

**DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE**

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**The Chairman's Summing Up at the Conclusion  
of the 1981 Article IV Consultation with Zambia  
Executive Board Meeting 81/143, November 18, 1981**

The Executive Directors were in broad agreement with the views expressed in the staff appraisal (SM/81/196, 10/22/81). They welcomed the progress achieved so far in implementing adjustment measures under the medium-term program, especially in the areas of agricultural production, pricing policies, and subsidies, but believed that much remained to be done, especially since economic and financial circumstances had proved more difficult than anticipated. Concern was expressed regarding the continued difficult balance of payments situation and in particular with the increase in arrears beyond the program targets. Directors argued that a reduction in arrears was essential to a strengthening of external confidence and to an improvement in Zambia's creditworthiness. It was suggested that arrears should in the future be monitored on a monthly basis.

Directors agreed with the staff's view that the difficult balance of payments situation and the unfavorable medium-term outlook required that substantial additional adjustment measures be implemented without delay. They felt that output in the productive sectors would have to be increased through concerted supply-oriented measures--including appropriate incentives in the farm sector and the mining industry--and through a more determined policy in the area of demand management. Directors emphasized that budgetary policy was the key element of the adjustment process. While efforts to strengthen revenue collection should be sustained, further restraint on expenditure--particularly with regard to budgetary subsidies--would have to be the main means of strengthening Government finances. Further flexibility in pricing and interest rates, which were clearly negative, was called for. Given the deterioration in the financial position of the mining sector, and the authorities' aim to diversify away from the excessive dependence on mineral exports, Directors emphasized that a comprehensive review of the exchange rate policy would be desirable; several Directors considered that a depreciation in the rate was warranted.

In sum, Directors urged the Zambian authorities to implement without further delay the strong and sustained additional adjustment measures needed to achieve the stabilization objectives of the extended arrangement program. Such additional measures will be crucial for an agreement on the second year program.