokyo Summit.

The Prime Minister of Japan had stressed the historic importance of a successful transformation of the Russian economy and the difficulty of achieving it, the Managing Director continued. The Japanese Prime Minister considered that such a transformation would be possible only if the willingness of the Group of Seven major industrial countries to provide external financing was matched by efforts by Russia to end hyperinflation. It would be important to convey that message clearly to the President of Russia at the forthcoming Tokyo Summit. The Prime Minister of Japan had expressed strong confidence that the Fund would continue to play a crucial role in the transformation of the Russian economy, and he fully supported the firm stance the Fund had taken thus far.

The impressive efforts that had been undertaken by some countries in Indochina to transform their economies were recognized by the Japanese authorities, who said that they would continue to work toward an early normalization of Fund relations with Cambodia and Viet Nam, the Managing Director said.

The Japanese authorities considered that the experience of countries with enhanced structural adjustment arrangements was encouraging, the

Managing Director stated. They regarded experience with the enhanced structural adjustment facility (ESAF) as a major advance in Fund cooperation with developing countries, and they had expressed their firm support for a successor facility that would be similar to the current ESAF. The Japanese authorities were prepared to actively participate in the financing of such a facility, provided others also joined in.

Finally, the Japanese authorities had indicated that they would further examine the proposal for, and the possible features of, an SDR allocation, the Managing Director concluded.

2. ZIMBABWE - 1993 ARTICLE IV CONSULTATION; ENHANCED STRUCTURAL
ADJUSTMENT FACILITY - REVIEW UNDER FIRST ANNUAL ARRANGEMENT;
AND REVIEW UNDER EXTENDED ARRANGEMENT

The Executive Directors considered the staff report for the 1993 Article IV consultation with Zimbabwe and the first review of arrangements under the enhanced structural adjustment facility (ESAF) and the extended Fund facility (EFF) (EBS/93/67, 4/28/93). They also had before them a background paper on recent economic developments in Zimbabwe (SM/93/98, 5/10/93).

The staff representative from the African Department made the following statement:

Data available on economic and financial developments in the third quarter of the program year--January-March 1993--indicate that the process of economic stabilization has continued, although performance against the program's financial targets for end-March 1993 was mixed. To improve the prospects of achieving the financial targets for end-June 1993, additional measures were taken in April 1993 to contain recurrent government expenditure. In addition, as foreseen under the program, a number of economic measures designed to strengthen the economic supply response through deregulation of the exchange and trade system and investments were announced.

A considerable deceleration of inflation continued in the first quarter of 1993. The annualized rate of inflation for January-March 1993, measured by the consumer price index, amounted to 20 percent, compared with a program projection of 32 percent. After the decontrol in March 1993, the retail price of bread did not rise substantially, as anticipated in the program projection. This accounts largely for the lower than projected rate of inflation in the quarter. Preliminary figures for the government budget through end-March 1993 indicate that the overall deficit amounted to Z\$3.2 billion, about 6 percent higher than expected, reflecting higher than programmed expenditures. The Government's overall domestic borrowing exceeded the program ceiling, re-

flecting in part the larger deficit and, more important, a delay in the disbursement of an African Development Bank (AfDB) loan from end-March 1993 to early April 1993 and a shortfall in the disbursement of a World Bank structural adjustment loan.

To compensate for the larger than expected government expenditure during the first three quarters of the program year and to contain the 1992-93 overall budget deficit, the authorities made additional expenditure cuts in mid-April 1993. Following improved rainfall and the start of the harvest, the domestically funded food relief program has been eliminated, with expenditure savings of about Z\$170 million through the end of the fiscal year. Moreover, improved monitoring and more stringent expenditure control mechanisms have been instituted, and this is expected to yield additional savings in recurrent expenditure. Through these expenditure containment measures, and with the normal seasonality of government revenue, the authorities are confident that the overall budget deficit, as well as the ceiling on government domestic borrowing will be observed at end-June 1993.

The net domestic assets of the Reserve Bank of Zimbabwe (RBZ) at end-March 1993, Z\$3,622 million, were marginally higher than the program revised target of Z\$3,612 million, but they have been reduced to Z\$3,572 as of May 14, 1993, a level lower than both the March ceiling and the revised end-June 1993 target. Reserve money increased by 8 percent on a seasonally adjusted basis between June 1992 and March 1993, compared with an original program projection of about 18 percent. Interest rates remained positive in real terms, with the average rate on three-month certificates of deposit at 40 percent as of end-April 1993. Reflecting the lag in AfDB disbursements, the net international reserve position of the RBZ at end-March was US\$41 million lower than the floor of minus US\$138 million for that date. The position improved, reflecting in part the disbursement of the AfDB loan; the net international reserves on May 14, 1993 was minus US\$133 million, slightly above the floor and close to the revised end-June 1993 target.

In April 1993, the Government announced an expansion of the Export Retention Scheme (ERS), with an increase in the retention rate from 35 percent to 50 percent, effective April 1, 1993. Furthermore, the Government authorized, effective May 1, 1993, dividends on investments after 1979 to be externalized through export retention. A decision in principle has also been taken to permit residents to hold foreign currency-denominated accounts with local banks. Operational modalities of the ERS and foreign currency accounts will be developed in consultation with the Fund staff, and a more liberal exchange system will be made effective by July 1, 1993.

To promote investment in Zimbabwe and to provide a clear signal to foreign investors, the Government announced at the end of April 1993 a considerable relaxation of investment regulations. Investment projects will no longer require approval by the Zimbabwe Investment Centre, except for compliance with environmental, health, and safety considerations, provided the foreign exchange requirements of the investment are covered outside the RBZ, i.e., by own funds or through the ERS. At the same time, the Government relaxed the constraints governing the transfer abroad of dividends and profits, as well as the repatriation of capital.

Mr. Mwananshiku made the following statement:

The recent severe drought has posed a major challenge to Zimbabwe's adjustment effort. Output in the agricultural sector, the largest employer of labor in the country, declined by 28 percent, while that of the industrial sector dropped by 8 percent. As a result, real GDP fell by 8.3 percent in 1992. This has contributed to inflationary pressures and a decline in revenue by some 8 percentage points relative to GDP. Meanwhile, government finances came under severe strain, owing to the need to provide drought relief to the majority of the population in the face of a considerable shortfall in disbursements of external financing. Consequently, government borrowing from the central bank exceeded the program target for July to December 1992, despite the achievement of the deficit target. The authorities have, therefore, requested a waiver for nonobservance of related performance criteria for end-December 1992. I urge the Board to give a favorable response to this request.

Despite the difficulties created by the drought, Directors should note that the program remains largely on track. The retrenchment in the civil service has continued as planned; the domestic and external trade regimes are being liberalized, even well ahead of schedule; expenditures are being restrained, including outlays on subsidies; and steps are being taken to boost revenue. As a further indication of their commitment to market-oriented reform, in April 1993, the authorities announced further deregulation of investment and of the exchange system as well as provision of export incentives.

The authorities attach great importance to the achievement of the budget deficit target for 1992-93. Accordingly, they have taken steps to strengthen revenue collection for the rest of the year. They have also made the necessary changes to procurement procedures and accounting methods that would facilitate timely disbursements of external financing. This should be able to unlock the external financing withheld during the first half of the year. Public finances are also expected to benefit from the

reduction in drought-related expenditures and from the removal of the subsidy on maize meal in June 1993.

The 1993/94 budget will incorporate a further reduction in military expenditures, the wage bill, and subsidies. On the revenue front, the strategy is to focus on reversing the erosion of the tax base, while maintaining the goal of reducing the burden of taxation.

With respect to the public enterprises, price increases and retrenchments have been effected, and almost all of these enterprises are operating with management contracts. In collaboration with the World Bank and consultants based at the Ministry of Finance, the authorities expect to reach an agreement soon on a timetable for the reform of public enterprises, focusing, inter alia, on concrete privatization proposals and the dismantling of monopolies.

Monetary policy will remain restrictive to ensure that the rate of inflation is brought down and positive real interest rates are maintained. The most recent trend with respect to the rate of inflation is encouraging. Credit will be redirected to the private sector, and monetary management will rely more on market instruments.

The authorities have strengthened their program implementation capacity. The Monitoring and Implementation Unit, which coordinates technical work on the program, is currently supported by two groups of consultants that give advice on public enterprises reform, fiscal and monetary policy, trade liberalization, domestic deregulation, and the social dimensions of adjustment. The RBZ has also sought technical assistance on monetary and exchange management. The data base is also being improved through the comprehensive and detailed 1992 population census, a revised consumer price index, and the updating of national accounts.

In conclusion, Zimbabwe has made significant progress since embarking on the path of economic restructuring and adjustment, especially against the background of a severe drought. The efforts of the authorities deserve the continued and timely support of the Fund and the international community.

Mr. Peretz made the following statement:

The period since we approved Zimbabwe's extended arrangement in September 1992 has been difficult. The drought has at last ended, but its effects will continue to be felt for some time. Meanwhile, external financing delays and shortfalls have meant that original financial targets have had to be considerably tightened. In the circumstances, the authorities' efforts to keep

their own policy on track are commendable. Since the misses in performance criteria for end-December were largely a result of these external shortfalls, and further fiscal measures have been taken in response to the slippages, I am prepared to agree to the requested waivers. Nevertheless, I am distressed, to some degree, by the staff's indication that there have been further slippages since December 1992 and, for the same reasons, I wonder whether the staff could comment on the reasons for the further delays in disbursements from the AfDB and the World Bank.

Fiscal consolidation remains the key element of the program. The tightening of fiscal policy that was undertaken at the end of 1992 in response to revenue weaknesses kept the fiscal balance on track, even if the amount of domestic financing of the Government sharply exceeded the target. I am pleased to note that less than half of the December 1992 overshooting has been accommodated in the June 1993 domestic financing target. It will be important in the 1993/94 budget for the authorities to stick to their original objective of a deficit of 4.7 percent of GDP.

I welcome the spending and tax measures taken in November and April to hold this year's deficit down, even though some of the lower spending was partly the result of lower than expected drought-related costs. I welcome, in particular, the planned reductions in military spending. At the same time, the projected overshooting in what is already a very large civil service wage bill is disturbing.

The reduction in operating losses of the major public enterprises is welcome. But, much more fundamental reform is needed if this is to do more than reflect a passing on of the excessive running costs of these enterprises from the Government to customers. The planned restructuring of enterprises should begin as soon as possible together with further progress on privatization. I wonder whether the staff could comment on why public share offers to date have not proved very successful and, more generally, on possible future progress on privatization.

Public enterprise reform is one element of the key medium-term economic task for Zimbabwe, namely, the development of a private sector in a country where until recently the state sector was dominant. This is a common theme for many countries around the world. The drought and associated power shortages have led to a sharp drop in industrial production and held back the previously rapid growth of nontraditional exports. I hope this can be reversed. It will also be important to make progress in removing a range of restrictions on private sector development. I hope agreement on the necessary actions for release of the World Bank's structural adjustment loan can be reached very soon. In this context, I welcome the measures announced in late April 1993 to

ease investment regulations and promote involvement by foreign private investors. It is unfortunate that this announcement was followed by the designation of a number of productive farms for compulsory purchase. As more than half of those farms recently designated for compulsory purchase were productive, this move can only serve to undermine private sector confidence and could be quite damaging.

Trade liberalization is another important area for private sector development, and I am pleased to note that the benchmark for import licenses was met on schedule and that the export earnings benchmark was met ahead of schedule. But, it is important to continue to make progress in this area, and I welcome the authorities' commitment to further action. As I indicated recently with respect to Zambia, it is appropriate to draw attention to the prospects for future expansion of regional trade in southern Africa once changes in South Africa permit it.

As to monetary policy, as the staff report recognizes, there is a balance to be struck in setting interest rates. But, with the rate of inflation running higher than programmed, there is no scope at present for monetary relaxation. I was pleased to note that the authorities agree that interest rates should not be reduced until the inflation rate has fallen further. As ever, tight discipline over monetary and fiscal policies will be needed if the authorities' objective of exchange rate stability, at the Zimbabwean dollar's new lower level, is to be achieved.

In summary, the Zimbabwean authorities have, on the whole, maintained discipline over policy and continued to carry through structural reforms during a difficult period. As the recovery from last year's drought takes hold, there is every reason to hope for a substantial improvement in Zimbabwe's external position, but only if progress toward a market-based economy continues and inflationary pressures are contained. I can agree to the proposed waivers.

Mrs. Szombati made the following statement:

The Zimbabwean authorities have been relatively successful in managing the serious economic situation that arose during the first several months of the arrangements supported by the ESAF and the EFF: they kept the economy balanced; achieved a considerable deceleration in the rate of inflation; and made progress with their reform policies, despite the severe drought and the decline in external assistance. The authorities are to be commended for these achievements and for their commitments to adjustment policies. I support their requests for waivers and for the modification of performance criteria specified in the staff report.

I broadly agree with the staff appraisal of the Government's policies and of the authorities' reaction to the external financing constraints. In the second half of this fiscal year, the authorities will face the challenge of returning to the original program targets, which implies financial policies aimed at promoting the recovery of economic activity, severely constrained by earlier credit tightening; reducing inflationary pressures; and improving the external position. The achievement of these goals will depend on progress in four key areas: strong fiscal adjustment, sufficiently tight monetary policy, acceleration of public enterprise reform, continued price and trade liberalization, and deregulation of investments.

I will comment briefly on each of these policy areas. The goal of reducing the Government's large domestic borrowing requirement depends on keeping the fiscal deficit within limits consistent with external financing. This will require stringently implementing the planned expenditure cuts, protecting revenues, and establishing the administrative structures needed to ensure timely disbursements of external assistance. Given the sharp decline in revenues and the small scale of this fiscal year's spending cuts--excluding drought-related expenditures--any further slippages could easily jeopardize the whole program. The staff is correct to note that during the next fiscal year the authorities must take serious steps to durably improve the budget. A sounder structure and an overall streamlining of expenditures will require curtailments of the wage bill and military spending, as well as cuts in subsidies for public enterprises, underlining the need to accelerate the civil service reform and public enterprise restructuring. On the revenue side, the comprehensive tax review planned for mid-1993 is timely. This year's large decline in the tax effort, equivalent to 8 percent of GDP, reflects a need to increase revenues over and above the improvement expected from the economic recovery. The twin goals of reducing the overall tax burden and maintaining the tax effort will require enhancing the efficiency of the tax system by means of more flexible tax structures and a wider tax base.

In the monetary area, the Government must simultaneously support the economic recovery, reduce the rate of inflation, and contain balance of payments pressures. To achieve the program's inflation target, monetary policy must be kept sufficiently tight, and positive interest rates must be maintained over the next several months. The expected improvement in the balance of payments and external competitiveness, and the return to exchange rate stability can be achieved only by means of tight domestic financial policies. It should also be stressed that adequate resources for private sector recovery cannot be ensured unless the Government's financing needs are kept under strong control.

Accelerating public enterprise reform is a key element of the program that will directly affect both fiscal adjustment and the increase of economic efficiency. Several important steps have already been taken in this area, as the staff points out, but needed large-scale restructuring and the desired increase in private sector participation are still lagging. The authorities correctly recognize the need for broader reforms and a concrete program for restructuring, including a timetable for privatization of key public enterprises. I urge the authorities to strengthen this reform process by encouraging greater foreign private sector participation to promote the recapitalization of companies and access to badly needed foreign management experience. Deregulation of investments could give further incentives to foreign participation in the restructuring process. I wonder whether the staff could comment on the authorities' intentions with respect to foreign ownership of shares in key public enterprises.

Price liberalization and trade deregulation will play important roles in Zimbabwe's structural adjustment and economic development. Although the progress with import liberalization and price decontrol over the past few months has kept pace with program projections, the process should be accelerated to encourage private sector production and exports and improve resource allocation. Import liberalization under the Open General Import License (OGIL), at 20 percent of total imports, is still very limited, and the staff is correct to note that expanding the foreign exchange retention system could be a more flexible route to a liberal trade and payments system capable of ensuring access to the imported inputs and capital goods essential to export growth.

Price liberalization has made good progress under the program, and the authorities should now focus on the decontrol of agricultural pricing, the liberalization of marketing, and the elimination of food subsidies. The planned reform of maize pricing and marketing could be a key step in strengthening agriculture and creating employment in rural areas, as well as in reducing Zimbabwe's vulnerability to drought. We endorse this plan and urge the authorities to continue liberalizing prices of other basic products as well.

Mr. Dognin made the following statement:

Let me indicate, first, that I broadly endorse the very well-balanced staff appraisal. The authorities' achievements under the first part of the extended and enhanced structural adjustment arrangements are praiseworthy. Faced with a dramatic drought, a significant shortfall in external assistance, and a consequent decline in economic activity, the Government managed to

keep the program broadly on track while initiating the targeted stabilization of the economy.

However, as evidenced by the nonobservance of some performance criteria at the end of December 1992 and the difficulties experienced again during the first quarter of 1993, policy implementation, especially as far as monetary policy is concerned, was not optimal, as the burden of adjustment was essentially borne by the private sector. To foster the expected pickup in economic activity, especially in the export sector in the coming months, the authorities will face the challenging task of strengthening fiscal adjustment and sustaining tight monetary policies while making further strides on structural reforms to improve the environment for the private sector.

To ensure these twin objectives of pursuing the stabilization effort and supporting the private sector recovery, the authorities will have to shift emphasis more to fiscal adjustment in the policy mix. The achievement of the budget deficit target for 1992/93 will be critical. Therefore, I welcome the indications given by Mr. Mwananshiku about the most recent measures taken in this area.

While there is some credibility in the argument that the revenue level should catch up with the 8 percent decline experienced in 1992-93 following economic recovery, it is clear that the authorities should supplement their actions to lower certain tax rates by broadening the tax base, and I look forward to the conclusions of the Fund mission on fiscal reform scheduled to take place in June 1993.

The authorities' position, as reflected in the staff report, may raise some questions about their preparedness to take decisive measures to further cut expenditures. Moreover, the authorities' indication that a number of expenditures have been postponed may reflect that they have not yet considered the necessary fiscal trade-offs. As a matter of fact, the attainment of this year's turnaround with respect to the Government's position vis-à-vis the central bank and the need to cut the deficit further by 4-5 percent of GDP next year in order to reach the projected increase in government savings will require further reductions in current expenditures, especially in subsidies--3.6 percent of GDP--the wage bill--12.2 percent of GDP--and military expenditures. It should be recognized, of course, that the authorities took commendable actions during the first part of this fiscal year to offset the shortfall in external assistance and revenue, but the attainment of the program's objectives will clearly require additional efforts. As this aspect of the program is not elaborated on in the staff report, I wonder whether the staff could comment on the concrete measures that are envisaged by the

authorities to further reduce expenditures, especially as far as the wage bill and the civil service reform are concerned.

As to the financing side of the fiscal deficit, I agree with the emphasis placed by the staff on the need to make significant repayments to the banking sector to avoid crowding out private investors, as was the case in late 1992. Close monitoring and coordination in the management of domestic financing and monetary policies should be achieved through the joint committee that was created in 1992. I note the authorities' concern about the high level of real interest rates and their apparent reluctance to resort more to the auction of treasury bills, but the larger than projected borrowing need of the Government from the central bank created a credit squeeze that constrained severely the private sector, which was already faced with a slowdown in activity and rising prices of inputs.

Given the present slowdown in the pace of inflation at about 20 percent, there might be some room to reduce interest rates, but the monetary authorities should act with caution to reach monetary targets at a time, as the staff correctly underlined, of considerable change in income and instability in the demand for financial assets. Furthermore, as indicated in the background paper, the rate of inflation in Zimbabwe in the past has been particularly sensitive to monetary developments, and the deceleration of inflation should remain the priority, as it will be a crucial factor in restoring confidence in the economy.

With respect to the external sector, I agree with the authorities' thrust for a more stable exchange rate supported by appropriately tight fiscal and monetary policies. In the context of the trade liberalization and price decontrol currently taking place in Zimbabwe, the depreciation of the exchange rate has had a significant impact in the past on inflation, as indicated in the background paper. Therefore, the authorities should concentrate on structural reforms to enhance the competitiveness of the economy and bolster business confidence. I agree with the staff that, provided the stabilization effort is pursued and the adjustment program is maintained on track, external viability in Zimbabwe could be within reach by the end of the program period. The Government took a number of favorable fiscal and trade measures to enhance the response of the export sector, which should contribute largely to the reduction in the current account deficit in the medium term. There is also a potential in Zimbabwe for private direct investment, which is not reflected in the staff projections. The realization of this potential will require, of course, that the authorities pursue the stabilization effort, ensure the availability of credit to the private sector, and make further progress in liberalizing imports and the exchange system. Moreover, the authorities should embark on a clearer and more

predictable policy with respect to foreign investment. In this respect, I welcome the most recent indications given by the staff.

The business environment could also be improved by further progress in public enterprise restructuring. Laudable headway was made in reducing the operating losses of public enterprises in 1992, but the financial performance of those enterprises remains poor, and the authorities should address more decisively the weakness of the public enterprise sector, namely by closing nonviable enterprises and increasing private sector involvement through greater participation in ownership or management. In this respect, I note with satisfaction Mr. Mwananshiku's reference to the setting up of a timetable for the reform of public enterprises.

Finally, I commend the Zimbabwean authorities for their management of the drought situation and their efforts, at the same time, to keep the adjustment program broadly on track. Therefore, I have no difficulty in supporting the authorities' request for waivers for the nonobservance of performance criteria. As Zimbabwe was the first country to benefit from the extension of resources under the ESAF to lower middle-income countries, this broadly satisfactory midterm review is quite encouraging, and this example raises hope that newly eligible countries will soon embark on comprehensive adjustment programs with the support of the Fund.

Mr. Al-Tuwaijri made the following statement:

The Zimbabwean authorities are to be commended for their decisive policy response to the enormous challenges posed by the severe drought in 1992. Real GDP declined by 8 percent, while agricultural sector output contracted by 28 percent, but the Government still had considerable success in containing imbalances. The fiscal deficit, excluding extraordinary drought-related expenditures, was reduced, while the increase in the external current account deficit was contained to a level below that envisaged under the enhanced structural adjustment arrangement. These achievements are particularly noteworthy in view of the sharp deterioration in the external terms of trade and the very significant shortfalls in external financial assistance.

With the economy and the key agricultural sector rebounding strongly in 1993, the authorities have been able to turn their attention toward achieving the macroeconomic goals of the original adjustment program, which are still within reach.

Financial policies should be focused on bringing down the high rate of inflation, which represents one of the key areas of weakness in overall economic performance. Although there has been some decline in inflationary pressures since early 1992, there are

concerns about the impact on domestic prices of exchange rate depreciation, the price liberalization process, and further tariff increases by public enterprises. These pressures highlight the need for restrictive financial policies.

During 1993, the authorities should shift the burden of adjustment to budgetary policy, as drought-related pressures ease. Reducing domestic financing of the deficit is essential to free resources to support the recovery of the private sector, whose access to credit had been sharply reduced as a result of monetary tightening in 1992.

Deficit reduction will necessitate some recovery in the tax effort, which should be assisted by the rebound in economic activity. In this context, the authorities' efforts to strengthen tax administration and improve arrears collection are to be welcomed. Moreover, in undertaking the comprehensive tax review scheduled for this year, the authorities are urged to keep medium-term fiscal goals clearly in focus as they assess proposals to rationalize the tax structure. With respect to the expenditures side, despite continuing drought-related outlays and increased interest payments, the Government has taken commendable steps to ensure that overall spending is in line with revised revenue and envisaged external financing. Improved expenditure monitoring and control mechanisms have been instituted and, as a result of expenditure cuts equivalent to 1.8 percent of GDP, total spending is projected to be below the original budget authorization.

The authorities are urged to move decisively in key areas of structural reform, notably with respect to strengthening the financial performance and overall efficiency of public enterprises. Although their financial results for the latter part of 1992 were better than programmed, it is worrying that this appears to have been achieved by passing on higher costs to consumers, rather than through efforts to improve financial management. I am also concerned about the emergence of significant interenterprise arrears and enterprises' failure in some cases to discharge their payments obligations to the Government. The authorities are urged to press ahead with financial restructuring plans and with programs to strengthen enterprises' management in order to streamline this sector and to ensure that it does not become a drain on budgetary resources.

External sector performance is projected to improve significantly in 1993, with the external current account deficit expected to decline by 6 percentage points of GDP. However, the shortfall in external financing observed in 1992--which largely accounted for the sharply higher overall balance of payments deficit--raises concerns about this year's outlook. In

particular, like Mr. Peretz, I wonder whether the staff could elaborate on the reasons for the delay in disbursement of loans from the World Bank and the AfDB and on whether these factors could affect disbursements in the current year.

I commend the authorities for their efforts to liberalize the exchange and trade systems, and to ease the regulatory constraints to foreign investment. It is encouraging to note that the Government has formulated trade reform plans in a medium-term context with the intention of substantially liberalizing trade by 1995. Measures to simplify the exchange system and plans to allow for full repatriation of profits and dividends for all foreign direct investment are also welcome.

With these comments I support the proposed decisions.

Mr. Esdar made the following statement:

Like previous speakers, I welcome the continued adjustment efforts in 1992, despite the impacts of the drought and adverse external developments. The external current account deficit was kept below the program target and all external debt-service obligations were met. However, some crucial performance criteria have not been observed for end-December 1992 and additional slippages have occurred in the past month.

Program targets were modified in September 1992, when the former extended arrangement was replaced by the current arrangement. Even several of these modified targets have not been met. This demonstrates the importance of strengthening Fund arrangements against external deviations by agreeing to include contingency mechanisms in the performance criteria, or by agreeing in advance on additional adjustment measures in case of adverse developments.

In addition to the unfavorable external developments, to some extent, deficiencies in the documentation for procurement and reimbursement have caused shortfalls in external assistance. I urge the authorities to strengthen their efforts in this area to avoid such shortcomings.

In some areas, the policy response to the deviations mitigated the effects in the short run, but it may cause problems in the medium term. For example, the postponement of government expenditure may increase the budgetary pressures in the period ahead, and the increased financing of the budget deficit through the central bank has considerably reduced the room for maneuver of the private sector. The budget deficit will be larger than originally expected. This demonstrates the urgent need for further adjustment efforts.

As I am in broad agreement with the thrust of the staff appraisal, I can limit my comments on the economic program for the coming months to some points of emphasis.

With respect to fiscal policy, the envisaged large repayment to the central bank might be difficult to achieve in view of the weak revenue performance in this financial year. In this context, I wonder whether the planned 5 percent reduction of the top marginal tax rate for individuals could be postponed until next year. Public finances could also be strengthened by a quicker implementation of reforms in some important areas, like the civil service and public enterprises.

I welcome the fact that the authorities have already approved more than 9,700 civil service posts for elimination, which considerably exceeds the original program target. However, the actual retrenchment process has not yet started, at least not on a large scale, and it might take more time to implement the planned reductions than originally envisaged. In this context, I also note that the central government wage bill is estimated to be somewhat larger than programmed this year, despite the ongoing civil service reform.

As to the public enterprise sector, I agree with the staff that there is an urgent need for a comprehensive reform, which should include the closure of nonviable enterprises and privatizations with foreign participation. In this respect, it is regrettable that public sector share offers to private investors have not been successful in the past. While I welcome the recent decision of the Government to sell its share holdings in ZISCO to private investors, I wonder whether--and on what conditions--foreign investors can take part in this privatization.

I am somewhat puzzled by the fact that the agricultural marketing boards are allowed to offer prices above the floor producer prices set by the Government in order to compete with the private sector. It would be desirable to leave agricultural marketing completely to the private sector.

The staff has noted that the subsidies for maize meal will be abolished soon. This is an important step to prevent an increasing burden on the budget. This chair has always emphasized the view that there are more efficient ways to support the neediest than by providing subsidies on food items.

With respect to monetary policy, I agree with the staff that the authorities should maintain the focus on appropriate interest rates. While I welcome the interest rate liberalization in recent months, I wonder why minimum deposit rates and housing mortgage rates are still controlled and whether these rates are adequate in

real terms. In addition, I encourage the authorities to abolish the remaining interest rate controls as soon as possible.

Also with respect to monetary policy, I welcome the authorities' intention to resume the policy of nominal exchange rate stability and to use the exchange rate as a nominal anchor for their domestic policies. The prudent exchange rate policy should be accompanied by further reforms in the external trade and payments system, which still contains numerous restrictions.

While the export retention scheme has been further expanded, thus limiting the constraints on the OGIL, the OGIL covers only 20 percent of total imports. The elimination of export subsidies will begin only in the next fiscal year and will not be completed before 1994-95. The authorities should strengthen and accelerate their adjustment efforts in this area.

With these remarks, I can support the proposed decisions.

Mr. Dawson made the following statement:

Zimbabwe came under a great deal of pressure in 1992, as the real economy suffered tremendously from the effects of the drought. The authorities pulled out a satisfactory emergency performance under capable management. The effects of the drought in terms of emergency expenditures and imports suggest that the underlying performance on the fiscal and current accounts was actually strong. We are pleased to note that, now that the drought is over, the Zimbabwean authorities seem anxious to get back on the program's path and that they hope to do so by this summer. It is time to look decisively ahead.

As we are basically in agreement with the staff report, I will raise only a few points for discussion.

It was important in terms of dampening inflationary pressures that the authorities tighten credit to the private sector in the face of significant borrowing by the Government from the central bank. Although this policy might work for one year as an emergency measure, it is absolutely not tenable over a longer term. Credit to the private sector cannot continue to be squeezed out if a positive response from that sector is to be expected for future growth. Therefore, the repayment to the central bank programmed for the first six months of 1993 is a critically important step that must be met.

The authorities need to guard against repetition of the problems encountered in 1992. Even without the extra budget expenditures caused by the drought, there are always risks that a deficit in a given year will be larger than anticipated, such as

in 1992, owing to donor financing shortfalls. This raises questions concerning the domestic financing of deficits from nonbank sources. The background paper on recent economic developments notes that the authorities have not yet taken an active approach to the use of government paper to mobilize domestic financing, or, for that matter, to assist in developing another useful monetary policy tool. We strongly suggest that the authorities move quickly with respect to taking a decision to improve future prospects in this area.

With respect to structural measures, little new was proposed given the preoccupation with the drought. Still, some important steps were initiated, although the follow-through is still uncertain. For example, plans for eliminating civil service jobs were made, but--owing to minimum notification requirements--it is not clear whether or when the actual retrenchment will take place. Some subsidies that were slated for removal have yet to be phased out. While we welcome passage of the investment act, we are concerned that it falls short of what had been hoped, and the investment regime will still not be attractive as in neighboring countries. With respect to the trade regime, while further liberalization steps have been taken, only 50 percent of export earnings are allowed to be retained.

At the previous discussion on Zimbabwe, this chair expressed some concern about the slow progress in public enterprise reform; this concern persists. It is disturbing to hear that even as some of the financial problems among the public enterprises have been eased, such as lower combined operating losses, other new problems emerge that indicate that overall, good financial management is still not a near-term goal. We were particularly concerned about the appearance of interenterprise arrears.

In the end, owing to a considerable degree to the effects of the drought, a significant number of key performance criteria for end-1992, including the most important and immediate ones in terms of the overall objectives of stabilizing the economy over time, were missed. However, the authorities came through with several measures in the recent period that were politically difficult. In effect, the problems caused by the drought tested both the economy's resilience and the authorities' commitment to the program--and both passed the test. In the circumstances, we can go along with the requested waivers, but we expect that the authorities will make the full push necessary to get back to the program targets by mid-1993 as planned.

Now that the difficulties of 1992 have passed, it is time to see bolder and more forward-looking action taken by the Zimbabwean authorities.

The staff representative from the African Department noted, with respect to the target for government expenditure, that drought-related expenditures during the current fiscal year were estimated to amount to 3.5 percent of GDP. While those expenditures would not be completely eliminated over the coming year, they could be phased out. In addition, the President of Zimbabwe had recently announced that the size of the armed forces in Zimbabwe would be reduced in tandem with developments concerning the peace process in the region; therefore, in the light of recent developments, a significant reduction in military expenditure could be expected to materialize over the next few years. While the wage bill was still quite large, the authorities intended to reduce the size of civil service expenditure, excluding for education, by 25 percent. In that connection, nearly 8,000 civil servants had been retrenched in January 1993--compared with the 9,700 posts targeted for elimination. That retrenchment would have an impact on the overall budget over time. In addition, the Government was expected to announce actions to eliminate the maize subsidy in the coming weeks. A reduction of net lending to enterprises was also expected, in light of their improved financial performance.

It was important to note, however, that the reductions in government expenditure would be offset to some extent by increased spending on health services, which had been curtailed severely over the past few years, the staff representative commented. In addition, a number of planned expenditures that had been delayed to accommodate the need for drought relief would have to be caught up. The staff intended to examine the current situation with respect to government expenditure closely during the forthcoming mission to Zimbabwe, and it hoped to be able to present to the Board in September 1993 the budget for 1993/94, which should include a substantial reduction in the overall deficit as called for under the program.

With respect to the aid shortfalls that had arisen over the previous year, it should be borne in mind that Zimbabwe had not relied on bilateral and multilateral donor assistance to support the budget in the past, the staff representative continued. Nevertheless, at the time that the budget had become heavily dependent on such assistance in 1992, owing to the drought, Zimbabwe received the bulk of its imports through the OGIL via South Africa. The route of imports had given rise to an array of problems, because the AfDB and some of the bilateral donors could not finance imports that originated--or were channeled through--South Africa. Since that time, the bilateral donors had responded to the situation by finding other means to provide finance, and the shortfall in bilateral aid had been addressed by the end of 1992. Nevertheless, problems remained with respect to the scheduled assistance from the AfDB and the World Bank.

In addition to the problems related to the route of origin, the procurement procedures related to AfDB finance had proved to be quite complicated, thereby leading to a further shortfall in expected assistance, the staff representative went on. While the AfDB had hoped to make the

necessary disbursements by the end of March 1993, a number of technical issues were still being worked out.

The disbursement of the World Bank emergency rehabilitation loan had also been slower than originally envisaged, the staff representative added. However, the delay in disbursement was largely owing to the need for coordination between the World Bank and various implementing agencies, and a full catch-up was expected by the end of 1993.

In the current depressed economic conditions, interest rates were high and the environment was not conducive for investment, the staff representative considered. Those factors had had an adverse affect on the sale of public shares.

The authorities had made some progress in the work to improve the balance sheet of the steel company and to rephase its operations in response to the opening up of the economy, the staff representative from the African Department stated. However, the sale of the steel company had been delayed to some extent, because the process of improving the balance sheet, including writing off loans and retooling the company to maintain competitiveness, had taken longer than originally envisaged. Nevertheless, it was the staff's understanding that some foreign companies had expressed an interest in acquiring shares in the steel company. Several other enterprises had also been offered for sale recently, and the staff intended to discuss the authorities' plans for those companies during the forthcoming mission.

Mr. Törnqvist made the following statement:

Recent developments in Zimbabwe have on the whole been encouraging. In many respects, the authorities have done better than might have been expected at the time of the previous discussion, in view of the very difficult situation they were facing. I thus wish to join previous speakers and the staff in commending the authorities for their achievements.

Even if the program is broadly on track, one cannot say that everything is well. The still high rate of inflation is particularly disturbing. It was, however, heartening to note the staff's indication that the rate of inflation has come down more than expected in the first quarter of 1993. I wonder whether the staff could comment on how this affects the projections for 1993. The rate of inflation is targeted to decline steadily to 7 percent by end-1995. To achieve this still seems optimistic, given the circumstances, and it will certainly require strong and determined policies.

To combat inflation, monetary policy plays a crucial role. After some earlier slippages, monetary policy has been kept tight by the RBZ since mid-1992 and real interest rates turned positive in the fall. This is encouraging, but continued vigilance will be

necessary. Given the need to reduce the rate of inflation, it is important to keep real interest rates well on the positive side, even if this could have some short-term negative impact on investments.

The background paper contains an interesting section on monetary policy. The staff has found some evidence suggesting a clear link between monetary growth and inflation in Zimbabwe. However, we doubt that this link can be very stable under the present volatile circumstances. Therefore, we strongly endorse the staff's recommendation to focus on interest rates, rather than on monetary aggregates. In addition, it will be important to continue to strengthen the monetary policy framework and the financial system, although important progress has already been made in this area, including the establishment of adequate banking supervision.

Of course, monetary policy cannot carry the whole burden of coming to grips with inflation. There are important contributions also to be made by fiscal policy and structural reforms. On these matters, I am in broad agreement with the staff and other speakers. This chair supports the proposed decisions.

Mr. Kaeser made the following statement:

The Government of Zimbabwe has had to deal at the same time with a situation of great economic and social hardship caused by a severe drought and with the challenge of keeping the combined extended and enhanced structural adjustment arrangements on track.

The Zimbabwean economy appears to be well managed at the macroeconomic level, and the authorities have a good record of implementing economic policy actions. However, at the micro-economic level, particularly in the public enterprise sector, there are still inefficiencies and rigidities--such as excess staffing and monopolistic attitudes that developed in a protected environment--that need to be fully addressed. Admittedly, some progress has been made in this respect as well as with regard to subsidy reduction in other sectors, but more needs to be done. For years, the fiscal deficit has been hovering at unsustainable levels of about 10 percent of GDP. To reduce this deficit and the negative effects of its financing on other segments of the economy, the Zimbabwean Government had to adopt a more restrictive monetary stance than would have otherwise been necessary and appropriate. Strict foreign exchange and trade controls also had to be maintained. Thus, when the Government somewhat released the reigns in 1988, the economy started spiraling. The loss of confidence depleted private investment in what the staff correctly calls a private sector-driven economy. Thus, it is likely that economic growth, in particular productive investment and job

creation, have evolved below potential in the past. This may lead us to share the staff's optimism concerning the possibility of a future growth path above the historic level, but only if structural reforms aimed at liberalization are pursued in parallel with a gradual reduction of the fiscal deficit.

Thus, moving toward a more balanced policy mix is the key to economic stabilization for Zimbabwe. In monitoring economic performance under Fund arrangements, fiscal policy needs great attention, as a restrictive fiscal stance facilitates reaching the other program targets. Among the measures to be retained, in addition to general expenditure cuts, further job reduction and wage restraint in the public sector, restructuring or dissolution of loss-making public enterprises, further cuts in military spending, and a rapid phasing out of drought-related public intervention are noteworthy. As to the revenue side of the budget, due attention should be given to the foreign and domestic investment incentives exerted by tariffs and taxes.

The external balance reflects drought-related trade effects and unfavorable terms of trade developments in 1992. But the deterioration in the external balance since 1990 is clearly due to steadily increasing imports as a result of soaring inflation rates. Excess domestic credit expansion led in 1992 to a real effective appreciation of the Zimbabwean dollar, which still has not been sufficiently offset by the recent devaluation. Further devaluations are probably needed to maintain the relative competitiveness of Zimbabwe's agricultural and nontraditional exports, as well as to help contain import pressures and facilitate the transition from trade controls to a more liberal trade regime.

Also, the slower than anticipated disbursement of World Bank loans is a cause for concern.

While there are problems, there is a clear willingness on the part of the Zimbabwean Government to meet the targets of the Fund-supported program. Therefore, I can agree with the proposed decision to amend the program targets as detailed in the authorities' letter of intent.

Miss Vori made the following statement:

Zimbabwe has shown its serious commitment to the program supported by the enhanced structural adjustment arrangement by going ahead with the program of structural reform in the face of a severe drought and other adverse developments. Therefore, despite nonobservance of performance criteria, I broadly support the continuation of the program. I will focus my comments on some areas where renewed efforts are required in order to keep the

program on track and to overcome the negative consequences of the drought on economic development and medium-term growth prospects.

Respecting the public budget target set for 1993 is a key priority for macroeconomic stabilization and for achieving further progress in reducing the rate of inflation, lowering interest rates, and loosening the credit squeeze of the private sector. The authorities may have to offset a larger than expected drought-related reduction in revenues by cutting less productive expenditures. A careful prioritization of programmed outlays is required so that the authorities can achieve fiscal retrenchment without hurting support to the most vital activities and protection to the most vulnerable segment of society. The candidates for such an adjustment effort appear to be wage expenditures--especially given the labor shedding already realized--subsidies, and lending to public enterprises. While the implementation of measures to improve administrative procedures--which were necessary to ensure timely disbursement of external financing assistance--is welcome, the authorities are urged to seek a medium-term financing strategy that relies less on external assistance and more on domestic financing, by favoring the development of an effective government bond market.

The authorities have maintained a restrained stance with respect to monetary and exchange rate policy, and they have established positive real interest rates by increasingly relying on indirect control instruments. However, I wonder whether the policy of targeting the nominal exchange rate is appropriate, given the still large inflation differential with other trade partners that threatens to undermine competitiveness through a too-rapid pace of appreciation of the domestic currency. Moreover, while the staff seems to suggest that money supply targets should be forgone in favor of exchange rate and interest rate objectives in the presence of various shocks to the real sector linked to erratic climatic conditions, and the terms of trade change, a more effective stabilization of the nominal GDP could require a stricter targeting of monetary aggregates.

The authorities must continue their effort to restructure inefficient public enterprises. Price decontrol is insufficient to guarantee the restoration of efficient management conditions if the increase in tariffs merely serves to cover increasing costs, without achieving substantial gains in operating efficiency. Efforts to increase competition, improve financial management, and restructure personnel must be intensified with a view to eventually privatizing these enterprises, thereby relieving the public budget of the financing burden.

Finally, the authorities should be commended for their efforts in the face of difficult circumstances to remain current

with their external financial obligations. With these remarks, I support the proposed decisions.

Mr. Hon made the following statement:

In light of the difficult external economic environment and the immense burden of drought-relief measures, the achievement of the Zimbabwean authorities during the past year has been remarkable. Good progress was made toward achieving macroeconomic stability, while deficits in the government budget and external current account were held below program targets. As the authorities have adequately demonstrated their determination to pursue structural adjustment and reform, I support the staff's suggestion to grant the requested waivers for some of the performance criteria that have not been observed, as well as for the proposed modifications of several performance criteria for end-June 1993. Meanwhile, I endorse the staff recommendation for temporary approval of the measures governed under Article VIII.

Having supported the proposed decisions, I would like to comment on some of the difficult tasks that lie ahead for the authorities.

In the area of monetary policy, restraining inflationary pressure calls for the maintenance of positive real interest rates, which translate into high nominal rates. At the same time, the revival of the private sector requires an accommodative monetary environment. To resolve these conflicting demands, a cautious and delicate approach to the formulation of monetary policy will be needed.

In the area of public finance, the Government has to reduce its reliance on central bank financing. In this respect, I urge the authorities to further deepen the measures for the mobilization of domestic saving which, in addition to financing the budget deficit, could also be channeled into private investment.

The good progress that has been achieved in improving the financial performance of public enterprises should serve as the foundation for their further restructuring to enhance efficiency, thereby contributing to the reduction of the government budget deficit. In this connection, I commend the headway that has been made in rationalizing the civil service, and I encourage the authorities to continue with their good efforts in this area.

Finally, the ERS could be further improved and eventually evolved into a de facto foreign exchange market.

Mr. Havrylyshyn made the following statement:

Today we are being asked to approve a number of waivers and modifications to a program that was presented to us only a relatively short time ago. I can support the request because, despite the difficulties related to the prolonged effects of the drought, the authorities have shown their commitment to the program through the actions they have taken so far.

Nevertheless, I should like to emphasize how important it is for the authorities to take additional measures at the present stage in order to get back on track with the program, in particular given the new information on expenditure overruns in the first quarter of 1993. In this respect, I agree with the emphasis Directors have placed, in both the previous and the current discussion, on fiscal consolidation. This would avoid crowding out the private sector initiative in the economy, while holding to a tight monetary policy would further reduce the rate of inflation.

Given that a shortfall in budget revenues was a cause for going off track, I am a little concerned about the projections for export and import volume growth on which such revenues are dependent. As this chair noted at the previous discussion, the growth assumptions for exports and imports appear to be a little overly optimistic and are based on the assumption of trade liberalization, which admittedly has taken place recently. However, I wonder whether this and the measures suggested in the supplement to the authorities' letter of intent will be enough.

I welcome the indication that 13,000 civil service posts will be shed in the context of the reform of the civil service by the end of June 1993, with a substantive part of this taking place in 1992/93. However, in the face of this, the 17 percent rise in the wage and salary bill in the current fiscal year--apparently brought about by an agreement on merit increases needed to bring civil service remuneration to the same levels as the private sector--seems excessive. It is appropriate to retain high quality personnel by making merit increases in some limited number of key posts, but a broad-based effort toward parity with the private sector is not appropriate as long as the size of the civil service remains large.

I welcome the authorities' intention to take action to avoid the excessive use of the maize subsidy mechanism, which, owing to the pricing structure, burdened the budget more than it should have in 1992. Therefore, I welcome the proposal, noted in Mr. Mwananshiku's helpful opening statement, for its complete elimination in June 1993.

One of the problems that forced the Government to have recourse to central bank financing of the budget deficit in 1992 was its inability to raise adequate finance from domestic nonbank sources. It appears that the authorities still view this as an important source of finance in 1993. Given past experience, I wonder whether the staff could comment on why the authorities feel they are likely to be more successful in raising such financing at the present juncture.

Impetus to growth in Zimbabwe would be facilitated by foreign investment. In recognition of this, the authorities have and intend to further improve incentives, such as through the repatriation of dividends and profits and the simplification of administration. However, a most important incentive for foreign investors, namely the repatriation of their capital, is missing. The authorities should address this within the context of presenting a complete foreign investment incentives package to prospective investors. Moreover, I agree with Mr. Peretz and other speakers that the importance of various policies to stimulate private sector activity should be emphasized.

Mr. Hammoudi made the following statement:

Drastic drought and lower tax revenues as well as large shortfalls in disbursements of external loans impaired Zimbabwe's economic performance during 1992; real GDP declined by 8.3 percent, agricultural output by 28 percent, industrial and mining production by 8 percent, and services by about 4 percent. The Government has, however, succeeded in containing inflation with fiscal and monetary policies. The budget deficit, excluding grants, was below the program target, but the Government had to resort to the banking system to finance the deficit, owing to shortfalls in tax revenues and external financing, which reduced credit to the private sector. The authorities are to be commended for their adjustment efforts, which have improved the financial performance of large public enterprises; trimmed and restructured the civil service; adjusted some prices for basic commodities, specially for maize and bread; introduced price liberalization for the other commodities; and made trade policy more flexible. Moreover, almost all performance criteria were observed, except for net domestic assets and international reserves of the RBZ, net domestic borrowing by the central Government, and public and publicly guaranteed short-term external debt, for which we support the waivers requested by the authorities. It should be noted that all other quantitative performance criteria and benchmarks for end-December 1992 were observed.

We are in broad agreement with the authorities' policies aimed at financial stabilization and further structural adjustment to pave the way for enhancing the private sector by creating jobs,

generating income growth, and fostering exports. Therefore, our comments will be made for emphasis.

To reduce the fiscal deficit, expenditure cuts as programmed by the authorities and an improvement of the tax administration would certainly be helpful. It is also important for the Government to reduce its recourse to the banking system in order to allow enterprises access to credit if investment and production are to recover. Furthermore, expected savings from restructuring the civil service and public enterprises should ease the strain on the budget.

Strengthening monetary policy should help reduce the rate of inflation. Positive real interest rates along with the development of monetary instruments such as bonds and certificates would be appropriate tools to absorb excess liquidity. Prudential procedures and efficient supervision should be introduced to better monitor and control financial activities, especially those of the banks.

As to the external sector, market-determined policies should be pursued to strengthen the exchange rate system and to liberalize imports and exports as well as international payments. The easing of the existing foreign direct investment legislation is welcome; it should generate capital flows, given the economic opportunities in Zimbabwe. Improving the economic environment should strengthen the balance of payments situation in the medium term. We agree with the staff that the authorities should be cautious with respect to debt policy. They are well advised to rely on concessional borrowing over the medium term.

As to structural reform, further progress is needed in restructuring and privatizing public enterprises. More autonomy for management, removal of subsidization of financial losses, and hard budget constraints should be employed. Market instruments should be introduced in all macroeconomic areas in order to deregulate the economy and, in this context, the measures taken already are encouraging.

To ensure the success of Zimbabwe's economic program, the international financial community should assist this country with financial and technical assistance.

With these comments, we support the proposed decisions.

Mr. Santos made the following statement:

Despite the adverse effects of the devastating drought, the deterioration in the terms of trade, and shortfalls in external assistance, the Zimbabwean authorities have made considerable

progress in containing internal and external imbalances in 1992/93 and in implementing structural reforms, notably the liberalization of the trade and exchange system, price decontrol, and civil service retrenchment. Most of the performance criteria and benchmarks for end-December 1992 were observed except those affected by the shortfall in external financing. In view of corrective measures taken to ensure attainment of the program's targets for 1993, this chair can support the authorities' request for waivers and modification of the performance criteria for end-June 1993.

It is clear that the main task confronting the authorities is to reduce substantially the fiscal deficit, as well as the central Government's indebtedness to the RBZ.

We welcome the authorities' increased effort, in the second half of 1992/93 and beyond, to mobilize tax revenue through improved tax collection and the reduction of tax arrears and their continued focus on further strengthening tax administration. A comprehensive tax review aimed at rationalizing the tax structure is critical, and we encourage the authorities to adhere to the scheduled timetable. After the slippages that occurred in the first three quarters of the program, the authorities are making commendable efforts to keep expenditure under control through expenditure cuts and effective monitoring of the spending process, as reported by the staff. Expenditure cuts, including in defense outlays, have resulted in substantial savings that augur well for the attainment of the total expenditure targets in 1992/93. However, the authorities should be cautious about excessive cuts in capital expenditure, as this might adversely affect the resumption of economic growth.

We note the authorities' intention to reduce reliance on borrowing from the RBZ through sales of treasury bills and government stocks. Moreover, timely disbursements of external assistance should help in reducing pressure by the Government on the banking system and free more resources for private investment. The authorities' restrictive monetary policy stance aimed at reducing the rate of inflation and containing balance of payments pressures is appropriate. In this respect, the staff report that recent indicators show a significant deceleration of inflation during the first quarter of 1993 is encouraging. There is room for further progress, and management of public finances is critical to this end.

We welcome the recent actions taken by the authorities to liberalize the exchange system and enhance the competitiveness of the Zimbabwean economy. We support the authorities' intention to stabilize the nominal exchange rate in the context of appropriately restrictive financial policies and factor cost reduction.

Also, the measures taken in April 1993 to relax investment regulations and constraints on the transfer of profits and dividends as well as on the repatriation of capital should help to improve the confidence of private investors in the Zimbabwean economy.

Despite the adverse exogenous factors, the Zimbabwean authorities are making commendable progress in the implementation of their economic and structural program in 1992/93. Their continued commitment to the program's objectives for 1993 and beyond deserves the timely support of the international community. We support the proposed decisions.

Mr. Shimizu made the following statement:

Zimbabwe's economic situation in 1992 was difficult. Agricultural production decreased dramatically and real GDP was 8 percent lower than in the previous year. The rate of inflation reached 40 percent. The balance of payments was constrained by a large shortfall in external assistance. Unfortunately, in the difficult economic situation, many program targets were missed, even though the authorities made commendable efforts in response to the adverse environment. I encourage the authorities to redouble their adjustment efforts to get the program back on track.

One of the key objectives of the program is to reduce the role of the public sector in the economy to make more room for private sector activities. For this purpose, the budget deficit, which is crowding out private sector investment and activities, should be reduced. While I welcome the fact that expenditure for 1992/93 is expected to be reduced by 7 percent of GDP, a further reduction and rationalization of expenditure is necessary, in particular through a reduction of unproductive expenditures, such as military spending and subsidies. I am encouraged to note from Mr. Mwananshiku's opening statement that these expenditures will be reduced in the 1993/94 budget. It is a matter for concern that revenue as a percentage of GDP has declined by 8 percent of GDP. Therefore, I urge the authorities to take measures to enhance revenue. With respect to civil service reform, the authorities should expand the civil service retrenchment program.

The reform of the public enterprises should be an important part of the program. I welcome the reduction of the operating loss of the public enterprises, but there is much to be done. In order to improve the overall efficiency of the public enterprises, autonomy, including on pricing, should be granted to management. At the same time, accountability needs to be improved. In order to facilitate the reform, the establishment of a comprehensive reform program for the public enterprises, including privatization, is needed. In this connection, I note that the

authorities are drawing up a timetable for the reform of the public enterprises.

With these remarks, I support the proposed decisions.

Mr. Raza made the following statement:

We commend the authorities for their management of the drought-affected economy.

We agree with the well-balanced staff assessment and the package of policies suggested by the staff. We also endorse the proposed decisions, including in relation to the waiver for the nonobservance of performance criteria for end-December 1992 and the modification of performance criteria for end-June 1993.

During 1992, the central government budget deficit in relation to GDP turned out to be larger than projected despite expenditure cuts. Government borrowing, particularly from the central bank, also rose sharply. Monetary policy was not as restrictive as had been envisaged, resulting in larger increases in prices. Both savings and investments also declined. However, these adverse developments have to be seen against the backdrop of the fact that the country faced the worst drought in this century, which resulted in a sharp decline in agricultural production of as much as 28 percent--or more than 8 percent of GDP--and a worsening external environment, particularly given the considerable short-fall in disbursements of external loans and the deterioration in terms of trade. In these trying circumstances, the Government did the best it could.

I agree with the concerns expressed by many Directors. However, I would like to highlight two developments that are a cause for particular concern. One relates to the performance of public enterprises and the other to the tendency to borrow heavily from the central bank. As to the former, public enterprises do seem to be in a bad shape. I agree with the staff that it is not sufficient to reduce the operating losses of these enterprises. It is more important to improve their operational efficiency with or without private participation. As to the latter, it was unfortunate that the authorities preferred borrowing from the central bank, rather than from other domestic sources, including recourse to sales of bonds and treasury bills, thus squeezing the private sector. I urge the authorities to give serious consideration to these two problems. The authorities would be well advised to raise revenue, prune all nonproductive expenditure to the minimum, and develop a market for government paper. Further fiscal adjustment is a must for balanced and sustainable development of the economy. In this context, I am heartened by Mr. Mwananshiku's assurance that the 1993/94 budget will

incorporate further reductions in military expenditures, the wage bill, and subsidies.

The actions taken by the authorities to liberalize trade and reduce administrative constraints on--and enhance the incentives for--investment are most welcome. However, I urge the authorities to move further in this area with a view to improving the efficiency of resource allocation and resource use and, in the process, stepping up private sector production and exports.

Mr. Jamnik made the following statement:

I share many of the sentiments expressed by previous speakers. We certainly regret the slippages that have occurred over the past year. However, we fully recognize that the problems encountered were largely attributable to exogenous shocks. It is in this context that the authorities are to be praised for attempting to implement offsetting measures in very difficult circumstances. Therefore, we support the proposed waivers and modifications of performance criteria. Looking ahead, however, we do not perceive any great sense of urgency in the authorities' program. This is worrisome, given the magnitude of the problems that will need to be addressed over the medium term.

I can associate myself with the Directors who expressed concern about the pace of fiscal adjustment that is envisaged. We are not convinced by the authorities' assertion that the area of discretionary expenditure that could be targeted for cuts is extremely limited. Rather, we agree with the staff that the authorities should focus on less productive expenditures. We also hope that the comprehensive tax review that is scheduled for mid-1993 will lead to a rationalization of the tax structure and reinforce the revenue effort.

With respect to public enterprise reform, the divestment program is moving in the right direction, but if some or most of these enterprises are not viable to begin with, we question whether the anticipated pace of privatization is realistic. There is also a need to persevere and, indeed, step up civil service reforms. It will be important for the authorities to create the right environment--through the maintenance of appropriate credit policies and an efficient market-based allocation of resources--to promote the expansion of the private sector and, thus, help absorb the planned reductions in the civil service.

In this respect, I will comment briefly on the social impact of the program. Zimbabwe's approach to alleviating some of the costs of adjustment has the potential of ranking among the most successful. I note with interest that, in contrast with many other poverty alleviation programs, Zimbabwe's program does not

provide for direct or indirect income support through broad price subsidization. Rather, the program is focused on specific measures that are part of national efforts to meet key social sector priorities, notably health, education, and nutrition. Zimbabwe is working in the right direction, and its approach might serve as a useful model for other countries facing similar challenges.

Mr. Peretz commented that the reasons for the shortfalls in disbursements by the AfDB were understandable, although there were clearly problems that needed to be addressed. However, it was not clear why the World Bank had not been able to disburse loans to Zimbabwe as originally envisaged. While there were likely administrative problems on both sides, he urged the World Bank to make every effort to resolve those problems quickly in order to get its disbursements back on schedule. Perhaps multilateral donors in general should be urged to redouble their efforts to resolve any difficulties that were holding up disbursements to Zimbabwe.

The staff representative from the World Bank noted that the World Bank was in the process of making two loans to Zimbabwe, namely a structural adjustment loan and an emergency rehabilitation loan for drought relief. The procedures related to both of those loans represented a learning experience for the World Bank and the Zimbabwean authorities, because the World Bank has never tried to disburse such large loans to Zimbabwe in such a short period. Indeed, in the early stages of the program, a great deal of time had been devoted to establishing procedures with the RBZ for the disbursements. Nevertheless, substantial disbursements had been made toward the end of 1992, and the disbursement under the second tranche had been released as scheduled. In the early part of 1993, the Government had focused on disbursing the grant funds that bilateral donors had offered during the transition period, in particular in response to the drought. Some of those funds were being disbursed against the OGIL and ERS imports. A full catch-up of disbursements under the structural adjustment loan was anticipated during the current quarter, and the full disbursement was expected by the end of 1993.

However, the disbursement of the emergency rehabilitation loan for drought relief had proved to be difficult, largely owing to the need to establish new procedures, the staff representative from the World Bank stated. Fortunately, the authorities had moved forward in devoting Zimbabwe's own resources to fund much of the drought-relief effort. The response to that effort had been remarkable, and very large crops were expected for harvest in the current year. Although some of the World Bank funds had not been used to fund inputs as originally anticipated, owing to procurement difficulties, every effort was being made to disburse those funds at the present stage. Indeed, a large portion of the emergency rehabilitation loan was to be disbursed in the next six weeks, and full disbursement was expected to be completed by end-1993.

Mr. Merino made the following statement:

After the imbalances of 1991, owing mainly to expansionary financial policies, the authorities began to undertake a complete set of policies aimed at adjusting the economy in a medium-term framework. However, the severe drought and the shortfall in external financing during 1992 put a lot of strain on the implementation of a sound macroeconomic policy, while the economy suffered a drastic fall in production and a worsening situation with respect to the balance of payments, inflation, and the fiscal position.

In this context, it should be noted that the authorities tackled the short-term problems very well, and they are ready to continue with the policies needed to achieve the targets and the objectives of the medium-term program.

I will comment on the problems and policies of 1992 and on the medium-term objectives.

First, it is worth mentioning that the magnitude of the external financing shortfall causes a very big strain on the budget and a big squeeze on credit to the private sector. The authorities maintain a restrictive monetary policy, despite the larger than expected borrowing by the Central Government from the RBZ. However, this problem should be avoided in the future. In this respect, we wonder whether the staff could comment on whether the measures described in the Annex to the staff report are sufficient.

Second, we welcome the measures undertaken to reduce in both absolute and relative terms domestic borrowing from the RBZ, and we hope this tendency will continue in the future. At the same time, we hope that this reduction will allow more financing to the private sector following the big squeeze in 1992.

The only way of achieving the ambitious medium-term objectives, with respect to the reduction of the fiscal and current account imbalances and the rate of inflation, is to continue with the structural reforms and to further decrease the vulnerability of the economy to drought, because all the projections are very dependent on a sustained increase in real GDP.

Let me finish by commending the authorities for the efforts made in 1992 to manage the crisis and by urging them to keep on track and to avoid slippages.

Mr. Yang made the following statement:

The Zimbabwean authorities should be commended for the initial achievements of the adjustment program supported by the extended and enhanced structural adjustment arrangements and for their efforts to stabilize the macroeconomic situation. These achievements were made against a background of such negative influences as an extensive and prolonged drought, unfavorable external conditions and, more important, a substantial shortfall in external assistance. In addition, I am pleased to note that the authorities are determined to continue implementing economic policy and reform measures appropriate to achieving the targets of the medium-term program set out in their letter of intent. Zimbabwe's debt-servicing record and its firm commitment to repay its obligations to the Fund in a timely manner are also encouraging. Since I am in broad agreement with the staff appraisal and policy recommendations, my remarks will be brief.

First, despite the fact that a set of good quantitative and structural performance criteria and benchmarks have been implemented and some progress has already been made, several key performance criteria for December 1992 were not observed, owing largely to adverse external developments. This certainly is a cause for grave concern and more needs to be done to attain successful implementation of the program. In this respect, I welcome the timely corrective steps being taken by the authorities to bring the program back on track.

At this stage and also for the period ahead, we fully endorse the authorities' decision to make it a top priority to further reduce the rate of inflation and to resume economic growth, while maintaining a sustainable and manageable balance of payments position. Taking into consideration the continued constraints imposed by the limited inflow of external resources, it is important that ambitious measures be adopted in order to mobilize domestic financial resources through development of government bond markets. This would, in turn, reduce the Government's reliance on the RBZ to finance the budget deficit. We encourage the authorities to move quickly in this direction, and we welcome the number of measures already initiated to strengthen coordination of monetary and fiscal policies.

Second, some progress has been made to continuously implement structural reform measures in areas such as the civil service, price decontrol, trade liberalization, investment deregulation, and subsidy elimination. However, progress has been slow in reforming the public enterprises, which exert severe pressure on the budget. This, in turn, results in excessive borrowing from the central bank. In order to address successfully the fundamental problems facing the Zimbabwean economy, the authorities

should be encouraged to take decisive steps to enhance the efficiency of key public enterprises by increasing competition, restructuring ownership, and improving the managerial level in those enterprises.

With these comments, we support the proposed decisions. We are confident that the authorities will be able to achieve the objectives of the medium-term program and that they will meet the schedule of repayments to the Fund.

The staff representative from the African Department noted that, as the staff report indicated, the recent path of cost developments in Zimbabwe viewed on the basis of the consumer price index could be misleading. For example, over the past year, wage settlements had ranged from 10 percent to 20 percent, centering at levels of about 15 percent, while the year-end to year-end increase in the consumer price index was 46 percent. At the same time, the increase in the producer price index was substantially lower than that in the consumer price index, largely owing to inflationary pressures emanating from the adjustment of agricultural prices. In the circumstances, caution should be used to avoid drawing the conclusion, based on the recorded increase in the consumer price index, that the exchange rate should be adjusted. In the case of Zimbabwe, it was more important to emphasize the need for firm monetary and fiscal policies aimed at achieving price stability. While the staff considered that there was a need to closely examine the situation with respect to both the inflation rate and the exchange rate at the time of the forthcoming mission to Zimbabwe, it continued to place high priority on the achievement of exchange rate stability, backed by tight financial policies.

With respect to the implementation of the Social Dimensions of Adjustment (SDA) project, it should be noted that the Government's attention over the past year had been diverted by the need to provide food aid to nearly 40 percent of the population, the staff representative from the African Department concluded. Nevertheless, as the situation with respect to the need for drought-relief improved, the Government intended to proceed with the SDA project along the lines described in the staff report.

Mr. Mwananshiku thanked Executive Directors for their constructive comments on the Zimbabwean economy, which would be conveyed to his authorities. He was particularly grateful to Mr. Peretz for his comments on the compulsory purchases of farms in Zimbabwe. As problems related to the acquisition of land were especially difficult for Zimbabwe, the authorities had considered the matter very carefully before proceeding with the reform project currently under way.

Despite the difficult circumstances over the past year, particularly with respect to the shortfalls in external assistance and the need to provide food aid to a very large portion of the population, the Zimbabwean authorities had been able to maintain a relatively strong policy stance, largely owing to the advice and encouragement they had received from the

Fund staff, Mr. Mwananshiku commented. Therefore, he wished to express, on behalf of his Zimbabwean authorities, appreciation for the work of the Fund staff.

As Directors had noted, the progress achieved in Zimbabwe over the past year had been realized in the confines of a very difficult domestic and external environment, in which many adverse shocks, especially those related to the drought, had led to a sharp decline in output and incomes with corresponding negative effects on inflation, Mr. Mwananshiku said. The Zimbabwean authorities had responded courageously to that situation, making vital support available to 40 percent of the population in both rural and urban areas, while preparing for the seasons that would follow the drought. In that respect, the authorities' efforts had been extremely fruitful; agricultural production for the current year had improved significantly.

In the circumstances, there were inevitably areas where performance had not been as good as originally envisaged, Mr. Mwananshiku noted. While progress in decreasing the rate of inflation had not been as strong as the authorities had hoped, in particular for end-December 1992, further progress was continuing to be made in that area, and further declines in the rate of inflation were expected over the course of the current year. The balance of payments situation had been maintained as programmed, despite the need to import large amounts of food, and a number of structural reform measures had been put in place, although much remained to be done.

The main area of concern, however, remained the need for fiscal consolidation, Mr. Mwananshiku commented. As the authorities were beginning to focus their attention on the future, they were making the need for fiscal consolidation a high priority. In that connection, they intended to cut expenditures on defense and the civil service and to eliminate the current subsidies on maize in the period immediately ahead.

With respect to the external position, agricultural production was currently performing well, Mr. Mwananshiku said. However, only a small percentage of Zimbabwe's exports came from the agricultural sector. Therefore, the authorities were shifting the focus of their efforts to structural reform, particularly in the manufacturing sector. In the period since the problems related to the power supply had been resolved, the authorities had begun considering ways to restore credit to the private sector. They also placed high priority on the need to reform the remaining parastatals, notably the railway and the power company. While those two parastatals were by necessity monopolies in Zimbabwe, as in some other countries, the authorities were offering the steel company for privatization. Another area for the authorities' immediate attention was the reform of the marketing boards in the rural sector.

Significant progress in the reform of the trading sector had begun over the past year, and 85 percent of total internal trade was currently free of government controls, Mr. Mwananshiku went on. Most of the 15 percent of trade remaining under government control was related to maize meal. As

maize was the main food item in Zimbabwe, the authorities were particularly sensitive about taking action in that area. Nevertheless, as the staff had indicated, maize was slated to be the subject of further action in the near future.

It should be noted that the procedures related to the release of aid by donors posed a serious problem for not only Zimbabwe, but also almost all countries receiving aid, Mr. Mwananshiku commented. Often the procedures varied among donors, making it difficult for countries to follow up on aid commitments by the donor community. Therefore, it might be helpful to make an appeal for a general simplification and coordination of procedures in order to facilitate the flow of assistance to all developing countries.

The Chairman made the following summing up:

Executive Directors were in broad agreement with the thrust of the staff appraisal. Directors recognized the exceptionally difficult circumstances caused by the country's worst drought of this century and commended the authorities for having implemented the structural reforms programmed for 1992/93, including civil service reform, price decontrol, and import liberalization. Directors stressed that, while gains had been achieved in economic stabilization, substantial strengthening in the central government budget operations and the financial performance of public enterprises would be critical in order to achieve a further deceleration of inflation, establish the basis for adequate economic recovery, and strengthen the balance of payments with a view to achieving full sustainability by 1996.

Directors attached the highest priority to significant fiscal consolidation in the next fiscal year, in particular through containing expenditure outlays and reducing the Government's borrowing requirement, while protecting the revenue base. Directors supported efforts to improve tax efficiency and administration and to enhance the revenue base over the medium term. They stressed that the most urgent priority was to cut less productive expenditure, including subsidies, transfers to inefficient public enterprises, and defense expenditure. They also encouraged the authorities to fully implement the civil service reform. With regard to alleviating the impact of the cost of adjustment, the authorities' emphasis on meeting national social priorities in health, education, and nutrition was welcomed.

In the discussion of public sector resource management, Directors emphasized that public enterprise reforms needed to be accelerated in order to achieve fundamental improvements in their performance. Directors noted that public enterprises' operating deficits had been reduced, and they welcomed the greater flexibility in setting public enterprise prices. They stressed

that these gains should now be complemented by concrete measures to improve the overall efficiency of the public enterprise sector and, in particular, to restructure nonperforming enterprises. Moreover, it is critical to redefine and reduce the role of the public sector and, to this end, privatization should be pursued more actively.

Directors commended the authorities for the pursuit of a relatively tight monetary policy, and they noted that this policy has begun to bear fruit, as inflation has decelerated sharply. They emphasized that, in the period ahead, monetary policy should be directed toward consolidating this gain and ensuring further deceleration. A sharply reduced fiscal deficit and lower public sector borrowing needs were essential in order to accommodate the credit needs for the private sector to grow. Directors noted that short-term interest rates were high in relation to the expected rate of inflation, but agreed that an easing of monetary policy must be managed carefully with a view to subduing inflationary expectations.

Directors noted the fragility of the external position. They indicated that achievement of strong and sustained export growth would be important to the success of the reform and adjustment effort, and would have to be supported by appropriate incentives to ensure the planned sustainability of the external accounts, including the envisaged improvement in the official reserve position. In that context, it was also essential that multilateral donors would make special efforts to resolve any problems that may hold up disbursements of commitments.

Directors observed that significant progress had been made in the exchange and trade reform, and they welcomed the expansion in the export retention scheme as an appropriate step toward a liberal exchange and trade regime. They underscored, however, the need to further simplify the exchange system, develop a foreign exchange market, and rationalize the import facilities. Directors commended the authorities for the progress made in price decontrol, investment deregulation, and agricultural marketing and pricing reforms. They encouraged the authorities to eliminate administrative constraints on private investments and to phase out remaining government interventions in pricing decisions so as to promote an efficient allocation of resources.

It is expected that the next Article IV consultation with Zimbabwe will be held on the standard 12-month cycle.

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision relating to Zimbabwe's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1993 Article XIV consultation with Zimbabwe in the light of the 1993 Article IV consultation with Zimbabwe conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in EBS/93/67, Zimbabwe continues to maintain restrictions on the making of payments and transfers for current international transactions in accordance with Article XIV, Section 2, except that the exchange restrictions arising from the limitations on some remittances of profits and dividends abroad are subject to approval under Article VIII, Section 2(a), and that the multiple currency practice arising from the 20 percent fee on sales of foreign exchange for tourist travel is subject to approval under Article VIII, Section 3. The Fund urges early removal of these restrictive measures. In the meantime, the Fund welcomes the intention of the authorities to eliminate these restrictions as soon as possible, but in any case not later than June 1995, and grants approval for their temporary retention by Zimbabwe until December 31, 1993, or the date of completion of the next Article IV consultation with Zimbabwe, whichever is earlier.

Decision No. 10375-(93/73), adopted
May 19, 1993

Enhanced Structural Adjustment Facility - Review
Under First Annual Arrangement; and Review Under
Extended Arrangement

1. Zimbabwe has consulted with the Fund in accordance with paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Zimbabwe (EBS/92/141, Sup. 1), paragraph 4(c) of the arrangement under the extended Fund facility (EFF) for Zimbabwe (EBS/92/141, Sup. 2), and paragraph 38 of the memorandum of economic and financial policies annexed to the letter from the Senior Minister of Finance of Zimbabwe dated August 10, 1992.

2. The letter and annexed memorandum of economic and financial policies from the Senior Minister of Finance of Zimbabwe dated April 6, 1993, shall be attached to the arrangements for Zimbabwe under the ESAF and the EFF, and the letter and annexed memorandum dated August 10, 1992, shall be read as modified and supplemented by the letter of April 6, 1993.

3. Accordingly, the references in paragraph 2(a) of the first annual ESAF arrangement and paragraph 4(a) of the extended arrangement to Table 1 of the memorandum annexed to the letter dated August 10, 1992 shall comprehend the corresponding paragraphs and tables of the letter and annexed memorandum of April 6, 1993;

4. The Fund decides that the reviews referred to in paragraph 1 above have been completed and that, notwithstanding the nonobservance of certain performance criteria specified in paragraph 2(a) and (b) of its first annual ESAF arrangement and in paragraph 4(a) and (e) of its extended arrangement, Zimbabwe may proceed:

(a) to request the disbursement of the second loan, equivalent to SDR 30.4 million, referred to in paragraph 1(c)(ii) of the first annual arrangement under the ESAF; and

(b) to make the second purchase, equivalent to SDR 17.4 million, referred to in paragraph 2(a) of the extended arrangement.

Decision No. 10376-(93/73), adopted
May 19, 1993

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/93/72 (5/17/93) and EBM/93/73 (5/19/93).

3. STAFF MEMBER - LEAVE WITHOUT PAY

The Executive Board approves the proposal set forth in EBAP/93/30 (5/13/93) concerning the extension of leave without pay for a staff member.

Adopted May 18, 1993

4. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors and by Advisors to Executive Directors as set forth in EBAM/93/86 (5/14/93) and EBAM/93/87 (5/17/93) is approved.

5. TRAVEL BY ACTING MANAGING DIRECTOR

Travel by the Acting Managing Director as set forth in EBAP/93/32 (5/17/93) is approved.

APPROVED: February 14, 1994

LEO VAN HOUTVEN
Secretary