

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

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Statement by Mr. Sangare on Zambia
Executive Board Meeting 82/159
December 13, 1982

I should like to express my appreciation to the staff for their paper which sets out in a very clear and objective manner Zambia's request to make a purchase under the compensatory financing decision.

In the last two years, the balance of payments situation in Zambia has weakened as the current account balance moved from a surplus of SDR 103 million in 1979 to a deficit of SDR 596 million in 1981 reflecting mainly a shortfall in export earnings and an increase in payments on services including interest payments on external debt. Despite significant capital inflows in 1981 associated with the mining industry, the overall position deteriorated further from a deficit of SDR 173 million in 1979 to SDR 327 million. As a result, external reserves fell from SDR 60.7 million in 1979, the equivalent of 4.3 weeks of imports to SDR 40.7 million in 1981, representing 2 weeks of import cover. The projected outturn for 1982 indicates that Zambia's balance of payments will remain under pressure. Although the current account position is expected to improve as a result of a reduction in imports, the overall position is again projected to show a substantial deficit, with external reserves remaining precariously low at only 2.5 weeks of imports.

Zambia's export earnings, particularly from copper and cobalt, the principal export commodities, have been falling steadily since 1979 mainly as a result of depressed world demand. In 1981/82, Zambian copper fetched on the London Metal Exchange an average price of 70 cents per pound which was 12 per cent below the average price in the previous year. In the case of cobalt, the price fell from US\$25.2 per pound in 1979/80 to US\$7.3 in 1981/82. Meanwhile, production continued to expand with copper output rising by one per cent in 1981/82 and is expected to increase by the same amount in 1982/83. Likewise, production of cobalt has increased, and its accumulated stock reached the level of 2,700 tons at the end of June 1981 or three times the level held in the previous year and remained virtually at that level by the end of June 1982, despite all efforts by the Zambian authorities to dispose of their cobalt even at considerably low prices. It is therefore crystal clear that the export shortfall was due to factors that were outside the control of my Zambian authorities.

Meanwhile, it is expected that the price of both copper and cobalt will improve somewhat in 1983. But the extent of this improvement will depend on the recovery of the world economy mainly in the industrial countries. In this connection, it may be noted that the Zambian authorities have been making efforts to increase the volume of cobalt exports and to obtain better prices.

With regard to cooperation with the Fund it will be recalled that on May 8, 1981, Executive Directors approved an extended arrangement for Zambia. The objective of the program was to restore the financial balance while accelerating economic growth through, inter alia, diversification into the agricultural sector. In this regard, it may be noted that some significant strides had been achieved in diversifying the economy into agriculture and also in meeting the fiscal targets. However, the program met with some setbacks in the first year as unfavorable external environment exerted renewed pressure on the balance of payments, as a result of which some of the performance criteria for December 1981 were not met and the program had to be canceled in July this year. In the meantime, the authorities are negotiating with the Fund with a view to concluding a new arrangement. The staff last month held discussions on the 1982 Article IV consultation with my Zambian authorities, including further discussions on a financial program. I had the privilege to attend part of these discussions and I can assure Executive Directors that these proved useful to my authorities in their further efforts to find solutions to the financial and economic difficulties. In connection with the new restrictions subject to approval by the Fund, it should be noted that the imposition of a 10 per cent foreign exchange levy on overseas travel and education was necessary because of the persistent and increasing pressure on the external payments position rooted in the continuing unfavorable external environment, which had compounded the problem of payments arrears. The authorities will not hesitate to remove restrictions on external transactions and eliminate arrears as soon as the external payments position permits.

In view of the foregoing, it is clear that Zambia has a balance of payments need, and that the authorities are cooperating with the Fund in seeking solutions to their economic and financial difficulties. The Board should also note that the staff agrees that the Zambian request meets all the requirements of the compensatory financing decision. I should therefore urge the Board to approve the decision on page 12 of EBS/82/212.