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Statement by Mr. Sangare on Zambia
Executive Board Meeting 81/143
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I should like to thank the staff for presenting a set of clear and concise papers which serve as the background for our discussion today. The economic and financial difficulties facing Zambia are well known to Executive Directors. In fact, it was only about six months ago that the Board approved a request by the Zambian authorities for an extended arrangement in support of a three-year economic and financial program.

It is clear from the information provided in the staff papers that Zambia continues to suffer from a low level of economic activity and severe balance of payments problems which explain the substantial accumulation of external payments arrears. The external payments problems have their roots in the depressed conditions of the world market for copper and cobalt, which are the major sources of Zambia's foreign exchange earnings and were aggravated by the country's narrow productive base which limited economic activity outside the mining sector.

As Executive Directors will recall the Zambian authorities' medium-term program referred to above aims at stimulating growth by diversifying the structure of production, creating domestic financial stability and improving the balance of payments position. To achieve these objectives, the authorities have taken corrective action in key sectors of the economy. In the agricultural sector increases in producer prices ranging from 19 per cent for maize and dairy products to 51 per cent for rice have been put into effect. The National Agricultural Marketing Board is being reorganized to, among other things, ensure timely payments to farmers and reduce its own operating cost. As a result of good weather and the measures taken to stimulate agriculture, production has increased substantially in 1981. The maize crop, the staple food of Zambia, is estimated to have doubled to nearly 1 million tons, about 300,000 tons more than national requirement. Significant production increases are also expected for wheat, rice, groundnuts, soya beans, tobacco, and sunflower seeds.

In the mining sector, the issues which led to industrial action and the attendant disruption of copper production during the first half of the year have been resolved. The authorities have decided to merge two of the mining companies and to encourage early retirement of personnel with a view to saving cost. Furthermore, to boost copper exports priority was accorded to payment of outstanding port charges to Tanzania and increasing use is being made of the southern route through Zimbabwe. Despite the small contribution which the mining sector is expected to make to total value added, GDP is projected to grow by 5 per cent in 1981 which is the highest rate recorded in a number of years.

In the fiscal area, the authorities are pressing on with the objective of improving the financial position of the Government. Confronted with loss of revenue from mining companies in 1981, the authorities took steps

to strengthen the revenue base by increasing excise taxes on various commodities and improved income tax collection. Cigarette taxes were raised from K0.02 to K0.05 per pack depending on quality and petroleum taxes from K.008 to K0.03 per liter. In addition, several taxes formerly suspended due to liquidity problems in certain companies have been reimposed, including the increase of K0.02 in duty on each bottle of clear beer and the K06/kg levy on sugar. Other revenue measures include increases in domestic sales tax ranging from 2 1/2 to 5 percentage points, an increase in sales tax on imports from 10 to 12 1/2 per cent, and reinstatement of the company income tax at 50 per cent. Thus far, tax collections have exceeded original estimates, and 1981 revenues are projected to total K900 million compared with K858 million envisaged under the program.

The authorities are giving particular attention to the need to restrain government expenditure. A major step in this regard is the decision to reduce subsidies by 41 per cent and other constitutional and statutory obligations by about 49 per cent. The decrease in subsidies is due in large measure to the elimination of expensive maize imports because of good harvest in 1981, as well as to the adoption of appropriate pricing policies for goods and services provided by the public sector. Total recurrent expenditures, however, are expected to be about 8 per cent higher in 1981 than originally estimated primarily because of wage increases granted in the second half of 1980 and because of the Government's assumption of some local government salary obligations. To limit further wage expenditures, the Government has decided to restrict personnel recruitment to technical positions only. Reflecting these measures, overall budgetary deficit as a percentage of GDP in 1981 is expected to decline sharply to 7 per cent from 16.0 per cent in 1980.

With regard to monetary policy, efforts to contain domestic demand are also reflected in recent data. Total domestic credit of the banking system and the system's net claim on government were within the ceilings targeted for the end of September 1981. This reflected large revenue collections and the determined efforts of the Government to contain expenditure authorization. By limiting government recourse to the banking system, the authorities hope that sufficient credit will be made available to the private sector and those public enterprises which are engaged in productive investment. Consequently, the staff expects the monetary targets for 1981 to be met. In March 1981, the rediscount rate was raised from 6.5 per cent to 7.5 per cent. The preferential lending rates for agriculture and manufacturing were eliminated with the maximum lending rate to all sectors now at 12 per cent.

In the external sector, a particularly worrisome problem for Zambian authorities is the continued weakness in the country's balance of payments position, reflecting lower export earnings resulting from falling world prices for copper and higher than anticipated service payments abroad. In fact, the authorities had had to reduce the volume of imports by as much as 18 per cent as a result of lower export earnings, the adverse implications of which cannot be overemphasized. As indicated in EBS/81/220,

both the current account and the overall deficit will exceed the program targets by about SDR 100 million in 1981. On exchange rate policy, the authorities believe that the present exchange rate for the kwacha is adequate; they have, nonetheless, stated that they are monitoring developments very closely and would not hesitate to take action should the need arise.

In the present circumstances where gross international reserves are at a level sufficient to cover only 2.2 weeks' imports, Zambia finds it difficult to reduce external payments arrears as originally planned for 1981. By the end of September, external payments arrears had increased to SDR 574 million, as compared with the adjusted ceiling of SDR 447 million. The authorities believe, and it is true, that the excess over the ceiling would have been only SDR 77 million if the ceiling were adjusted to take account of the fact that the starting point reached prior to the adoption of the program was underestimated by about SDR 100 million. The failure of Zambia to meet the September criterion on external payments arrears was also due in part to the delay in the second purchase under the extended arrangement. The authorities therefore request a waiver of the performance criterion on external payments arrears for the end of September. They are also seeking the approval of the Board for an upward adjustment at the end of December 1981 ceiling for arrears to SDR 399 million to take account of the underestimation of the base figures.

In view of the fact that the authorities have been able to meet all the performance criteria, except that on arrears, and of the staff's assessment that the fiscal and monetary objectives of the program for 1981 can be attained, I hope that Executive Directors will adopt the proposed decision contained in EBS/81/220. As indicated in the letter from the Minister of Finance and the Governor of the Bank, attached to EBS/81/220, the Government of Zambia is fully committed to the medium-term program and is prepared to take additional measures where necessary to ensure the realization of its goal.