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To: Members of the Executive Board

From: The Secretary

Subject: **Zambia—Selected Issues and Statistical Appendix**

The attached paper provides background information to the staff report on the 1997 Article IV consultation discussions with Zambia, which was circulated as SM/97/226 on August 29, 1997.

Mr. Harmsen (ext. 38531) or Mr. Almekinders (ext. 34281) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Thursday, October 2, 1997; and to the African Development Bank (AfDB), the European Commission (EC), the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), and the United Nations Development Programme (UNDP), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

ZAMBIA

**Selected Issues and Statistical Appendix**

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Approved by the African Department

September 22, 1997

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## **I. RECENT ECONOMIC DEVELOPMENTS<sup>2</sup>**

### **A. Overview**

1. Economic activity recovered significantly in 1996. Real GDP expanded by almost 6½ percent, compared with a cumulative decline of 12½ percent in 1994-95. Good rains stimulated agricultural production, while the other nontraditional and mining sectors also contributed to the turnaround in economic activity. However, owing to a sharp deterioration in the terms of trade, largely on account of falling copper prices, real national income increased by only 2 percent. Aided by the abundant food supply and the tightening of financial policies since mid-1996, consumer price inflation decelerated to 35 percent for the year ended December 1996 and further to 20 percent in August 1997. Notwithstanding wide swings in budget performance during 1996, the fiscal position improved, with a domestic fiscal surplus<sup>3</sup> (on a cash basis) of more than 1 percent of GDP for the year as a whole, compared with virtual balance in 1995. Fiscal performance during the first half of 1997 continued its erratic pattern, with revenue shortfalls and expenditure overruns in the first quarter of the year and a significant recovery in tax collection during the second quarter. The balance of payments strengthened markedly in 1996, and the overall external deficit is estimated to have narrowed further during the first half of 1997. Following a sharp depreciation of the kwacha during the first four months of 1996, the improvement in the external position has resulted in relative stability of the exchange rate since then. During the last few years, Zambia has embarked upon a broad agenda of structural reforms, including privatization of state enterprises, trade liberalization, civil service reform, and financial sector restructuring. Particularly noteworthy has been the recent progress in trade liberalization and privatization.

### **B. Growth and Inflation**

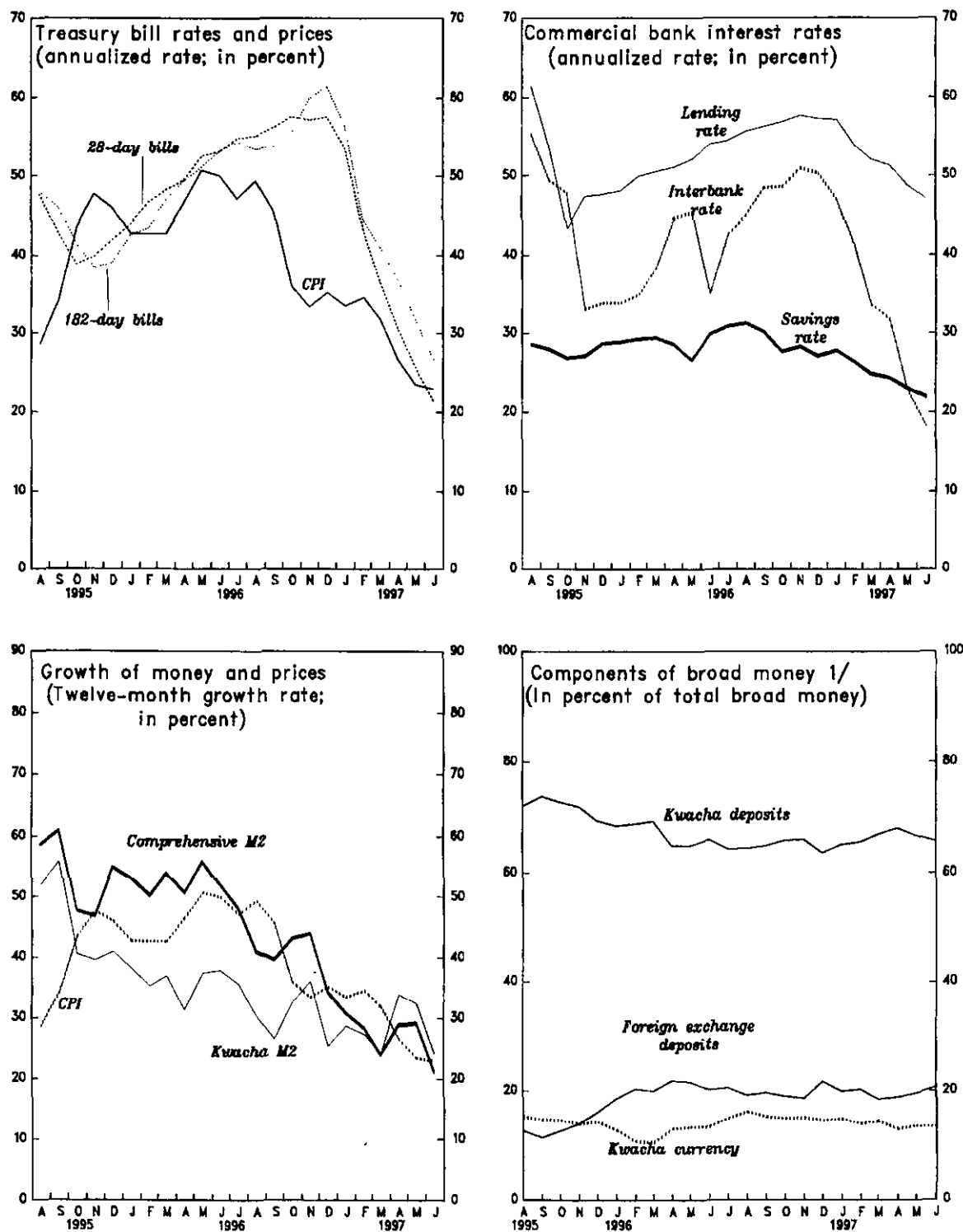
2. The favorable weather conditions during the 1995/96 (May/April) crop season resulted in a near-doubling of the marketed production of maize, Zambia's main staple food; production of some other agricultural crops recorded growth rates of more than 100 percent, in particular sunflower seeds, seed cotton, and soybeans. The mining sector recorded 12 percent real growth, with production of copper and cobalt increasing by 2 percent and 70 percent, respectively. Wholesale and retail trade (13 percent) and restaurants and hotels (18 percent) were other strong growth sectors. The recovery in the manufacturing sector was modest, however, with total output rising by only 2½ percent after three consecutive years of decline, led principally by expansion in textiles, basic metals, chemicals, and plastics production.

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<sup>2</sup>Detailed data are contained in the Statistical Appendix.

<sup>3</sup>The domestic fiscal balance excludes foreign grants, interest payments on foreign debt, and foreign-financed capital expenditures.

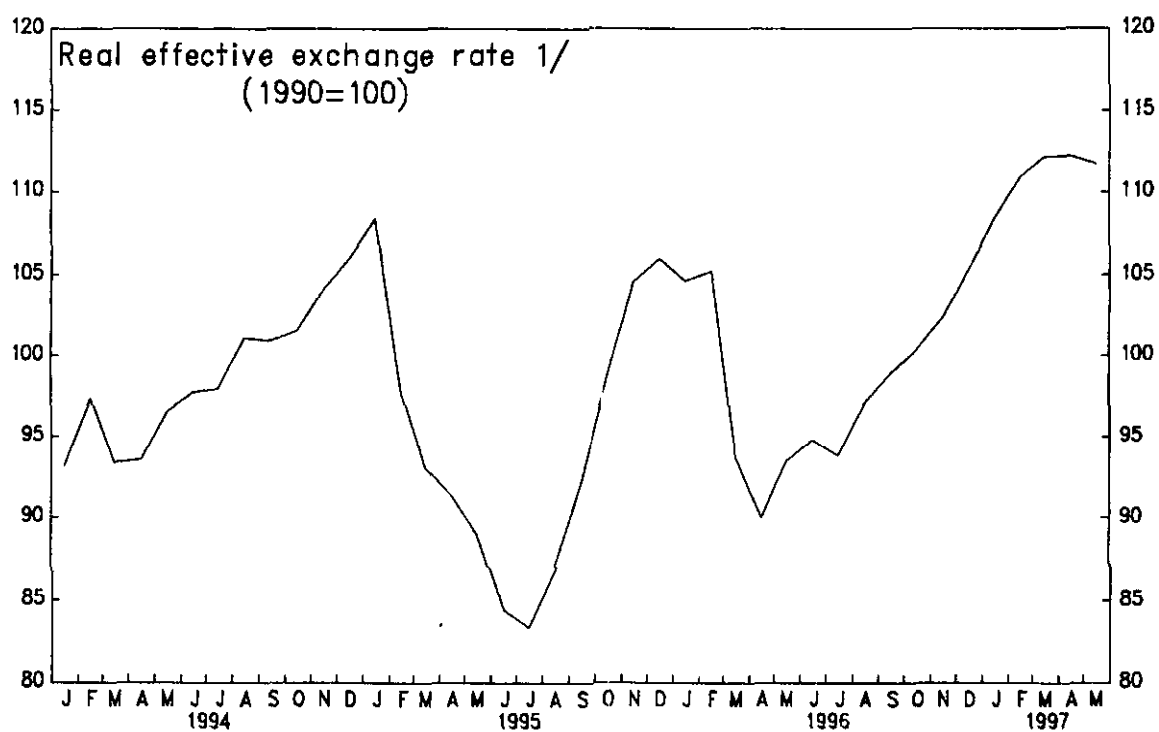
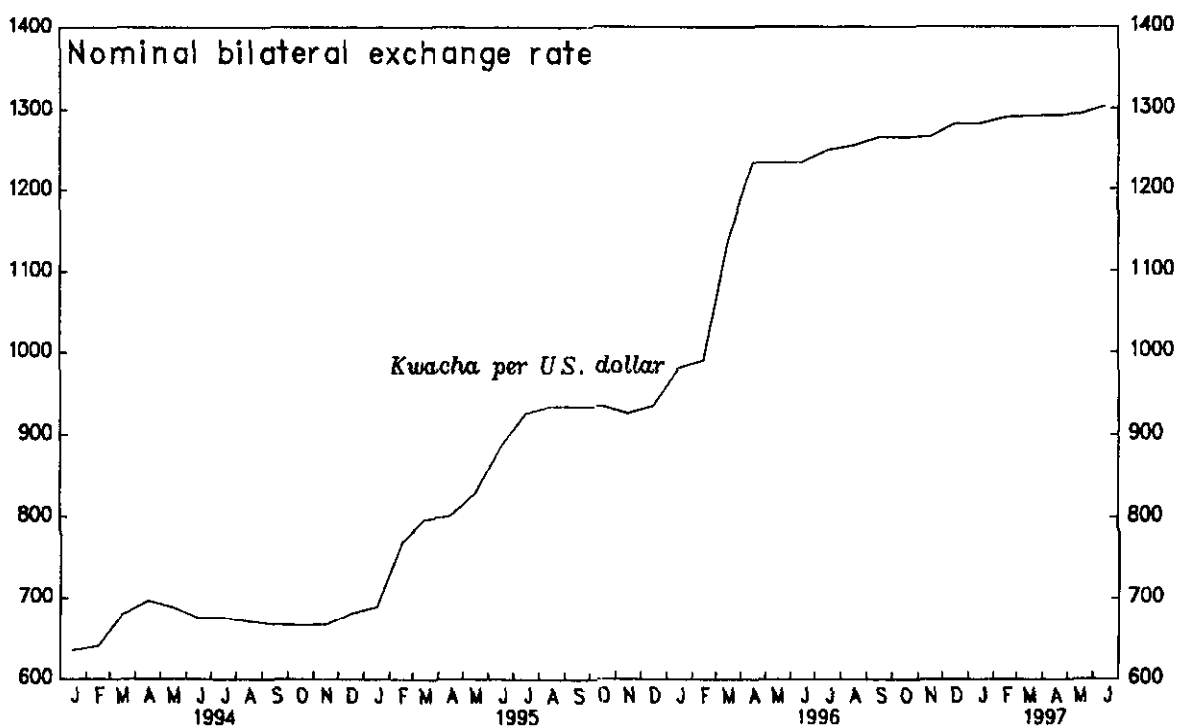
Figure 1. Zambia: Selected Monetary Indicators,  
August 1995-June 1997



Sources: Bank of Zambia; and Ministry of Finance.

1/ As a share of total broad money.

Figure 2. Zambia: Selected Exchange Rate Indicators,  
January 1994-June 1997

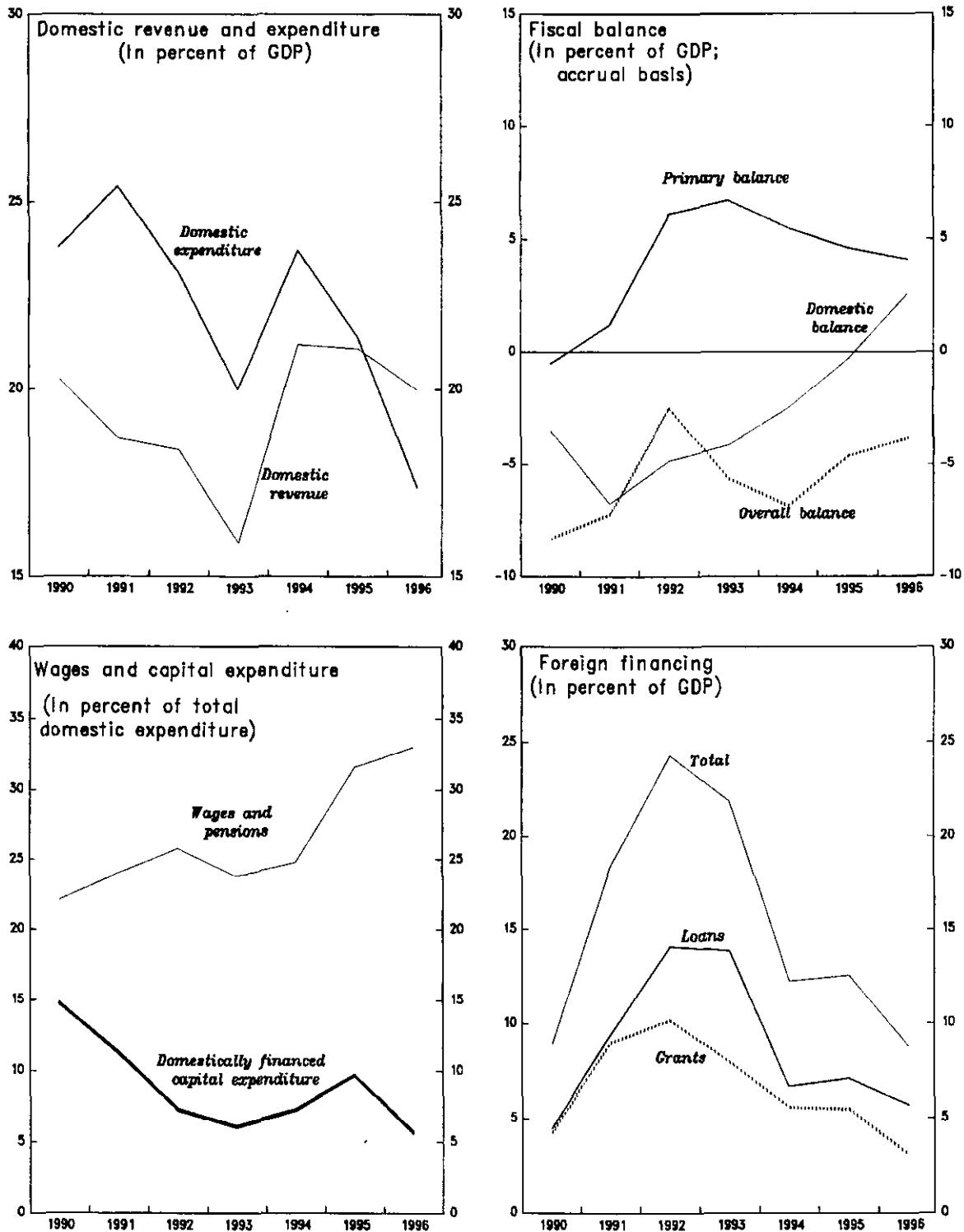


Source: IMF, Information Notice System; and Fund staff estimates.

1/ Weighted by total trade. A rise in the index indicates a real appreciation of the kwacha.



Figure 3. Zambia: Selected Fiscal Indicators, 1990-96



Sources: Zambia authorities; and Fund staff estimates.

3. Reflecting the increase in production, domestic demand grew by 1½ percent in real terms during 1996. The government's efforts to regain control over the budget after serious fiscal slippages early in the year and in October 1996 resulted in a severe compression of real public consumption and domestically financed capital expenditure, which declined by 13 percent and 50 percent, respectively. The drop in domestically financed public investment was offset by a strong increase in foreign-financed capital expenditure, and private investment increased from 8 percent of GDP to 10 percent, mainly reflecting increased activity emanating from the privatization process (Table 1). The strengthening of the fiscal position resulted in a rise of 1½ percentage points in domestic savings, to the equivalent of 9 percent of GDP. With private consumption increasing by ½ percent of GDP, the contribution of the private sector to the mobilization of savings remained subdued.

Table 1. Economic Activity and Inflation, 1994-96

	1994	1995	1996
	(Percentage change)		
Real GDP	-8.6	-4.3	6.4
Consumer prices (end-of-period)	38.4	46	35.2
	(In percent of GDP)		
Consumption	91.1	92.3	90.8
Private	(76.3)	(77.7)	(78.2)
Government	(14.8)	(14.6)	(12.6)
Investment	13.4	13.9	15.9
Private	(9.0)	(8.2)	(10.1)
Government	(4.4)	(5.7)	(5.8)
Gross domestic savings	8.9	7.7	9.2
Private	(2.8)	(1.2)	(1.7)
Government	(6.1)	(6.5)	(7.4)

Sources: Data provided by the Zambian authorities; and staff estimates.

4. Reflecting expansionary financial policies and a 30 percent depreciation of the kwacha vis-à-vis the U.S. dollar during the first four months of 1996, inflation, as measured by the consumer price index (CPI), accelerated to 50 percent in June 1996 (12-month basis), up from 46 percent at end-1995, but declined steadily thereafter, to 20 percent for the year ended August 1997. The abundant food supply and the tightening of financial policy since mid-1996 has contributed importantly to the slowing of inflation. Nonfood prices exhibited the same downward trend as food prices, despite several increases in administered energy prices.<sup>4</sup>

<sup>4</sup>In December 1996 and June 1997, petroleum prices were raised by 13 percent and 24 percent, respectively, and in February 1997, electricity prices were raised by 70 percent.

## C. Public Finances

### Developments in 1996

5. The centerpiece of the stabilization effort in 1996 was the tightening of the fiscal stance, with the targeting of a domestic fiscal surplus (on a cash basis) of K 40 billion (1 percent of GDP), compared with a surplus of 0.3 percent of GDP in 1995. The fiscal position deteriorated significantly in the early part of the year, however, with sizable budget deficits in January and February, largely on account of increased domestic interest payments and serious problems of expenditure control. Budgetary control was regained in March through sharp reductions in purchases of goods and services ("recurrent departmental charges") and capital expenditure, which limited the domestic fiscal deficit in the first quarter to K 7 billion.

Table 2. Revenues and Expenditures, 1996/97

(In billions of kwacha)

	1996				1997	
	Q1	Q2	Q3	Q4	Q1	Q2
Domestic revenue	178	199	212	239	191	269
Domestic expenditure	166	161	195	199	212	217
Of which: capital expenditure	9	11	11	9	16	13
Payments of domestic arrears	12	2	9	28	0	4
Statistical discrepancy	-7	5	-8	3	-9	-7
Domestic balance (cash basis)	-7	42	-1	16	-30	41

Source: Data provided by the Zambian authorities.

6. Additional measures were adopted in the second quarter, as it became apparent that the targeted fiscal surplus for the year as a whole was in jeopardy. New actions on revenue included the improved collection and remittance of fees and charges; the strengthening of customs duty collections through the use of cross-checking procedures with South African and Zimbabwean customs; the auditing of bonded warehouses; the improvement of the administration of the import declaration fee; and the inclusion in the value-added tax base of most food items. At the same time, the government identified a number of measures to limit the growth in expenditure. Most of the expenditure cuts came from a severe compression of domestically financed public investment, which was reduced by 30 percent from budgeted levels. Other expenditure measures included reduced travel allowances for foreign travel; the imposition of across-the-board expenditure cuts in recurrent departmental charges of 8 percent from budgeted levels; and reduced funding for civil service retrenchment, which was proceeding more slowly than envisaged. With the implementation of these measures in the second quarter, the fiscal position for the first half of 1996 improved to an overall fiscal surplus of K 35 billion (equivalent to 1.7 percent of GDP on an annualized basis), significantly higher than the budget target of K 20 billion.

7. The sharp drop in copper prices in May/June 1996 and the shortfall in bilateral donor assistance necessitated a further tightening of financial policies to close the financing gap. However, the budget position worsened in October, as the government spent about K 18 billion on unbudgeted court-ordered payments to the former owners of nationalized companies<sup>5</sup> and K 13 billion on previously unrecorded domestic arrears. As a result, domestic fiscal deficits of K 30 billion and K 3 billion were recorded in October 1996 and November 1996, respectively. The government implemented strong corrective measures in December, which resulted in an increase in revenue of K 43 billion compared with the November outcome. Of this increase, K 27 billion was brought in through special revenue measures, including vehicle registration fees, collection of tax arrears, privatization receipts, and parastatal profit transfers. In addition, cuts in nonwage current and capital outlays resulted in a K 19 billion reduction in expenditure in December compared with the outcome in November. As a result of these measures, a domestic fiscal surplus on a cash basis of K 49 billion (1.2 percent of GDP) was achieved for the year as a whole.<sup>6</sup>

#### **Developments in the first half of 1997**

8. The main objectives of the 1997 budget, which was submitted to parliament on January 31, 1997, were to reduce inflation by generating a domestic fiscal surplus of K 62 billion (1.2 percent of GDP), and to reconfigure the expenditure profile toward high-priority sectors, including social expenditure and public investment in the road system. To achieve these objectives the government aimed to limit the increase in the government wage bill to 17 percent over the outcome for 1996.

9. During the first quarter of 1997, fiscal developments deteriorated sharply, with the domestic fiscal balance moving to a deficit of K 30 billion (equivalent to 2.2 percent of GDP on an annualized basis). Domestic revenue was K 29 billion lower than budgeted, reflecting the poor performance of income tax, a shortfall in international trade taxes, and the lower-than-expected nontax revenue, as the receipts from increased vehicle registration/driver's license fees and state property rents were negligible. Domestic expenditure exceeded the budgeted amount by K 28 billion, primarily reflecting higher expenditures on interest payments and other current expenditures. Owing to a strong increase in revenues, coupled with a compression of capital expenditure and recurrent departmental charges, the overall fiscal position improved considerably in the second quarter, with the domestic fiscal balance moving to a surplus of K 41 billion. Total current domestic expenditure, however, exceeded the budget target by K 33 billion during the second quarter, owing mainly to an unbudgeted K 30,000 across-the-board increase in monthly civil service wages, which was made

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<sup>5</sup> Most of these nationalizations had taken place in the mid-1980s.

<sup>6</sup> The overall fiscal deficit (on an accrual basis) was 3.8 percent of GDP, compared with 4.6 percent in 1995 (Figure 3).

retroactive to January 1997 and came on top of the K 10,000 wage award granted earlier in the year. The wage increase would bring the wage bill to K 292 billion for 1997, representing a rise of 32 percent over the 1996 outcome. As a result, the share of wages in total domestic expenditure would increase to 33 percent (Figure 3). In addition to the deviations from the budget plan during the first half of the year, a number of new fiscal liabilities emerged, including previously unidentified domestic arrears (K 57 billion outstanding as of end-December 1996), obligations to the civil service pension fund, and unbudgeted awards and compensation payments.

#### **D. Monetary Developments**

10. Monetary developments in 1996 were characterized by strong credit growth to the nongovernment sector (40 percent), most of which occurred during the first half of the year. In response to the rapid monetary expansion, the Bank of Zambia (BoZ) raised the minimum cash reserve requirement,<sup>7</sup> from 3 percent in July to 8 percent in December 1996, and the minimum core liquid assets ratio<sup>8</sup> was raised in three steps, from 30 percent in July to 43.5 percent in December. As a result, private sector credit expansion slowed considerably and broad money virtually remained unchanged in the second half of the year. For the year as a whole, broad money rose by 34 percent, compared with 55 percent in 1995, broadly in line with the growth of nominal GDP. Owing to the uncertainties following the loose fiscal stance in early 1996 and the tightening of monetary policies in the second part of the year, the market-determined interest rate on 28-day treasury bills rose from 41 percent at end-1995 to 57 percent at end-1996 (annualized).

11. The Bank of Zambia broadly maintained its tight monetary policy stance during the first half of 1997. The higher minimum core liquid assets ratio<sup>9</sup> provided limited room for credit expansion by commercial banks. Moreover, high lending rates and a cautious lending policy by banks resulted in subdued credit growth to the private sector during the first half of 1997. In contrast, the considerable government borrowing requirement prompted a strong expansion of net bank claims on the government, and total domestic credit grew by 14 percent, compared with 28 percent during the same period in 1996. The growth of net domestic assets during the first half of 1997 was partly offset by a deterioration in the net foreign assets position of the banking system, which limited broad money growth to 17 percent, compared with 29 percent in the first half of 1996.

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<sup>7</sup>Banks are obliged to hold a minimum cash balance at the BoZ, which is calculated as a percentage of their total liabilities, including liabilities denominated in foreign currencies.

<sup>8</sup>The core liquid assets ratio is the ratio of liquid assets (notes and coins, current account balances, treasury bill holdings, and open-market placements with the BoZ) to total assets.

<sup>9</sup>At end-1996, the actual core liquid assets ratio of commercial banks stood at 27.5 percent, below the required minimum of 43.5 percent.

Table 3. Sources of Money Growth, 1996/97

	1996				1997	
	Q1	Q2	Q3	Q4	Q1	Q2
(Change in percent of beginning-of-year broad money)						
Net foreign assets	-48.1	-33.1	-49.3	-43.0	-10.6	5.5
Net domestic assets	58.5	62.5	78.9	77.4	12.9	11.4
<i>Of which:</i>						
Net claims on government	9.5	2.4	11.3	3.9	11.3	8.5
Claims on nongovernment	6.9	15.7	21.1	22.8	-4.1	1.8
Broad money	10.4	29.4	29.6	34.4	2.3	16.9

Source: Data provided by the Zambian authorities.

12. A more restrained issue policy of the BoZ in the treasury bill market, coupled with the need for commercial banks to increase their holdings of treasury bills to meet the core liquid assets requirement, led to a rapid decline of interest rates on treasury bills in 1997.<sup>10</sup> Reflecting, inter alia, persistently high inflationary expectations, the downward trend in commercial bank rates was less pronounced than for treasury bills: the margin between the 28-day treasury bill rate and commercial banks' rates on 30-day deposits swung from plus 10 percent in December 1996 to minus 16 percent in July 1997. As treasury bills constitute the bulk of assets held by banks to meet the minimum core liquid assets requirement, this de facto captive market may not properly reflect the underlying trend in market interest rates. In addition, the widening gap between commercial banks' deposit rates and the treasury bill rate had a negative impact on the profitability of the banks and contributed to the high lending margins on private sector credits.

## E. External Sector Developments

### Balance of payments

13. Despite the growth in copper and cobalt production recorded in 1996, the value of metal exports (in U.S. dollars) was 23 percent lower than in the previous year, mainly because of the sharp drop in copper prices in the wake of the Sumitomo trading scandal.<sup>11</sup> The copper parastatal's (ZCCM) copper export price fell by 29 percent, compared with 1995, and export

<sup>10</sup>Interest rates on 28-day treasury bills fell from 57 percent at end-1996 to 20 percent at end-July 1997.

<sup>11</sup>In June 1997, Sumitomo Corporation of Japan fired its chief copper trader for unauthorized trading and fraudulent transactions to cover the massive losses in copper trading he had sustained over a period of ten years. The news that Sumitomo Corporation could no longer maintain its dominant position in the copper market caused a sharp adjustment of copper prices.

volumes declined by 4 percent to 327,473 tons in 1996. In contrast, cobalt export volumes expanded significantly in 1996, by more than 65 percent, which more than offset the 16 percent drop in the average export price. In contrast to the disappointing performance in the metals sector, nontraditional exports—including flowers, cotton, and gemstones—continued to show rapid growth in 1996. While imports by ZCCM were depressed by the company's financial difficulties, and maize imports dropped as a result of the return of favorable agroclimatic conditions after the 1995 drought, the volume of other imports grew by about 20 percent; this, along with the deterioration in the terms of trade, pushed the trade balance into deficit for the first time since 1993.

14. The deficit in the services account is estimated to have narrowed significantly in 1996, largely reflecting rapid growth in tourism receipts. However, there was a sharp fall in official transfers to Zambia related to bilateral donors' concerns over governance issues, which, coupled with the slump in metal exports, contributed to the widening of the current account deficit to an estimated US\$221 million (6½ percent of GDP) in 1996, from US\$148 million (4½ percent of GDP) in 1995. Excluding official transfers, the current account deficit narrowed marginally, to the equivalent of 13½ percent of GDP.

15. Foreign direct investment, partly related to the privatization of state-owned enterprises, is estimated to have increased by 45 percent to US\$132 million, and short-term capital swung from a net outflow of US\$70 million to a net inflow of a similar magnitude. Part of the net inflow of short-term capital in 1996 reflected the accumulation of external payments arrears by ZCCM, which increased to US\$45 million at end-1996. The strong capital account allowed the BoZ to accumulate foreign exchange to offset the reserve loss suffered in early 1996 as a result of the central bank's selling of foreign exchange in support of the kwacha. The level of international reserves at end-1996 amounted to US\$211 million, equivalent to 1.7 months of imports.

### **External debt**

16. Box 1 describes Zambia's external debt situation. In February 1996, Zambia's Paris Club creditors agreed to reschedule on concessional ("Naples") terms Zambia's outstanding arrears on pre-cutoff-date debt and debt service falling due on pre-cutoff-date debt during the period 1996-98, with the agreement entering into force in March 1997 after the completion of the midterm review under Zambia's first annual ESAF arrangement. As of end-July 1997, Zambia had signed bilateral agreements with two of the nine participating creditors. Virtually no payments were made in 1996 by Zambia to its non-Paris Club official bilateral creditors.

### Box 1. Zambia's External Debt Situation

Even by the standards of sub-Saharan Africa, Zambia's external debt burden is exceptionally heavy. At the end of 1996 the stock of medium- and long-term public sector debt amounted to about US\$7 billion, equivalent to 204 percent of GDP and 530 percent of exports of goods and services, respectively. The debt burden has been broadly stable over the past five years, with the public sector debt/GDP ratio remaining in the region of 200 percent and the debt exports ratio fluctuating around 500 percent. Reflecting the concessional nature of much of the debt, especially that owed to the multilateral institutions, the end-1996 net present value of Zambia's external debt is estimated at about US\$4.4 billion, or 131 percent of GDP.

At end-1996 just under half of public sector external debt was owed to multilateral institutions, principally the World Bank and the Fund. Most of the remainder (36 percent of the total) was accounted for by loans from Paris Club creditors, with claims of non-Paris Club official bilateral creditors (notably Russia) making up a further 12½ percent. In 1996 the only disbursements of medium- and long-term credit came from the World Bank; there has been virtually no new lending by official bilateral creditors in recent years, with bilateral assistance instead taking the form of grants and debt relief.

The bulk of Zambia's commercial debt was eliminated in a 1994 IDA-supported buy-back, although a number of creditors (mostly holding very small claims) did not participate in that operation. The Zambian authorities estimate that the nominal value of these "dormant" claims, some of which were subsequently settled, is about US\$85 million, or just over 1 percent of total external debt outstanding.

Scheduled debt service on Zambia's public and publicly guaranteed external debt fell from an estimated US\$590 million in 1995 to US\$453 million in 1996, largely because 1995 was the final year of an amortization schedule for an earlier Paris Club rescheduling. Cash debt service fell by nearly US\$100 million to an estimated US\$279 million, with one major factor in the decline being the US\$45 million reduction in payments to the Fund, as charges on the Fund's general resources were replaced with interest due on Zambia's concessional ESAF loan. As a result, Zambia's debt service paid as a proportion of exports of goods and services fell from 27.3 percent in 1995 to 21.5 percent in 1996.



17. The past 18 months have also seen a number of developments with regard to disputed claims on Zambia. In May 1997, an agreement was reached between Zambia and Camdex International Limited, a company that had acquired a US\$134 million claim on the Bank of Zambia originally owned by the central bank of Kuwait. The agreement provided for a two-thirds reduction in the net present value of Camdex's claim, with repayment over eight years. During 1996, two smaller claims that had also been successfully litigated by creditors in the U.K. courts were likewise settled by agreements on partial payment of the nominal amounts due. As of end-August 1997, the most significant claim remaining in dispute was that being pursued in the U.K. courts by Ex-Printer International Bank NV, the holder of a US\$19 million commercial bank claim acquired from a creditor that had not participated in the 1994 commercial debt buy-back.

### **Exchange system**

18. There was one significant change in the exchange system in 1996, which was triggered by the Bank of Zambia's dispute with Camdex. In April 1996 the requirement that ZCCM surrender a portion of its foreign exchange proceeds to the Bank of Zambia was ended, in order to prevent these amounts (which were transferred from ZCCM to the Bank of Zambia's accounts in the United Kingdom) from being seized by Camdex.

## **F. Structural Reforms**

19. Structural adjustment measures have focused on four principal areas: civil service reform, the privatization of state enterprises, bank restructuring, and the liberalization of the external trade regime.

### **Civil service reform**

20. The Public Sector Reform Program (PSRP) was adopted in 1993 with a view to improving the quality of public services through, inter alia, the restructuring of ministries, civil service retrenchment, and the introduction of a performance-based management system with decompressed pay scales. In the context of the PSRP, new ministerial structures have been proposed for 20 ministries, of which 14 have been approved by the cabinet. Also, a partial hiring freeze has been implemented since July 1995, which has led to a reduction in non-military employment from a high of 125,000 at end-July 1995 to 121,006 at end-April 1997. The limited progress in the implementation of the PSRP has been caused, inter alia, by the prohibitive costs of civil service retrenchment under the current pension law. More recently, the authorities have been preparing a revised PSRP in cooperation with the World Bank.

### **Privatization**

21. Since the restructuring of the Zambia Privatization Agency (ZPA) in 1995, the privatization process has accelerated rapidly. By the end of April 1997, of the 326 companies in various stages of privatization or liquidation, 204 companies were privatized or liquidated

while negotiations on an additional 7 companies were completed or under way (Table 4). The government also took decisive action on the privatization of ZCCM in 1996. On the basis of a report issued in May 1996 by Rothschild, the U.K. investment bank, it was decided to break

Table 4. Status of Zambia's Privatization Program as at end-April 1997

	December			April
	1994	1995	1996	1997
Privatization deals completed	15	60	155	197
Negotiations completed	0.0	12	4	6
Heads of agreement signed	0.0	30	5	1
<b>Companies/units privatized</b>	<b>15</b>	<b>102</b>	<b>164</b>	<b>204</b>
Companies ready/under negotiation	4	24	30	34
Companies under preparation	32	12	28	43
Probable liquidation/asset sale	0.0	10	25	25
Memorandum item:				
<b>Total working portfolio under program<sup>12</sup></b>	<b>52</b>	<b>210</b>	<b>275</b>	<b>326</b>

Source: Zambia Privatization Agency progress reports.

up the ZCCM conglomerate into 11 packages. Nine of these packages were offered by international tender, while two others, the Konkola Deep and Konkola North mining projects, were offered separately. The international bidding process for the publicly offered packages was closed on February 28, 1997. The status of negotiations on these packages at end-June 1997 is summarized in Table 5 below.

Table 5. Status of ZCCM Privatization as at end-June 1997

Units	Status
Nchanga and Nkana Division	Negotiations with Kafue Consortium ongoing
Luanshya Division	Negotiations with Binani Group concluded
Mufulira underground mine	Negotiations with bidders ongoing
Chambishi Copper Mine	Negotiations with bidders ongoing
Kansanshi Copper Mine	Sold to Cyprus Amax Minerals (U.S.) on January 16, 1997
Nampundwe Pyrite Mine	No bids received
Chambishi Cobalt Plant	Negotiations with bidders ongoing
Ndola Precious Metals Plant	No bids received
Power Division	Negotiations with Copperbelt Energy Consortium concluded

Source: ZCCM, Privatization—Progress report as of June 30, 1997.

<sup>12</sup>The working portfolio of the ZPA is defined as the total number of companies the government has transferred to the privatization agency since the inception of the divestiture program. In March 1997, the ZPA reached agreement with the Ministry of Tourism on the terms of reference for privatizing 16 tourism properties, bringing the total working portfolio to 326 units.

22. A consortium led by Anglo-American of South Africa, the 27.3 percent minority shareholder in ZCCM is conducting a feasibility study with regard to the development of the Konkola Deep Mining Project. Following the signing of the Memorandum of Understanding on February 11, 1997, negotiations on the development of Konkola North with Avmin Ltd., a subsidiary of Anglovaal of South Africa, were completed. The sale of ZCCM's other assets, including nonmining subsidiaries such as the bulk transport fleet, began in September 1996.

### **Bank restructuring**

23. The demise of Meridien Bank, African Commercial Bank, and Commerce Bank in 1995 prompted a considerable strengthening of prudential supervision of the banking system in 1996. Stricter foreign exchange regulations were gazetted in March 1996, followed by regulations on large loan exposure and insider lending in June 1996, and loss provisioning rules in August 1996. Minimum capital requirements of the BoZ were raised in June and September, and small banks are now subject to a minimum capital requirement of K 2 billion. Larger banks are required to have primary capital equivalent to 5 percent of risk-weighted assets and total capital equivalent to 10 percent of risk-weighted assets. The capacity of the central bank to conduct on-site inspections was strengthened through intensified training and an expansion of supervisory staff. The BoZ also made progress in modernizing its accounting and interbank payments systems, and introduced a book entry system for securities transactions.

24. Notwithstanding improved regulations and supervision, the situation of the commercial banking system has remained fragile. The drought in 1995, and unexpected losses on maize stocks in 1996, in conjunction with bad loan management, have left a large number of banks with a sizable portfolio of nonperforming loans, mainly to the agricultural sector. Moreover, several banks have not met the minimum capital requirements. Financial restructuring plans for some of these banks have been under preparation: they provide for the sale of nonperforming loans of two commercial banks; the write-off of government deposits; the cancellation of debt owed to the BoZ; and the sale of the remaining assets and liabilities to larger domestic banks.

## **II. TRADE LIBERALIZATION<sup>13</sup>**

### **A. Introduction**

25. After gaining independence in 1964, Zambia embarked upon an interventionist, state-led development policy aimed at industrial import-substitution and agricultural self-sufficiency, supported by a highly protective exchange and trade regime. This policy was associated with the establishment of a large number of state-owned manufacturing industries and close involvement of the government in the marketing of agricultural products, subsidized rural credit, and the supply of fertilizer.

26. Since the early 1990s, the Zambian government has pursued an economic reform program aimed at reducing the role of the state in the economy and enhancing private sector growth through liberalization, deregulation, and privatization of state enterprises. This policy change reflected a recognition that reliance on administrative controls had driven much economic activity outside formal channels, depressed exports, and contributed to an inefficient structure of domestic production. A more open exchange and trade system was expected to help promote the growth of nontraditional exports, particularly in the agricultural sector, which was given special priority in view of the uncertain long-term prospects for the copper sector. The reforms—including liberalization in the agricultural sector, the elimination of exchange controls, and trade liberalization—have laid the basis for profound changes in the structure of the Zambian economy. While many older industries experienced slow growth and falling profitability as a result of increased pressures of international competition, new sectors benefited from the liberalization, as reflected in the strong growth of nontraditional exports since 1993.

27. As a result of the government's trade liberalization program, Zambia now has one of the most liberal trade regimes in Africa, thereby setting a positive example for other countries in the region. This chapter gives an overview of the reforms of the exchange and trade regime in 1990–96, their effects on the domestic economy, and the agenda for further rationalization of the trade regime in the period ahead.

### **B. Overview of Recent Reforms**

#### **Trade reforms in 1990–95**

28. At the end of the 1980s, Zambia's trade and exchange system was characterized by a dual exchange rate system, import and export licensing requirements, and a surrender requirement for export proceeds. Goods could be imported under an open general license (OGL) system or an export retention scheme. Initially, eligibility under the OGL system was restricted to specific industrial inputs and spare parts. Import licenses were granted only after approval

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<sup>13</sup>Prepared by Richard Harmsen.

of a foreign exchange allocation by the Foreign Exchange Management Committee, and were subject to a licensing fee equivalent to 5 percent of the c.i.f. value of the imported products. Import tariffs ranged from zero to 100 percent, and most imports were also subject to a 15 percent sales tax after the application of a 25 percent uplift factor. A duty drawback system for nontraditional exports was in place, but because of its complexity it remained virtually unused. In addition, exports of 48 groups of products were subject to controls or prohibitions.

29. A major first step toward a more open trade system was made in 1990 with a considerable reduction in the average level and dispersion of tariffs. A minimum tariff rate of 15 percent was established for most products that had previously been subject to a zero rate, and the maximum tariff rate was reduced from 100 percent to 50 percent. In addition, the scope for discretionary import duty exemptions was limited. The dual exchange system was unified in 1991 through the elimination of the official exchange rate, which had been applicable to external transactions by ZCCM and imports of oil and fertilizer. Also, the coverage of the OGL system was expanded considerably to include import categories equivalent to about 90 percent of merchandise imports, while the list of controlled or prohibited exports was reduced from 48 to 4 groups of products.<sup>14</sup> The import regime was further liberalized in 1992 with the inclusion of fertilizer in the list of products that could be imported under the OGL system and the reduction of the number of groups of products subject to import restrictions to 13.<sup>15</sup> Also, effective taxation of imports was lowered through a reduction of the uplift factor applied to the sales tax on imports, from 25 percent to 20 percent. The licensing requirement for OGL imports was eliminated in 1993, and the dispersion of tariffs was further reduced by raising the minimum rate to 20 percent while lowering the maximum rate from 50 percent to 40 percent. Most of the remaining restrictions on current international transactions were eliminated in 1994, and restrictions on imports were limited to a few products for health or security reasons. The following year witnessed some reversal of trade liberalization with the introduction, for fiscal reasons, of an across-the-board 5 percent Import Declaration Fee (IDF) on imports. The effects of the IDF were, however, mitigated by the elimination of the 20 percent uplift factor applied to the sales tax in the same year.<sup>16</sup>

### **Trade reforms in 1996**

30. Despite progress made in exchange and trade reforms during the first half of the 1990s, the trade regime continued to suffer from a number of anomalies and inefficiencies which urgently needed to be addressed. In particular, the competitiveness of exporters of

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<sup>14</sup> White maize, fertilizers, petroleum products, and ivory.

<sup>15</sup> The negative list included gold, silver, platinum, jewelry, weapons and ammunition, alcoholic beverages, tobacco, televisions, radios, video recorders, and passenger automobiles.

<sup>16</sup> The uplift had effectively increased import taxes by 4 percent for products subject to the sales tax.

nontraditional products and import-competing producers was undermined by relatively high tariffs (20 or 30 percent) on intermediate products and investment goods (machinery and equipment). Domestic producers were often faced with negative effective protection as many finished products, which were in general subject to the maximum rate of 40 percent, effectively entered the country at zero rates under an exemption or through smuggling. Also, the large number of exemptions reduced the transparency of the system, undermined the tax base, and created ample opportunities for fraud. For these reasons, the government decided to abolish, as of January 1996, exemptions for government imports, while exemptions on the basis of the Investment Code were limited to those granted in the context of existing covenants. At the same time, the average level of tariffs was brought down considerably through a 15 percentage point cut in tariffs on most products, while the tax base was further broadened through the elimination of the remaining import restrictions and prohibitions, with the exception of some restrictions for environmental, health, and security reasons.

31. The effects of the latest tariff reform on average most-favored nation (MFN) tariffs and tariff escalation are shown in Table 6. The simple average of MFN import tariffs, including the IDF, was brought down from 27 percent in 1994 to 19 percent in 1996; the trade-weighted average was equivalent to 16 percent in 1996.<sup>17</sup> Also, the dispersion of tariffs was narrowed considerably, with the difference between the statutory average tariff on raw materials and final goods reduced from 16 percentage points in 1994 to 12 percentage points in 1996. In the process, the high levels of trade taxes on imports of investment goods and intermediary products were reduced to some 15 percent in 1996.

### **Regional trade liberalization**

32. Zambia also participates in ongoing efforts to promote regional trade liberalization, including the liberalization programs of the Common Market for Eastern and Southern Africa (COMESA),<sup>18</sup> which was established in December 1994, and the Cross Border Initiative (CBI) for southern and eastern African countries, a regional integration initiative supported by the Fund, the World Bank, the European Union, and the African Development Bank. The member states of COMESA have agreed on the phased introduction of an intraregional free trade area by the year 2000, and a customs union by 2004. In line with its commitments to COMESA, Zambia currently applies a preferential rate of 60 percent of the MFN rate on imports from other member states. The countries participating in the CBI<sup>19</sup> are aiming,

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<sup>17</sup> The calculation of the trade-weighted average rate is based on detailed customs data on imports in that year. Comparable data for previous years are not available.

<sup>18</sup> Other members are Angola, Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, and Zimbabwe.

<sup>19</sup> Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

Table 6. Zambia: Most-Favored Nation (MFN) Trade Taxes, 1994 and 1996

	1994	1996
	(In percent, ad valorem)	
A. IMPORT TARIFFS		
Tariff range 1/	0-40	0-25
Tariff bands/rates	0, 20, 30, 40	0, 5, 15, 25
B. OTHER DUTIES AND CHARGES (ODCs)		
Fiscal duties	--	--
Import surcharge	--	--
Statistical tax	--	--
Other 2/	--	5
C. EXPORT TAXES		
Direct levies	--	--
Indirect levies	--	--
	(In percent)	
D. QUANTITATIVE INDICATORS		
Average import taxes 3/	27	19
Mining and industry	25	18
Raw materials	18	12
Machinery and equipment	24	15
Intermediate goods	19	14
Final goods	34	24
Agriculture	36	24
Trade tax revenue as a share of total revenue 4/	19.1	16.4
Import tax revenue as a share of total imports 4/	11.3	9.6
Exempted imports as a share of total imports	n.a.	24.8

Source: Zambian authorities; and staff calculations.

1/ In 1994, there was also a 20 percent import sales tax uplift which increased the effective import tax by 4 percentage points for products subject to the sales tax. The uplift was eliminated in 1995.

2/ Temporary Import Declaration Fee.

3/ Simple average MFN tariff, including the sales tax uplift (1994) and Import Declaration Fee (1996).

4/ Including the revenue effects of the sales tax uplift (1994).

inter alia, for the establishment by October 1998 of a free trade area, a harmonized external tariff with no more than three nonzero rates, a maximum rate of 20-25 percent (including all import taxes), a difference between the lowest and the highest rate of no more than 20 percentage points, and a weighted average rate of 15 percent.

### **Effects on tax revenue**

33. As a result of the tariff reductions and the successful introduction of a value-added tax (VAT) in 1995, Zambia's dependence on trade taxes as a source of revenue has fallen significantly. The share of trade taxes (including the 3 percent extraction royalty on exports of copper and cobalt) in total government revenue declined from 19.1 percent in 1994 to 16.4 percent in 1996. During the same period, the collection rate (the share of import tax revenue in total imports) declined only slightly, from 11.3 percent in 1994 to 9.6 percent in 1996, reflecting an increased efficiency of the customs administration and the effect of the reduction of exemptions. The tax reforms of the past few years have contributed to the integration of the Zambian economy in the world economy without substantially undermining the revenue effort.

### **C. The Effects of Trade Liberalization on Agriculture and Industry**

34. The liberalization policy in recent years has pushed the Zambian economy into a transformation process that has contributed to a fall in capacity utilization and increasing uncertainties in some sectors, while opening the road to strong growth in others. As a result of increased pressures from foreign competition and generally weak domestic demand conditions, many manufacturing industries—especially those that were slow to adjust—have been experiencing sluggish demand and falling profitability. A recent survey<sup>20</sup> of the industrial sector indicates that in early 1997, some 70 percent of reviewed enterprises in the manufacturing industry utilized less than 60 percent of their productive capacity, with the weakest firms in the metal sector, plastics and rubber, chemical and pharmaceutical products, paper and printing, textiles, and electrical goods. The picture of generally sluggish performance in the manufacturing industry is confirmed by the available production statistics, which show an average real decline in output of about 3 percent a year since 1990. At the same time, however, deregulation and trade liberalization have created favorable growth opportunities for a large number of enterprises in the last four years. Growth of production was particularly strong in the floricultural and horticultural sector, the sugar industry, and grain milling (including feed stock production). Most of the enterprises in these sectors, which are often foreign owned, were established after 1993 or successfully restructured after privatization.

35. The economic transformation has become most visible in the commodity structure of exports, which has changed considerably since 1993 (Table 7). In 1992, metal exports—mainly copper and cobalt—constituted some 90 percent of total exports. However, reflecting generally weak copper prices and falling productivity of the state-owned mining company

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<sup>20</sup> Peter O'Brien, Mamenga Ndulo, Dorothy Tembo, "Trade Relations of Zambia with SADC Partners: An Analysis of the Private Sector Situation, Lusaka", May 1997 (draft).



Table 7. Zambia: Composition of Recorded Exports, 1992-1996 1/

	1992	1993	1994	1995	1996
(In millions of U.S. dollars)					
Copper	867	717	729	851	568
Cobalt	144	149	181	133	187
Lead and zinc	8	4	0	0	0
Floricultural products	3	6	9	14	18
Horticultural products	3	2	2	4	9
Primary agricultural commodities	20	25	10	24	38
Processed foods	14	15	22	25	34
Semi-precious stones	10	13	9	8	11
Textiles	14	11	29	39	41
Building materials	4	4	3	5	8
Engineering products	25	31	35	39	37
Other	8	6	10	20	17
Total recorded exports	1120	983	1039	1162	967
of which metals	1019	870	910	984	755
of which nontraditional products	100	113	129	178	212

Source: Bank of Zambia.

1/ Non-metal exports reported in Appendix Tables 20-21 include estimates of unrecorded exports.

ZCCM, the total value of metal exports steadily declined in the following years, from some US\$1 billion in 1992 to only US\$755 million in 1996. During the same period, the U.S. dollar value of nontraditional exports more than doubled, reducing Zambia's dependence on copper and cobalt as sources of foreign exchange. The strongest growth, albeit from a low base, was recorded in floricultural and horticultural products, primary agricultural products (tobacco, coffee, cotton lint, soybeans, and maize), processed foods (mainly sugar), engineering products (copper rods and cables, copper alloys, brass ingots, and bicycles), and textiles (mainly cotton yarn). There are indications that the official statistics, which are based on customs data, underestimate the actual value of nontraditional exports (most notably gemstones) by a wide margin.

#### **D. Further Reforms in 1998**

36. Zambia's commitments under the CBI will require a further reduction of the maximum import taxation from 30 percent (including the IDF) to 20 percent or 25 percent by October 1998, with the difference between the lowest and the highest rate not exceeding 20 percentage points. In addition, import taxes on raw materials and investment goods, currently some 12–15 percent, need to be reduced substantially to improve the competitive position of exporters and import-competing domestic industries. These objectives can be achieved by unifying the import tax regime into one tariff schedule by eliminating the 5 percent IDF by January 1, 1998, as planned,<sup>21</sup> and transforming the existing tariff schedule into a system with a tariff of 5 percent on raw materials and investment goods, 15 percent on intermediate products, and 25 percent on consumer goods. Such a measure would be sufficient to bring the trade-weighted average rate of import taxation below 15 percent, in line with the objectives of the CBI.

37. A further strengthening of customs administration and fraud prevention, including intensified cooperation with customs officials of neighboring countries, will minimize the potential fiscal revenue loss of tariff reductions. Although exemptions were reduced substantially in early 1996, the value of exempted imports still constitutes some 25 percent of total imports. This number could be brought down considerably by a further reduction in exemptions; a close review of the implementation of exemptions based on international treaties; a reduction of the number of bonded warehouses in the country; and firm resistance against pressures for new duty exemptions.

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<sup>21</sup> The IDF was initially scheduled for elimination by end-1996, but the government decided to extend the IDF for revenue reasons for a period of one year.

### **III. LIBERALIZATION OF AGRICULTURAL POLICIES<sup>22</sup>**

#### **A. Introduction**

38. An important element of Zambia's structural adjustment efforts since the beginning of the 1990s has been the reduction of the role of the state in agriculture. Before the implementation of agricultural reforms, the state had direct control over rural credit and procurement, pricing, and marketing of major commodities, which was supported by restrictions on exports and imports of agricultural products. In addition, state-owned firms played an important role in farming and food processing. As a result of these policies, relative prices of agricultural commodities and food products were highly distorted, productivity remained low, and one of the key objectives of state intervention—lasting food self-sufficiency—was not achieved. The liberalization of agricultural policies since 1990, coupled with trade liberalization and privatization, has contributed importantly to the transformation of the Zambian economy since the early 1990s, as reflected in strong growth of private sector activity.

39. This chapter gives an overview of the objectives and main elements of agricultural policies in Zambia before 1990 and the implementation of the liberalization program since the early 1990s. Because of the detrimental effects of severe droughts in 1992, 1994, and 1995, it is still too early to give a full assessment of the effects of the liberalization program on productivity and the production structure. Nevertheless, it is possible to draw some preliminary conclusions with regard to private sector activity in the agricultural sector. Finally, this chapter discusses further steps needed to improve the growth prospects in the agricultural sector.

#### **B. The Role of Agriculture in the Zambian Economy**

40. Zambia is endowed with abundant arable land resources (Table 8). In 1995, available arable land per capita amounted to some 4 hectares, which is high in comparison with other African countries. However, less than one fourth of all land available for cultivation was actually cultivated, and the share of agricultural production in GDP has hovered around 20 percent in recent years. Only one half of total production of food crops—mainly maize, millet, wheat, and rice—is marketed, with the remainder being used for subsistence purposes and seed stocks. Although the share of the Zambian population living in the rural areas steadily declined from some 80 percent in the early 1960s to less than 60 percent in the mid-1990s, its dependence on agricultural activity as a source of income and daily nutrition remained high: the share of the agricultural labor force in the total labor force declined by only about 5 percentage points during this period, to an estimated 75 percent. The sector is still the largest source of formal employment, after public administration.

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<sup>22</sup>Prepared by Kaafee Billah and Richard Harmsen.

Table 8. Zambia: Changes in the Pattern of Land Use, 1961-94

	1961-65	1966-70	1971-75	1976-80	1981-85	1986-90	1991-94
(Thousands of hectares)							
Total land area	74,339	74,339	74,339	74,339	74,339	74,339	74,339
Agricultural land	34,820	34,918	34,985	35,048	35,164	35,234	35,272
land available for cultivation	4,820	4,918	4,985	5,048	5,164	5,234	5,272
land used as permanent pasture	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Forest and hills	30,740	30,390	30,040	29,690	30,000	30,470	32,000
Other	8,779	9,031	9,314	9,601	9,175	8,635	7,067
Agricultural land per capita (in hectares)	-	-	7.66	6.57	5.46	4.75	4.22
(Share in total land area, in percent)							
Agriculture land	46.84	46.97	47.06	47.15	47.30	47.40	47.45
land available for cultivation	13.84	14.08	14.25	14.40	14.69	14.85	14.95
land used as permanent pasture	86.16	85.92	85.75	85.60	85.31	85.15	85.05
Forest and hills	41.35	40.88	40.41	39.94	40.36	40.99	43.05
Other	11.81	12.15	12.53	12.92	12.34	11.62	9.51
Cultivated area as a percent of total land available for cultivation	-	26.84	29.32	23.28	16.05	23.45	22.76

Sources: Food and Agriculture Organization, World Bank.

### **C. Agricultural Policy Before 1990**

41. In line with a general policy aimed at strengthening government control over the economy, direct interventions of the state in the agricultural sector were dramatically expanded in the early 1970s. The main objectives of increased government involvement were threefold: (i) to achieve lasting self-sufficiency in food crops, to be able to feed a rapidly growing population and reduce or eliminate dependence on imports; (ii) to keep food prices low and stable for urban consumers; and (iii) to support equitable regional development. At the end of the 1980s, the government had the following instruments in place to achieve these objectives.

#### ***Fixed producer prices***

The government and parastatal institutions purchased the major agricultural commodities, including maize, groundnuts, sunflower seeds, soybeans, cotton, wheat, rice, and tobacco, at fixed producer prices. The prices were set at the beginning of the crop season, in general at levels well below world market prices (for maize prices, see Figure 4). With a view to promoting equitable regional development, producers in various parts of the country received the same price for their output, despite large differences in transportation costs and availability of agricultural support facilities.

#### ***Transportation and storage subsidies***

Regional procurement centers and storage facilities were owned by the state. Transportation costs from the farm gate to the procurement centers were borne by the producers. All the remaining costs of transportation, processing, handling, and storage were borne by the government.

#### ***Consumer price subsidization***

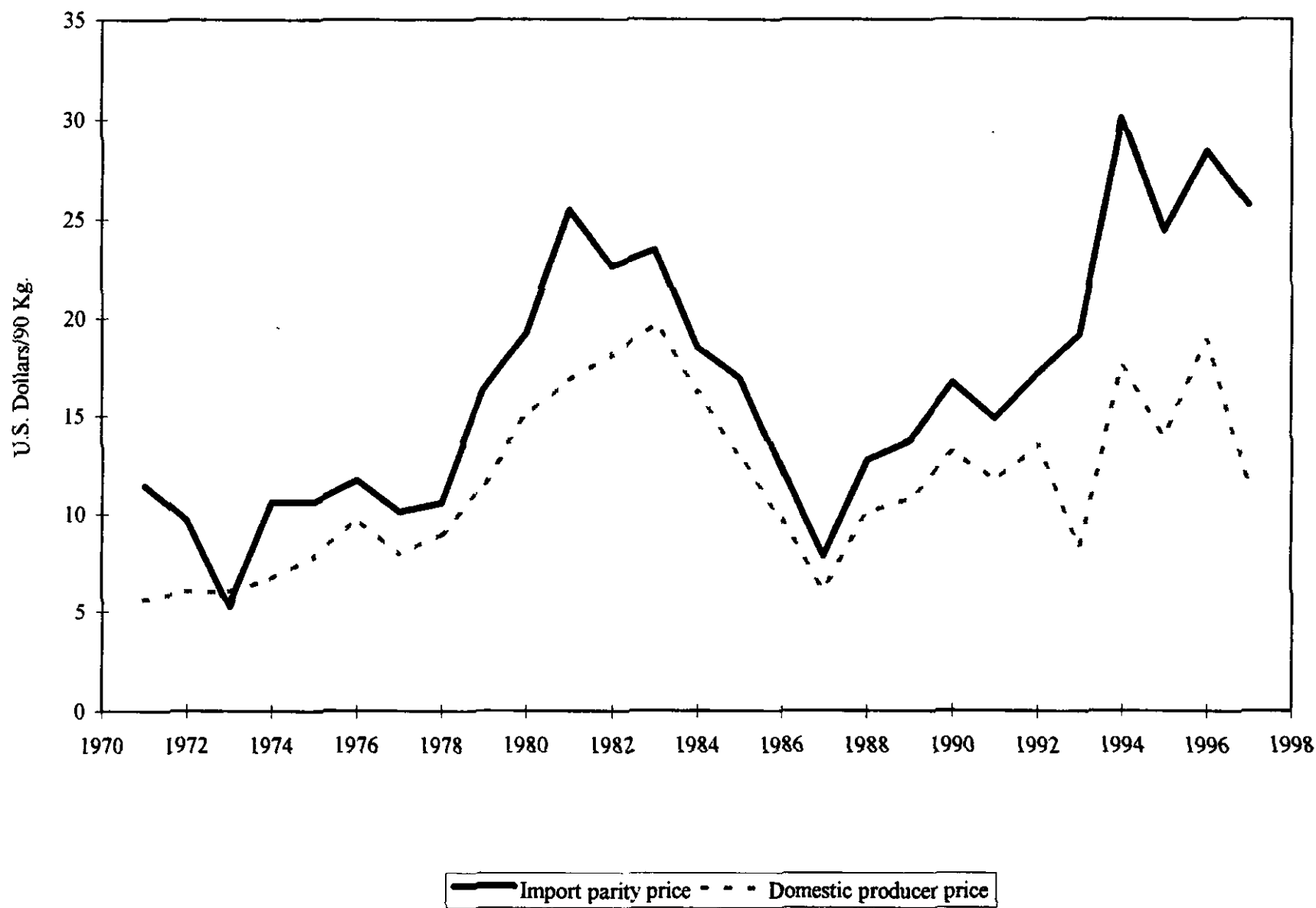
Processed agricultural products were sold to consumers at retail prices well below world market prices.

#### ***Subsidies on agricultural inputs and credits***

Government agencies supplied inputs (fertilizer, maize seed) at subsidized prices to producers all over the country. In addition, the government provided loans to farmers at subsidized interest rates; the bulk of these loans became nonperforming and were eventually written off.

42. As some of the key objectives of agricultural policies—in particular, food self-sufficiency and low food prices—were hard to reconcile, and the instruments ill-conceived, the overall net effect of the agricultural policies on agricultural production has been negative. For most products, the production incentives emanating from the subsidization of inputs (fertilizer), transportation, and other support facilities were insufficient to compensate for the

Figure 4. Domestic Producer Prices and Import Parity Prices of Maize in Zambia, 1971-1997 1/



1/ The import parity price is the c.i.f. price at the nearest port plus transportation and other costs, and a profit margin. Both the import parity price and the domestic producer price are computed for Lusaka.

negative effects of artificially low domestic producer prices. For a number of products, these policies have resulted over the years in sizable declines in the total surface of land under cultivation (Table 9). Also, despite improvements in yields, reflecting, inter alia, the provision of fertilizer at low cost, the objective of self-sufficiency was not achieved. On the contrary, Zambia's dependence on imports steadily increased between 1970 and 1985, and the food availability diminished (Table 10).

43. The subsidization policies were also very costly to the government. During 1975-85, consumer subsidization of maize, as measured by the difference between world prices (including processing and transportation cost) and domestic retail prices, averaged about 60 percent of the price consumers actually paid for processed maize. This resulted in a large and eventually unsustainable burden on government finances. In 1991, agricultural expenditure constituted 12 percent of total domestic expenditure of the central government.

#### **D. Liberalization of Agricultural Policies After 1990**

44. In light of the disappointing outcome of direct state intervention and the resulting unsustainable fiscal burden, the government acknowledged at the beginning of the 1990s that the liberalization of agricultural policies should constitute a key element of its structural adjustment efforts. A first, modest step toward agricultural liberalization had been taken in 1989 when administrative price controls were removed, except for those on maize, maize meal, and fertilizer. However, given the importance of maize, the effect of this price liberalization was small. More substantial progress was made in 1990 with the liberalization of trade in maize and fertilizer, which hitherto had been subject to a government monopoly. The price controls on maize and maize meal were removed in late 1991, resulting in a doubling of retail prices during the first months of 1992. In the following year, the government decided to cease the provision of subsidized rural credit and inputs; direct involvement in the area of procurement, transportation, and processing of maize was terminated as well. In the same year, the Agricultural Market Information System was created to facilitate the flow of local and international information on prices and supply and demand conditions to producers and traders across the country. Finally, official producer prices for maize were abolished in 1994.

45. Although the liberalization effort during the first half of the 1990s has led to a dramatic expansion of the role of market forces in the agricultural sector, the state has continued its involvement in certain key areas, with unfavorable, distortive effects on prices, trade, and government finances. With a view to reducing the risk of domestic food shortages, the government found it necessary to maintain the prohibition on maize exports during the severe droughts of 1992, 1994, and 1995. The export prohibition was suspended in early 1996, but the authorities have continued to manipulate foreign trade through restrictive licensing requirements for maize exports. As a result of the export restrictions, domestic maize prices have remained at levels well below import parity prices during 1994-96, despite the

Table 9. Zambia: Cultivated Area under Major Crops, 1966-95

	1966-70	1971-75	1976-80	1981-85	1986-90	1991-95
(In percent of total cultivated area)						
Cereals	87.3	86.5	79.0	68.9	69.7	64.7
Maize	72.3	70.1	67.1	62.3	60.3	53.1
Millet	9.5	11.1	6.9	2.4	3.5	5.4
Sorghum	5.6	5.2	4.5	2.6	4.2	3.6
Wheat	0.0	0.0	0.1	0.5	0.7	1.4
Rice	0.0	0.1	0.3	0.9	0.8	1.0
Barley	0.0	0.0	0.0	0.2	0.2	0.1
Oil seeds	6.0	6.6	10.0	13.0	14.1	14.1
Groundnut	5.5	5.5	6.8	3.0	5.6	6.0
Sunflower	0.1	0.7	2.1	6.2	3.6	2.6
Cotton seed	0.4	0.4	0.9	3.0	3.2	3.5
Soybean	0.0	0.0	0.2	0.8	1.7	1.9
Roots/tubers	2.8	2.7	4.6	8.0	6.9	9.5
Cassava	2.6	2.5	4.4	7.6	6.5	9.1
Sweet potato	0.2	0.2	0.2	0.4	0.3	0.3
Potato	0.0	0.0	0.0	0.1	0.1	0.1
Pulses	1.5	1.3	1.9	1.5	1.7	3.3
Vegetables	1.5	1.6	2.3	3.9	3.0	3.2
Fruits	0.0	0.0	0.0	0.0	0.0	0.0
Fibre crops	0.4	0.4	0.9	3.0	3.2	3.5
Other major crops	0.5	0.8	1.2	1.6	1.4	1.7
Sugar cane	0.1	0.3	0.7	1.2	0.9	1.0
Tobacco	0.4	0.4	0.5	0.3	0.3	0.5
Coffec	0.0	0.0	0.0	0.0	0.1	0.2
Tea	0.0	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100	100
Memorandum item:						
Total area under cultivation (hectares)	1,320,359	1,461,532	1,173,084	828,822	1,228,242	1,180,483

Source: Food and Agriculture Organization.



Table 10. Zambia: Food Availability, 1971-94

	1971-75	1976-80	1981-85	1986-90	1991-94
Total availability of calories 1/ (Kilo calories per capita per day)	2,268	2,249	2,086	2,087	2,083
Sources of calories:					
Cereals (percent of total)	64.8	67.6	68.5	67.4	65.1
Maize (percent of total)	51.2	56.4	59.0	60.6	57.5
Calorie balance (percent, deficit: -) 2/	3.1	2.2	-5.2	-5.1	-5.3

Sources: Food and Agriculture Organization, World Bank.

1/ The total availability of calories is computed by adding up the calories from all foods available in the economy using the appropriate calorie conversion factor for each food item. The conversion factors are applied to the available quantity of each food item (i.e., the sum of production (less seed, cattle feed and waste), net imports and changes in stocks).

2/ The calorie balance is the percentage deviation of the actual calorie availability from the recommended average daily calorie intake for adults (2200 kilo calories).

abolishment of official prices in 1994 (Figure 4).<sup>23</sup> Also, the state still has a substantial direct impact on domestic price developments and trade through the maize purchases of the Food Reserve Agency for the strategic maize reserve;<sup>24</sup> the central government budget for 1997 includes an allocation for maize purchases in an amount of K 19 billion. In addition, despite the formal termination of the subsidization of fertilizer in 1993, the state remained active as a supplier of fertilizer in recent years, which has undermined the growth of private sector activity in this area.

46. Given the detrimental effects of the droughts in recent years, it is still too early to assess the full impact of the liberalization program on productivity and the production structure in the agricultural sector. Moreover, the analysis is complicated by the fact that it is hard to draw a clear distinction between the impact of agricultural liberalization and the trade reforms, which were implemented during roughly the same period. The available data do allow some preliminary conclusions nevertheless. First, the elimination of input subsidization coupled with depressed producer prices for maize has caused farmers to move away from maize cultivation toward other crops. As Table 9 shows, the share of maize in the total area under cultivation has declined steadily since the late 1980s, while the area under millet, wheat, and rice increased. Other crops—such as roots/tuber, pulses, fruits, fiber, sugar cane, tobacco, and coffee—also gained in total area under cultivation. Second, the liberalization process has given a strong impetus to private sector activity in the agricultural sector. In 1994, the National Farmers Union established the Agricultural Commodity Exchange for trade in spot and future contracts for maize, wheat, oilseeds, fertilizer, and other products. This was accompanied by the creation of local markets for various products, particularly maize, which have effectively replaced the state-owned procurement centers as a market outlet for producers. The abolishment of the procurement centers and the centralized pricing policy has opened the way to the emergence of price differentials among regions, reflecting local supply and demand conditions, the condition of the local infrastructure, and the relative costs of transportation. Also, the private sector has taken over part of the role of the state in the management of storage facilities and crop financing. The elimination of subsidized financing has caused a strong expansion of contract farming, which gives small- and medium-scale farmers better access to commercial financing, inputs, and domestic and foreign markets. For instance, the increasing importance of contract farming in the cotton sector explains the strong growth of exports of cotton and textiles since 1993-94.

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<sup>23</sup>Other factors that contribute to the structural differential between domestic prices for maize and import parity prices include insufficient market information at the level of small producers; the underdeveloped road system and on-farm storage facilities, which hamper access to urban markets; and recurrent government sales of donated maize at prices below world market prices.

<sup>24</sup>The Food Reserve Agency was established in 1995. Its main task is to build up and maintain a strategic maize reserve aimed at an increase in food security during periods of severe drought. The Agency is funded through the budget.

### **E. The Agricultural Sector Investment Program**

47. In early 1996, the government launched the donor-supported Agricultural Sector Investment Program (ASIP), the main objective of which was to reorient and strengthen public institutions and agencies as providers of services to the agricultural sector, including agricultural research, animal health field services and disease control, the development of fish farming, the promotion of rural transport, small-scale processing and village storage technologies, irrigation development, training of small holders, and the rehabilitation of agricultural training institutions. The program also provides for several initiatives in the area of rural financing, such as the establishment of a revolving credit fund of about US\$25 million to support product and input marketing through commercial banks. In addition, smallholder farms and other rural groups are eligible for grants to help finance small-scale capital investment in a wide variety of facilities and equipment.

48. The total budgetary cost of the program is projected at US\$350 million over a four-year period, of which half will be financed by foreign donors. Its implementation had a slow start: in 1996, total expenditure on the ASIP did not exceed US\$38 million, of which some US\$11 million was domestically financed.

### **F. Further Reforms**

49. Notwithstanding considerable progress made since 1990, the agricultural sector continues to face serious bottlenecks that urgently need to be addressed in the coming years. First, the reintroduction of an export ban on maize in 1995 and the implementation of restrictive licensing requirements after the lifting of the ban in early 1996 has created major uncertainties for the private sector, depressed domestic maize prices, and undermined farmers' incomes. The argument that export restrictions increase food security for the Zambian population is debatable at best: given the declines in areas under maize cultivation in recent years, the opposite appears to be closer to reality. Second, the recurrent interventions of the government in the supply of fertilizer, despite the decision in 1993 to terminate the state's involvement in the supply of inputs, have undermined the development of private sector activity in this area. As long as the government continues to act as a supplier of fertilizer, private traders have little incentive to invest in a distribution network that reaches small- and medium-scale farmers and remote areas. It also adds to the uncertainties for small- and medium-scale farmers, who do not have access to fertilizer on a commercial basis and remain largely dependent on infrequent, unpredictable deliveries by the state. Third, deregulation of markets is in itself not sufficient to create the appropriate conditions for sustained productivity growth. This needs to be complemented by an ambitious investment program, aimed at improving the rural infrastructure, including roads, irrigation systems, storage facilities, and rural financing. This requires considerable increases in budgetary outlays on public investment in the years to come, and an expeditious implementation of the ASIP.

## **IV. DEVELOPMENTS IN SOCIAL EXPENDITURES<sup>25</sup>**

### **A. Introduction**

50. Zambia has one of the highest poverty rates in sub-Saharan Africa. In 1993, 85 percent of the population lived on less than US\$1 a day and poverty is especially high in rural areas.<sup>26</sup> Although the reduction in inflation and higher growth in 1996 have reduced the national poverty rate somewhat, real expenditures on education and health have declined in recent years, and social indicators such as infant mortality and net enrollment rates in education have deteriorated. This chapter gives an overview of developments in social expenditures and government policies in these areas.

### **B. Education**

#### **Expenditures**

51. Between 1986 and 1996, real public expenditure<sup>27</sup> on education declined at an annual average rate of almost 5 percent (Table 11).<sup>28</sup> The secondary education level recorded the largest decline (7.7 percent), followed by teacher training (6.1 percent), tertiary education (5.4 percent), and primary education (4 percent). During the same period, primary education's share in total domestic education expenditure increased from 39 percent in 1986 to 45 percent in 1996. The budget for 1997 provides for a further increase, to 52 percent, well above the average in 1996 for other sub-Saharan African countries (43 percent) and OECD countries (31 percent) (Box 2). The results of comparative international studies summarized in Box 2 indicate that the increased emphasis on primary education is warranted, in view of the generally higher rate of return to primary education. Sub-Saharan African countries tend to overemphasize tertiary education relative to other regions of the world, and for many years, Zambia was among the countries with the highest share of expenditure on tertiary education. During 1986-96, the share of expenditure on tertiary education in total education expenditure was 24 percent, well above the average for sub-Saharan Africa (20 percent) and other geographical regions. Since the benefits of tertiary education accrue mostly to the relatively well off, the emphasis on tertiary education and relative neglect of primary and secondary education may have contributed to the increase in poverty rates in the past decade.

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<sup>25</sup>Prepared by Hamid Davoodi.

<sup>26</sup>World Development Indicators, World Bank, 1997.

<sup>27</sup>The consumer price index is used for the computation of real expenditures.

<sup>28</sup>Throughout this chapter education and health expenditures refer only to domestically financed public expenditures.

Table 11. Zambia: Domestic Public Expenditure on Education  
by Education Level, 1986-96

Year	Primary education	Secondary education	Tertiary education	Teacher training	Other	Total
(In millions of kwacha)						
1986	158	93	100	13	41	406
1987	189	118	148	15	70	541
1988	261	149	120	23	125	678
1989	387	334	299	50	156	1,226
1990	718	424	530	128	699	2,499
1991	2,317	833	1,247	272	1,351	6,020
1992	4,010	1,795	2,943	492	2,740	11,980
1993	11,059	3,009	8,285	1,298	5,264	28,915
1994	23,317	7,129	10,118	1,447	7,891	49,902
1995 1/	24,720	8,154	18,711	2,980	13,555	68,121
1996 1/	43,000	9,950	21,199	2,363	19,413	95,925
1997 Budget	54,899	13,983	17,530	3,547	15,702	105,662
(At constant 1986 prices, index: 1986 = 100) 2/						
1986	100	100	100	100	100	100
1987	81	86	100	80	116	90
1988	74	72	54	80	136	75
1989	49	72	60	76	76	61
1990	44	44	51	95	165	60
1991	72	44	61	102	161	73
1992	47	36	54	69	123	55
1993	46	21	54	65	83	46
1994	62	32	43	47	81	52
1995 1/	49	27	58	71	103	52
1996 1/	60	23	46	39	103	52
1997 Budget	62	27	31	48	68	47
Annual average real change in education expenditure (in percent) 2/						
1986-96	-4.0	-7.7	-5.4	-6.1	0.3	-4.8

Source: Ministry of Education.

1/ Authorised expenditures including supplementary allocation.

2/ Nominal expenditure deflated by the consumer price index.

Table 11. Zambia: Domestic Public Expenditure on Education  
by Education Level, 1986-96 (concluded)

Year	Primary education	Secondary education	Tertiary education	Teacher training	Other	Total
(In percent of GDP)						
1986	1.20	0.71	0.77	0.10	0.31	3.10
1987	0.95	0.60	0.75	0.08	0.36	2.73
1988	0.85	0.48	0.39	0.08	0.41	2.20
1989	0.70	0.60	0.54	0.09	0.28	2.22
1990	0.63	0.37	0.47	0.11	0.62	2.21
1991	1.06	0.38	0.57	0.12	0.62	2.76
1992	0.70	0.32	0.52	0.09	0.48	2.10
1993	0.75	0.20	0.56	0.09	0.36	1.95
1994	1.10	0.34	0.48	0.07	0.37	2.35
1995 1/	0.87	0.29	0.66	0.11	0.48	2.41
1996 1/	1.05	0.24	0.52	0.06	0.48	2.35
1986-96 average	0.90	0.41	0.57	0.09	0.43	2.40
1986-91 average	0.90	0.53	0.58	0.10	0.43	2.54
1991-96 average	0.92	0.29	0.55	0.09	0.46	2.32
1997 Budget	1.03	0.26	0.33	0.07	0.29	1.97
(In percent of total domestic education expenditure)						
1986	38.9	23.0	24.7	3.2	10.2	100.0
1987	34.9	21.9	27.3	2.9	13.0	100.0
1988	38.5	21.9	17.7	3.4	18.4	100.0
1989	31.6	27.2	24.4	4.1	12.7	100.0
1990	28.7	17.0	21.2	5.1	28.0	100.0
1991	38.5	13.8	20.7	4.5	22.4	100.0
1992	33.5	15.0	24.6	4.1	22.9	100.0
1993	38.2	10.4	28.7	4.5	18.2	100.0
1994	46.7	14.3	20.3	2.9	15.8	100.0
1995 1/	36.3	12.0	27.5	4.4	19.9	100.0
1996 1/	44.8	10.4	22.1	2.5	20.2	100.0
1986-96 average	37.3	17.0	23.6	3.8	18.3	100.0
1986-91 average	35.2	20.8	22.7	3.9	17.5	100.0
1991-96 average	39.7	12.6	24.0	3.8	19.9	100.0
1997 Budget	52.0	13.2	16.6	3.4	14.9	100.0

Source: Ministry of Education.

1/ Authorised expenditures including supplementary allocation.

### Box 2. Rates of Return on Education and the Composition of Education Expenditure

The effect of education on the economy and on productivity is usually measured by comparing the difference in earnings over time of individuals with and without a particular level of education and the cost to the economy of producing that education. This measure is known as the rate of return on education. Irrespective of differences in country circumstances, in economies with less than universal primary education, rates of return are generally greatest for primary education, followed by secondary and higher education.

#### Rates of Return on Education by Level (in percent)

Region	Primary	Secondary	Higher
Low- and middle- income countries			
Sub-Saharan Africa	24.3	18.2	11.2
Asia	19.9	13.3	11.7
Europe, Middle East and North Africa	15.5	11.2	10.6
Latin America and the Caribbean	17.9	12.8	12.3
OECD countries	14.4	10.2	8.7

Source: Psacharopoulos (1994), "Returns to Investment in Education: A Global Update", *World Development*, pp. 1325-43.

Generally, at the margin, investment in higher education is less efficient for the society as a whole, especially in countries that have yet to achieve universal primary and secondary education. International differences in the composition of expenditure at various levels of education are shown below.

#### Composition of Education Expenditure by Level (in percent) 1/

Region	Primary	Secondary	Higher	Other
Low- and middle- income countries				
Sub-Saharan Africa (22)	42.9	28.0	19.7	9.4
East Asia and the Pacific (4)	41.3	30.5	14.8	13.4
Europe and Central Asia (5)	49.3	26.8	15.9	8.0
Latin America and the Caribbean (11)	39.4	28.5	18.4	13.7
Middle East and North Africa (3)	36.0	41.5	16.1	6.4
South Asia (3)	41.5	30.4	13.9	14.2
OECD countries (15)	30.7	39.0	20.6	9.7

Source: World Bank (1995), *Priorities and Strategies for Education*.

1/ Unweighted averages; figures in parentheses refer to the number of countries in the regional sample.

52. Expenditures on wages and salaries in the education sector are much higher than expenditures on textbooks, supplies, and capital goods. On average, wages and salaries constituted 49 percent of education expenditure during the 1986-96 period and recurrent expenditure some 23 percent, while the share of capital expenditure averaged only 6½ percent (Table 12). This is consistent with the experience of many other sub-Saharan African countries, in which schools have no textbooks and are poorly maintained. The excessive share of wages has been exacerbated by recent wage increases which, along with a significant compression of the wage structure, has contributed to the departure of qualified teachers and the deterioration in the quality of education. In addition, inadequate expenditures on operations and maintenance often imply higher future expenditures, which could otherwise have been avoided.

### **Enrollment and illiteracy**

53. Primary gross enrollment rates in Zambia are quite high relative to the rest of sub-Saharan Africa and close to the stated government objective of 100 percent (Table 13). As expected, secondary gross enrollment rates are much lower than primary gross enrollment rates. However, at either level of education, the government's objective of gender equality is not borne out by the data; females have a much lower enrollment rate than males, particularly at the secondary level.

54. A high gross enrollment rate is not necessarily an indicator of a good education system, though, since it does not account for student dropouts, grade repetition, or possibly low progression rates from one grade to the next. Table 14 shows selected progression rates in primary and secondary education. These rates fall at higher grades; they are lower for females and have declined over time.

55. Another indicator of the efficiency of the education system is the adult illiteracy rate, which measures the percentage of population 15 years of age and above who are illiterate. The male adult illiteracy rate stood at 23 percent in 1985, declined to 19 percent in 1990 and declined further to 14 percent in 1995. The female illiteracy rate has been much higher, but it also declined over the years from a high of 41 percent in 1985 to 35 percent in 1990 to 29 percent in 1995. In 1995, Zambia had the fifth lowest adult female illiteracy rate (29 percent) in sub-Saharan Africa (Figure 5); the countries with the lowest and highest female adult illiteracy rates were South Africa (18 percent) and Niger (93 percent), respectively; the average for sub-Saharan Africa was 37 percent. The results of comparative international studies indicate that countries that have reoriented education expenditures toward women in primary education and reduced the gender gap in illiteracy tend to have better education outcomes and higher growth.<sup>29</sup>

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<sup>29</sup>See Robert Barro and Xavier Sala-i-Martin (1995), *Economic Growth*, New York, McGraw Hill.



Table 12. Zambia: Domestic Public Expenditure on Education  
by Economic Classification, 1986-96

Year	Personal Emoluments	RDCs 1/	Grants	Capital	Total
(In percent of total)					
1986	55.6	20.7	18.3	5.5	100.0
1987	48.0	19.0	20.2	12.8	100.0
1988	51.9	26.6	16.5	5.0	100.0
1989	41.5	28.0	23.9	6.7	100.0
1990	39.2	29.7	23.5	7.6	100.0
1991	54.1	15.9	19.8	10.2	100.0
1992	46.6	23.4	23.2	6.9	100.0
1993	43.9	21.9	28.9	5.3	100.0
1994	60.4	18.8	18.2	2.6	100.0
1995 2/	41.9	26.0	25.5	6.6	100.0
1996 2/	52.5	25.9	19.8	1.8	100.0
1986-96 average	48.7	23.2	21.6	6.5	100.0
1986-91 average	48.4	23.3	20.3	8.0	100.0
1991-96 average	49.9	22.0	22.6	5.6	100.0
1997 Budget	54.3	21.9	20.6	3.2	100.0

Source: Ministry of Education.

1/ Recurrent Departmental Charges.

2/ Authorised expenditures including supplementary allocation.

Table 13. Zambia: Gross Enrollment Rates in Primary and Secondary Education, 1985-95 1/

(In percent of total age group)

Year	Primary Education			Secondary Education		
	Male	Female	Total	Male	Female	Total
1985	107	94	100	23	13	18
1990	96	89	92	27	16	21
1994	103	93	98	24	15	20
1995	103	93	98	22	15	18

Source: Ministry of Education.

1/ Total enrollment, regardless of age, in percent of the total population of an age group. The percentage can exceed 100 to the extent that older students are enrolled at a lower age group.

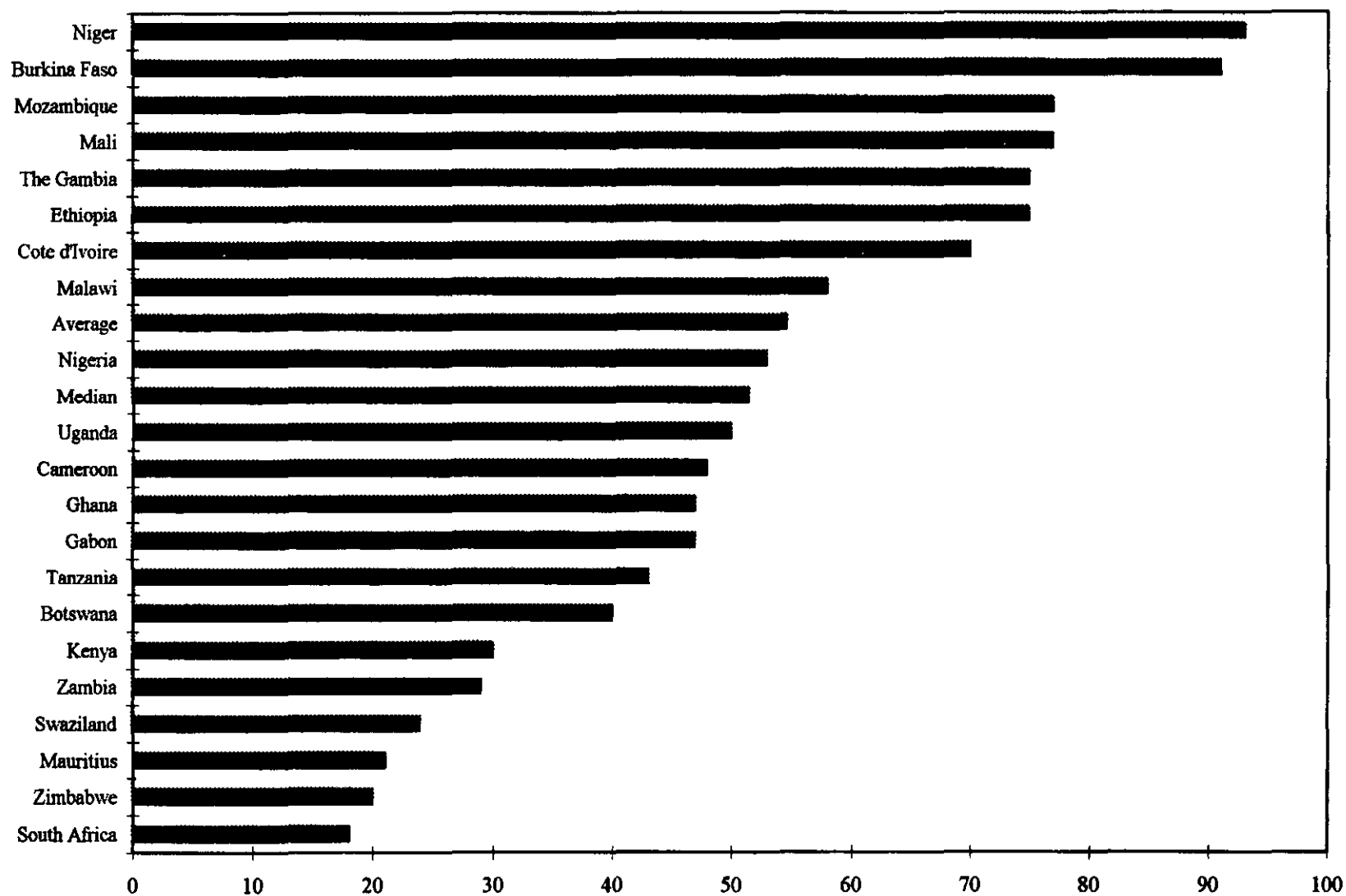
Table 14. Zambia: Progression Rates in Primary and Secondary Education, 1991-95

(In percent of total number of students)

	1991	1992	1993	1994	1995		
	Total				Male	Female	Total
Primary level							
Grade 4 to 5	...	...	...	...	98.5	93.8	96.2
Grade 7 to 8	34.9	33.9	28.1	32.4	34.1	33.3	32.4
Secondary level							
Grade 9 to 10	20.3	16.2	16.5	18.1	19	16.9	18.1

Source: Ministry of Education.

Figure 5. Female Adult Illiteracy Rates in Sub-Saharan Africa, 1995 1/  
(In percent of the population age 15 and above)



Source: World Development Indicators, 1997.

1/ Illiteracy rates for only a selection of countries are shown. The (unweighted) median and average illiteracy rates are calculated based on a sample of 40 Sub-Saharan African countries.

## Education reforms in 1993-96

56. Since 1993, the Ministry of Education has been evaluating the entire formal education system with a view to determining the most appropriate framework for its future development. The Ministry has attempted to maximize participation of educational institutions and local governments through consultation and dissemination workshops. In May 1996, the government approved a new national education policy which was laid out in a document entitled *Educating Our Future*.<sup>30</sup> The ultimate goals of the national policy on education are to increase access to education (e.g., achievement of 100 percent Universal Basic Education enrollment rate), strengthen the capacity to provide quality education, and rationalize the use of resources. The education system will be liberalized and decentralized, with a more prominent role for local governance, which will ultimately replace the existing highly centralized system.

57. The liberalization of the provision of education will take on several forms. The new education policy recognizes the right of private and religious organizations, individuals, and local communities to control their own schools, allows those with resources to establish their own educational institutions, and run them in accordance with their own principles, subject to regulations. It also recognizes and protects parents' rights to send their children to educational institutions of their own choice.

58. The restructuring of the Ministry of Education is an important part of the new national education policy. It involves the creation of Education Boards at district, school, and college levels. The focal point of education administration and management for primary and integrated schools will be the District Education Boards, while secondary schools and teacher colleges will each have their own Education Boards. The newly established Boards are expected to (i) relieve the Ministry of Education of much of the burden of day-to-day business; (ii) cater to a greater degree of democracy in the management and administration of the system; and (iii) allow for greater responsiveness to local needs. The Ministry of Education headquarters and the provincial education offices will be concerned mainly with policy development, training, goal-setting, monitoring of standards, and supervision. These reforms therefore form an integral part of the government's decentralization strategy in the education sector.

59. The new system will also promote cost sharing between the state, the beneficiaries and other stakeholders. Individuals, families, communities, industry, and nongovernmental organizations will be encouraged to contribute to education and training. The state will in turn give the necessary support to these endeavors

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<sup>30</sup>This is Zambia's third major education policy document. The first was the *Education Reforms* of 1977 and the second *Focus on Learning* in 1992. *Educational Reform* emphasized education as an instrument for personal and national development, while *Focus on Learning* stressed the mobilization of resources for the development of education in schools.

## **C. Health**

### **Expenditure and health indicators**

60. During 1986-96, domestically financed public expenditure on health care declined at an average rate of 3½ percent a year (Table 15). Despite sizable donor financing of health expenditure, which accounts for roughly 50 percent of total public health expenditure, health indicators have deteriorated in the past decade. The presence of AIDS has spread among the population. It is estimated that in 1994, between 22 percent and 25 percent of the urban population and 14 percent of the rural population carried the HIV virus. The incidence is likely to have risen since then. The high prevalence of AIDS has reduced the size of the labor force, effective labor productivity, and economic growth. Furthermore, Zambia has one of the highest fertility rates in the world. Two-thirds of Zambian women have had children or are pregnant by the age of nineteen. The high fertility rate and the low spacing between consecutive births have in part led to stunted growth, malnutrition among the newly born, and poorer health among the mothers. These factors have contributed to an increase in infant mortality from 88 deaths per 1,000 live births in 1982 to 109 in 1995. Similarly, life expectancy at birth declined from 51 years of age in 1982 to 46 years in 1995.

### **Health reforms in 1991-96**

61. In 1991, the government embarked on a comprehensive health reform program that culminated in the National Health Policy and Strategy Document of 1992. The program was intended to provide Zambians "with equity of access to cost-effective health care as close to the family as possible" and called for a significant decentralization of health care to District Health Boards (DHB). The document presented the objectives of health sector policies, but did not provide details on how to achieve them. To correct this shortcoming, the government developed the National Strategic Health Plan for 1995-99, which provided for major reforms in various areas. The most important of these include: (i) decentralization of health care provision through the DHBs along with strengthening of local planning, budgeting, and management capacity; (ii) defining of essential packages of services; (iii) introduction of user fees to share costs; (iv) opening of the sector to wider private sector participation; and (iv) improved donor coordination in support of the Zambia Health Sector Investment Program and the common "basketing" of donor funds to support a District Action Plan. To date 64 DHBs have been established and it is expected that they will facilitate the provision of health services throughout the country. Under the guidance of the Central Board of Health, the DHBs gradually take over the management of all district resources, act as purchasers of health care from other providers in the district, and buy support services (drugs, supplies, and training) from the center. The DHBs also appoint the District Health Management Team that plans the provision of health services to meet the local needs.

Table 15. Zambia: Domestic Public Health Expenditure, 1986-96

	1986-90	1991	1992	1993	1994	1995	1996
Domestic expenditures on health							
In billions of kwacha, current prices	...	3.3	8.1	24.8	44.4	55.7	66.4
As a percent of GDP	1.9	1.5	1.4	1.7	2.1	2.0	1.6
In billions of kwacha, constant 1994 prices	56.8	38.3	35.7	38.4	44.4	41.3	34.4
Memorandum items:							
Consumer Price Index (1994=100)	...	8.6	22.8	64.7	100.0	134.9	193.1
Nominal GDP (in billions of kwacha)	...	218.3	569.6	1,482.1	2,120.2	2,826.3	4,077.7

Sources: Ministry of Health, Central Statistical Office, and staff estimates.

## Zambia: Summary of the Tax System as of July 1, 1997

Tax	Nature of Tax	Exemptions and Deductions 1/	Rates	
1. <u>Taxes on income and profits</u> (Income Tax Act of 1966 and amendments)				
1.1. Corporate profit tax	A flat rate on profits of corporations; profits are defined as revenues minus depreciation, production costs and wages. Fringe benefits paid are non-deductible.	As of April 1, 1997 losses may be carried forward for up to 5 years only.  Depreciation schedules: 2 years for machinery, plants and equipment used in farming and the tourism industry; 4 years for plants and machinery (all business other than farming and tourism industry and for assets used wholly for commercial purposes); 5 years for vehicles; 10 years for housing; 20 years for industrial building; and 50 years for commercial buildings.  Tax credit for tax paid abroad on dividends and interest.  Deduction of K 240,000 for each handicapped employee.  All prospecting and exploration expenditures for mining companies are deductible immediately.	<u>Category</u>  General  Companies listed on the Lusaka Stock Exchange  Profits of (unlisted) banks above K 100 million  Profits from agriculture and nontraditional exports	<u>Rate</u>  35 percent  30 percent  45 percent  15 percent
1.2. Personal income tax	A progressive tax on global personal income. (Tax on salaries is withheld at source under the PAYE system. Withholding tax on other income described below.)	Income paid into pension funds up to K 120,000 per annum.  Some capital gains not taxable.  Contributions to charitable organizations deductible up to 10 percent of taxable income.	<u>Taxable income</u>  under K 1,200,000 K 1,200,000- K 1,800,000 over K 1,800,000  A tax credit of K 60,000 applies	<u>Rate</u>  10 percent 20 percent 30 percent
1.3. Withholding tax on capital income	Tax withheld at source for interest, dividends, capital gains, and rents.	K 240,000 per annum is exempt.		15 percent

# Zambia: Summary of the Tax System as of July 1, 1997 (continued)

Tax	Nature of Tax	Exemptions and Deductions 1/	Rates	
1.4. Mineral resource levy (Mines and Minerals Act of 1997)	Royalty levied upon the net-smelter value of the natural resource.	The Minister of Finance can exempt companies from payment.	<u>Product</u>	<u>Rate</u>
			Base or precious metals	3 percent
			Industrial minerals	3 percent
			Gemstones	5 percent
2. <u>Taxes on property</u>				
2.1. Property transfer tax	Levied upon the selling price of transferred property and shares.	Shares listed on the Lusaka Stock Exchange are exempt.		2.5 percent
2.2. Property tax	Specific tax levied by local authorities			Varies across districts
3. <u>Taxes on goods and services</u>				
3.1. Value added tax (Value Added Tax Act of 1995)	Multistage tax on the value added	Foodstuffs, books, educational materials, health care expenditure, and rents are exempt.		17.5 percent
3.2. Excise taxes (Customs and Excise Act of 1986 and amendments)	A tax levied on products in the second schedule of the Act.	Purchases by diplomats and allowable losses.		
3.2.1. Tobacco and tobacco products	Ad valorem excise.	Purchases by diplomats.		125 percent
3.2.2. Alcoholic beverages	Ad valorem excise.	Fermented liquor, other than opaque beer, containing more than 3 percent of proof spirits when for own use and not for sale.	<u>Product</u>	<u>Rate</u>
		Sales to the military	Clear beer, ale and stout	100 percent
			Wine	125 percent
			Opaque beer	35 percent
			Spirits, liquor	125 percent
3.2.3. Hydrocarbon oils	Ad valorem excise.	Embassies and approved foreign organizations are exempt.	<u>Product</u>	<u>Rate</u>
			Petroleum	45 percent
			Diesel	45 percent
			Kerosine	
			household use	15 percent
			industrial use	30 percent
			Light oil	15 percent
			Fuel oil	15 percent
			Gases and other gaseous hydrocarbons	30 percent
3.2.4. Mineral water and soft drinks	Ad valorem excise.	Sales to Military.		25 percent



### Zambia: Summary of the Tax System as of July 1, 1997 (concluded)

Tax	Nature of Tax	Exemptions and Deductions 1/	Rates
3.2.5 Excise on tires	Ad valorem excise.		10 percent
3.2.6 Fuel levy	Specific excise on gasoline, applied on the wholesale price.		15 percent
4. <u>Taxes on international trade</u>			
4.1 Customs tariffs	Ad valorem customs tariffs on the c.i.f. value of imports.	Goods imported from COMESA countries face 60 percent of the standard rate.  Raw materials and capital goods for mining are duty free.	<u>Goods</u>  <u>Rate</u> 0, 5, 15, 25 percent
4.2 Import declaration fee	Fee levied upon c.i.f. value of imports.	Gifts and personal effects.	5 percent

1/ The Minister of Finance has the power to grant exemptions under the Customs and Excise, Income Tax, and Value-Added Tax Acts. On May 31, 1996, the government published a notice that no new exemptions would be granted in 1996 apart from those referred to in the January 26, 1996 budget address.

Table 1. Zambia: Gross Domestic Product by Type of Expenditure, 1990-96

	1990	1991	1992	1993	1994	1995	1996
(At current prices, in billions of kwacha)							
Total consumption	95	200	570	1,350	1,931	2,608	3,704
Government consumption 1/	17	35	102	192	313	413	514
Private consumption	78	165	468	1,157	1,618	2,196	3,190
Total investment	20	24	68	223	284	394	650
Gross fixed capital formation	19	25	65	217	276	385	633
Public	8	13	23	50	94	163	237
Private	11	12	42	167	182	223	396
Changes in stocks	1	-1	3	6	8	8	16
Net exports of goods and services	-1	-6	-68	-90	-95	-176	-276
Exports of goods and services	41	76	206	477	785	1,197	1,566
Exports of goods	38	70	191	433	714	1,067	1,321
Imports of goods and services	-41	-81	-273	-568	-880	-1,373	-1,842
Imports of goods	-33	-62	-224	-433	-671	-1,034	-1,448
Total GDP	113	218	570	1,482	2,120	2,826	4,078
(In percent of GDP)							
Total consumption	83.5	91.6	100.0	91.1	91.1	92.3	90.8
Government consumption 1/	14.8	16.2	17.9	13.0	14.8	14.6	12.6
Private consumption	68.7	75.4	82.1	78.1	76.3	77.7	78.2
Total investment	17.3	11.0	11.9	15.0	13.4	13.9	15.9
Gross fixed capital formation	16.7	11.4	11.4	14.6	13.0	13.6	15.5
Public	6.8	5.8	4.0	3.4	4.4	5.7	5.8
Private	9.9	5.5	7.4	11.3	8.6	7.9	9.7
Changes in stocks	0.6	-0.3	0.5	0.4	0.4	0.3	0.4
Net exports of goods and services	-0.7	-2.6	-11.9	-6.1	-4.5	-6.2	-6.8
Exports of goods and services	35.9	34.6	36.1	32.2	37.0	42.4	38.4
Exports of goods	33.8	32.2	33.6	29.2	33.7	37.8	32.4
Imports of goods and services	-36.6	-37.2	-48.0	-38.3	-41.5	-48.6	-45.2
Imports of goods	-29.0	-28.2	-39.4	-29.2	-31.6	-36.6	-35.5
Gross domestic savings	16.5	8.4	0.0	8.9	8.9	7.7	9.2
Public 2/	5.5	2.5	0.4	2.9	6.1	6.5	7.4
Private	11.0	5.9	-0.4	6.0	2.8	1.2	1.7
Gross national savings 3/	14.8	11.3	8.3	12.3	11.5	9.4	9.4
Balance on current account	-2.5	0.3	-3.6	-2.7	-1.9	-4.5	-6.5

Source: Data provided by the Zambian authorities; and staff estimates.

1/ Current government expenditure excluding subsidies, interest, and transfers and pensions.

2/ Total revenue (excluding grants) minus government consumption.

3/ Gross domestic savings plus net factor income and net current transfers from abroad.

Table 2. Zambia: Gross Domestic Product by Sector of Origin at Current Prices, 1990-96

	1990	1991	1992	1993	1994	1995	1996
(In billions of kwacha)							
Agriculture, forestry, and fishing	21	35	121	452	507	529	720
Mining and quarrying	10	18	32	130	190	271	413
Manufacturing	36	73	189	370	564	764	1179
Electricity, gas, and water	1	2	7	16	16	21	25
Construction	4	8	21	39	42	31	38
Wholesale and retail trade	11	25	40	137	200	275	427
Transport and communications	6	11	25	65	104	130	170
Community, social, and personal services 1/	7	14	42	102	197	278	356
Financial institutions and insurance	3	5	18	24	43	70	92
Real estate and business services	5	11	24	72	120	180	253
Restaurants and hotels	3	5	21	54	78	103	167
Plus: Import duties	8	14	34	30	78	205	277
Less: Imputed banking service charges	1	1	5	10	18	30	39
Total GDP	113	218	570	1,482	2,120	2,826	4,078
(In percent of GDP)							
Agriculture, forestry, and fishing	18.2	15.8	21.3	30.5	23.9	18.7	17.6
Mining and quarrying	9.0	8.4	5.6	8.8	9.0	9.6	10.1
Manufacturing	31.9	33.3	33.2	25.0	26.6	27.0	28.9
Electricity, gas, and water	0.5	0.8	1.3	1.1	0.8	0.7	0.6
Construction	3.9	3.8	3.7	2.6	2.0	1.1	0.9
Wholesale and retail trade	9.6	11.6	7.1	9.3	9.4	9.7	10.5
Transport and communications	4.9	5.1	4.4	4.4	4.9	4.6	4.2
Community, social, and personal services 1/	6.2	6.4	7.5	6.9	9.3	9.8	8.7
Financial institutions and insurance	2.8	2.1	3.1	1.6	2.1	2.5	2.3
Real estate and business services	4.3	4.8	4.2	4.9	5.7	6.4	6.2
Restaurants and hotels	2.6	2.2	3.7	3.7	3.7	3.7	4.1
Plus: Import duties	7.0	6.2	5.9	2.0	3.7	7.3	6.8
Less: Imputed banking service charges	0.8	0.6	0.9	0.7	0.9	1.0	1.0
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Central Statistical Office.

1/ Includes public administration, defense, sanitary services, education, health, recreation, and personal services.

Table 3. Zambia: Gross Domestic Product by Sector of Origin at Constant Prices, 1990-96

	1990	1991	1992	1993	1994	1995	1996
(At constant 1977 prices, in millions of kwacha)							
Agriculture, forestry, and fishing	387	407	272	458	371	327	421
Mining and quarrying	163	148	167	152	127	113	127
Manufacturing	587	587	657	605	553	538	552
Electricity, gas, and water	59	64	61	63	65	63	56
Construction	63	62	59	48	38	23	22
Wholesale and retail trade	181	178	166	184	157	146	165
Transport and communications	102	97	102	103	98	90	89
Community, social, and personal services 1/	382	388	385	392	404	402	385
Financial institutions and insurance	54	55	52	54	55	65	62
Real estate and business services	183	178	186	192	197	209	210
Restaurants and hotels	54	49	79	76	67	66	78
Plus: Import duties	16	17	22	20	14	15	20
Less: Imputed banking service charges	15	15	32	23	23	27	26
Total GDP	2,214	2,213	2,174	2,322	2,122	2,030	2,161
Memorandum items:							
Nonagricultural GDP	1,827	1,806	1,902	1,865	1,751	1,703	1,740
Nonmining GDP	2,051	2,065	2,008	2,170	1,995	1,917	2,034
(Percentage change)							
Agriculture, forestry, and fishing	-8.9	5.2	-33.1	68.1	-18.9	-11.8	28.6
Mining and quarrying	-7.3	-9.0	12.8	-8.7	-16.8	-11.0	12.3
Manufacturing	7.8	0.0	12.1	-7.9	-8.6	-2.7	2.5
Electricity, gas, and water	17.8	8.5	-5.0	3.5	3.5	-2.6	-11.2
Construction	-1.1	-1.3	-5.3	-18.8	-20.8	-39.9	-1.3
Wholesale and retail trade	-3.3	-1.8	-6.6	10.7	-14.4	-6.9	13.1
Transport and communications	-7.4	-4.9	4.7	1.3	-4.9	-7.8	-1.5
Community, social, and personal services 1/	1.6	1.6	-0.6	1.8	3.0	-0.6	-4.1
Financial institutions and insurance	1.7	1.7	-4.6	2.9	3.2	16.8	-4.9
Real estate and business services	-5.2	-2.5	4.3	3.1	3.1	5.9	0.5
Restaurants and hotels	17.3	-9.8	60.7	-3.7	-11.8	-0.9	17.7
Plus: Import duties	-6.5	6.9	27.6	-7.4	-32.3	9.6	34.9
Less: Imputed banking service charges	-2.1	-1.3	-111.9	29.1	-3.1	-17.1	5.1
Total GDP	-0.5	--	-1.7	6.8	-8.6	-4.3	6.4
Memorandum items:							
Nonagricultural GDP	1.5	-1.1	5.3	-2.0	-6.1	-2.8	2.2
Nonmining GDP	0.1	0.7	-2.8	8.1	-8.1	-3.9	6.1

Source: Central Statistical Office.

1/ Includes public administration, defense, sanitary services, education, health, recreation, and personal services.

Table 4. Zambia: Index of Industrial Production, 1990-96

(1980 = 100)

	Weight	1990	1991	1992	1993	1994	1995	1996
Mining and quarrying	54.9	78.9	72.0	80.5	73.5	60.9	54.5	61.4
Manufacturing	39.2	125.4	117.8	125.8	111.8	101.1	98.0	102.0
Food, beverages, and tobacco	10.6	127.0	130.9	164.4	158.5	154.3	161.7	164.1
Textiles and clothing	7.8	166.6	139.4	134.7	95.2	90.2	77.1	87.8
Wood and wood products	1.9	109.4	109.8	105.4	111.1	91.6	79.8	77.9
Paper and paper products	2.3	137.0	134.4	122.4	121.8	120.9	94.7	93.7
Chemicals, rubber and plastics	6.6	112.6	99.4	92.8	97.4	75.1	67.6	83.8
Nonmetallic mineral products	1.9	122.2	117.9	114.3	104.2	71.5	75.6	74.0
Basic metal industries	0.9	49.4	50.2	60.4	59.3	55.9	54.0	97.9
Metal products and other	7.2	98.2	95.0	97.0	73.5	62.7	66.3	50.1
Electricity	5.9	84.3	94.2	82.5	85.3	88.3	88.0	77.5
Total industrial production	100.0	96.3	90.0	96.7	88.7	77.3	72.6	77.3

Source: Central Statistical Office.

Table 5. Zambia: Volume of Mineral Production, 1983-97

(In thousands of metric tons)

	Coal	Cobalt	Copper	Lead 1/	Zinc 1/
1983	453.0	2.4	575.6	14.6	37.8
1984	511.0	3.5	522.2	8.8	29.2
1985	511.0	4.4	479.4	8.8	22.8
1986	557.0	4.3	459.1	6.6	22.5
1987	557.0	4.5	483.0	8.0	21.0
1988	523.7	5.1	422.2	6.1	20.2
1989	394.8	4.9	450.4	3.8	12.9
1990	330.0	4.6	426.6	3.9	10.6
1991	401.0	4.6	376.9	2.7	6.8
1992	398.3	4.7	441.5	2.7	6.7
1993	328.6	4.2	403.5	1.5	4.7
1994	174.5	6.6	360.3	--	--
1995	151.9	2.9	307.6	--	--
1996	126.6	4.8	313.9	--	--
1997 (Jan.-June)	...	2.0	163.6	--	--

Sources: Data provided by the Central Statistical Office and the Bank of Zambia.

1/ ZCCM stopped producing lead and zinc in 1994.

Table 6. Zambia: Marketed Production of Selected Agricultural Crops, 1989/90 - 1996/97

May 1 - April 30	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
(In metric tons)								
Maize	639,589	601,084	464,000	839,303	476,288	344,676	688,123	314,608
Tobacco (Virginia and Burley)	4,632	5,662	6,149	6,634	5,015	3,830	3,842	...
Sugarcane	1,136,963	1,126,539	1,136,075	1,255,209	1,222,037	...	...	...
Groundnuts	433	8,850	7,327	26,453	13,683	13,198	14,699	17,559
Sunflower seeds	18,647	9,510	5,108	13,216	9,703	12,053	23,726	6,479
Seed cotton	30,666	48,004	27,834	58,324	...	16,578	50,822	...
Wheat	51,751	52,752	64,240	69,535	...	...	...	...
Paddy rice	5,478	8,905	5,516	10,219	3,553	6,323	7,475	7,303
Soya beans	25,243	24,392	23,549	27,327	20,611	17,382	37,580	23,073
Sorghum	1,004	1,007	563	5,310	3,722	7,751	7,017	5,105
(Index 1990/91 = 100)								
Maize	106.4	100.0	77.2	139.6	79.2	57.3	114.5	52.3
Tobacco (Virginia and Burley)	81.8	100.0	108.6	117.2	88.6	67.6	67.9	...
Sugarcane	100.9	100.0	100.8	111.4	108.5	...	...	...
Groundnuts	4.9	100.0	82.8	298.9	154.6	149.1	166.1	198.4
Sunflower seeds	196.1	100.0	53.7	139.0	102.0	126.7	249.5	68.1
Seed cotton	63.9	100.0	58.0	121.5	...	34.5	105.9	...
Wheat	98.1	100.0	121.8	131.8	...	...	...	...
Paddy rice	61.5	100.0	61.9	114.8	39.9	71.0	83.9	82.0
Soya beans	103.5	100.0	96.5	112.0	84.5	71.3	154.1	94.6
Sorghum	99.7	100.0	55.9	527.3	369.6	769.7	696.8	507.0

Source: Central Statistical Office.

Table 7. Zambia: Area Under Cultivation for Selected Crops, 1989/90-1996/97

May 1 - April 30	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
(In hectares)								
Maize	763,277	639,390	661,605	623,340	679,914	520,165	675,565	649,069
Groundnuts	80,443	74,993	59,502	70,543	92,860	109,431	89,488	126,573
Sunflower seeds	44,289	24,060	25,342	38,672	26,256	36,079	47,621	19,139
Cotton	64,036	74,020	59,614	76,492	50,661	35,200	66,217	...
Soya beans	29,814	29,200	22,786	19,864	25,447	21,612	25,489	17,273
Wheat	11,585	12,429	12,914	17,342	11,566	9,587	10,327	...
Virginia tobacco	3,588	1,242	2,958	3,339	250	1,353	1,594	...
Paddy rice	9,628	13,450	14,369	13,802	7,303	9,746	9,888	12,412
Sugarcane	12,147	11,974	10,968	11,304	11,497	...	...	...
Sorghum	...	...	...	...	55,245	40,365	47,839	40,237
Millet	...	...	...	...	82,302	73,809	76,930	78,639
Mixed beans	...	...	...	...	48,599	41,462	43,240	41,541
(Percentage change)								
Maize	-25.2	-16.2	3.5	-5.8	9.1	-23.5	29.9	-3.9
Groundnuts	27.9	-6.8	-20.7	18.6	31.6	17.8	-18.2	41.4
Sunflower seeds	-1.5	-45.7	5.3	52.6	-32.1	37.4	32.0	-59.8
Cotton	-39.8	15.6	-19.5	28.3	-33.8	-30.5	88.1	...
Soya beans	39.8	-2.1	-22.0	-12.8	28.1	-15.1	17.9	-32.2
Wheat	17.3	7.3	3.9	34.3	-33.3	-17.1	7.7	...
Virginia tobacco	-2.6	-65.4	138.2	12.9	-92.5	441.2	17.8	...
Paddy rice	-24.8	39.7	6.8	-3.9	-47.1	33.5	1.5	25.5
Sugarcane	...	-1.4	-8.4	3.1	1.7	...	...	...
Sorghum	...	...	...	...	...	-26.9	18.5	-15.9
Millet	...	...	...	...	...	-10.3	4.2	2.2
Mixed beans	...	...	...	...	...	-14.7	4.3	-3.9

Sources: National Commission for Development Planning; and Central Statistical Office.



Table 8. Zambia: Paid Employment by Economic Sector, 1990-96  
(In number of employees)

	1990	1991	1992	1993	1994	1995	<u>1996</u> Prel.
Agriculture, forestry, and fishing	79,800	77,800	82,000	82,800	79,300	69,079	70,626
Mining and quarrying	64,700	64,800	62,100	58,200	51,200	52,215	46,976
Manufacturing	77,100	75,400	73,600	67,600	57,100	55,654	54,510
Electricity and water	7,100	7,600	8,400	5,700	5,100	5,067	4,377
Construction	33,400	33,100	27,800	22,100	17,500	10,518	10,428
Transport and communications	33,800	34,300	31,000	29,000	29,000	36,542	35,550
Distribution and trade (wholesale, retail)	55,100	53,200	51,300	49,300	49,900	41,398	42,186
Finance and insurance	32,900	35,800	39,000	37,000	34,100	41,890	39,816
Public administration	159,400	162,200	170,700	168,300	173,800	172,604	164,478
All sectors	543,300	544,200	545,900	520,000	497,000	484,967	468,947

Source: Central Statistical Office.

Table 9. Zambia: Index of Retail Prices, 1990-96

	Weights	1989	1990	1991	1992	1993	1994	1995	1996
(1994 = 100, annual averages)									
I. Metropolitan group									
A. Low income	261	2.0	4.2	8.3	23.1	65.3	100.0	135.8	192.8
B. High income	295	2.3	4.5	9.2	23.0	63.5	100.0	135.3	188.3
II. Nonmetropolitan group	444	2.1	4.3	8.4	22.6	65.1	100.0	134.2	196.3
Composite index	1000	2.1	4.3	8.6	22.8	64.7	100.0	134.9	193.0
(Percentage change)									
I. Metropolitan group									
A. Low income		122.2	110.0	97.6	178.3	182.7	53.1	35.8	42.0
Food, beverages and tobacco		125.0	111.1	92.1	219.2	181.5	52.4	38.4	42.8
Clothing and footwear		105.6	116.2	66.3	109.8	140.5	49.0	29.2	51.0
Rent, fuel and lighting		75.0	114.3	233.3	103.0	214.8	56.5	39.6	40.0
Furniture and household goods		157.1	100.0	97.2	238.0	179.6	49.0	22.2	29.4
Medical care		100.0	100.0	100.0	225.0	746.2	127.3	65.8	22.2
Transport and communication		200.0	175.0	90.9	169.8	320.0	40.1	25.3	43.0
Recreation and education		180.0	78.6	116.0	128.7	119.8	84.2	29.8	48.5
All other goods and services		104.3	114.9	89.1	36.6	155.2	50.2	24.5	36.0
B. High income		130.0	95.7	104.4	150.0	176.1	57.5	35.3	39.2
Food, beverages and tobacco		127.3	100.0	88.0	155.3	173.8	52.2	32.6	42.1
Clothing and footwear		92.9	114.8	96.6	115.8	165.9	52.9	34.2	51.3
Rent, fuel and lighting		8.3	61.5	166.7	160.7	333.6	58.0	52.1	39.4
Furniture and household goods		122.2	90.0	97.4	182.7	175.5	71.2	23.2	29.5
Medical care		66.7	120.0	72.7	242.1	598.5	120.3	60.7	23.0
Transport and communication		144.4	109.1	132.6	136.4	151.0	57.5	37.3	33.6
Recreation and entertainment		145.5	96.3	94.3	132.0	128.5	83.2	33.2	49.6
Other goods and services		106.7	135.5	82.2	153.4	95.0	52.2	24.4	32.9
II. Nonmetropolitan group		133.3	104.8	95.3	169.0	188.1	53.6	34.2	46.3
Food, beverages and tobacco		125.0	105.6	91.9	219.7	194.3	49.7	34.3	42.6
Clothing and footwear		105.6	116.2	67.5	109.7	139.5	48.6	27.6	48.4
Rent, fuel and lighting		85.7	115.4	232.1	102.2	248.4	52.7	27.8	45.8
Furniture and household goods		157.1	88.9	97.1	241.8	186.0	52.7	25.3	32.0
Medical care		166.7	100.0	93.8	235.5	391.3	95.7	52.1	16.1
Transport and communication		200.0	166.7	87.5	171.7	276.7	62.9	67.3	83.8
Recreation and education		187.5	78.3	119.5	127.8	121.0	120.8	35.6	71.5
All other goods and services		104.3	114.9	89.1	37.2	155.3	49.5	23.8	35.5
Composite index (annual average)		133.3	107.0	97.7	165.7	183.8	54.6	34.9	43.1

Source: Central Statistical Office.

Table 10. Zambia: Summary of Central Government Operations, 1990-96  
(In millions of kwacha)

	1990	1991	1992	1993	1994	1995	1996
Revenue and grants	27,927	59,833	162,434	353,506	569,289	751,600	944,858
Revenue	23,001	40,814	104,521	235,256	449,618	595,911	816,585
Tax revenue	22,577	39,954	99,819	227,248	418,879	545,911	751,452
Company income tax	7,120	9,509	15,651	39,487	43,011	38,355	54,462
Personal income tax	1,701	4,825	21,464	41,859	86,202	134,153	172,703
Excise taxes	3,266	7,804	15,526	33,067	70,204	84,616	126,623
Sales tax/VAT	2,182	4,600	12,765	34,394	76,104	107,678	136,854
Trade taxes 1/	8,308	13,216	34,413	78,441	138,536	163,155	242,906
Extraction royalty	0	0	0	0	4,821	17,954	17,904
Nontax revenue	424	860	4,702	8,008	30,739	50,000	65,133
Grants	4,926	19,656	57,913	118,250	119,671	155,689	128,000
Total expenditures and net-lending	37,342	75,655	176,527	436,457	713,907	881,169	1,099,774
Current expenditure	30,283	63,897	155,063	389,568	624,735	726,913	868,578
Wages and salaries	5,960	13,272	34,045	70,529	115,051	177,903	220,777
Recurrent departmental charges	5,157	8,846	20,907	54,425	63,181	100,672	119,636
Transfers and pensions	2,909	6,162	13,954	38,498	89,663	106,997	96,165
Subsidies	4,060	8,744	4,437	2,500	0	0	0
Interest due	8,859	18,445	48,591	182,618	260,493	258,729	322,149
Other current expenditure 2/	3,337	3,104	16,325	5,406	64,424	57,012	79,494
Agricultural expenditure	0	5,324	16,804	35,592	31,923	25,600	30,357
Capital expenditure	7,059	11,758	21,464	46,889	89,173	154,256	231,196
Net-lending	0	0	0	0	0	0	0
Overall balance (accrual)	-9,415	-15,822	-14,093	-82,951	-144,619	-129,569	-154,916
Financing	9,415	15,822	14,093	82,951	144,619	129,569	154,916
Domestic	2,224	11,019	726	-11,374	52,627	7,600	-44,506
Non-banks	-306	3,577	10,618	5,881	3,024	-4,037	1,494
Banking system	2,270	10,585	-14,201	-17,122	24,898	-3,861	12,300
Domestic arrears	260	-3,143	4,309	-133	27,432	1,815	-51,200
Change in balances	0	0	0	0	-2,727	13,683	-7,100
Foreign 3/	7,191	4,802	13,367	94,325	91,992	121,969	199,422
Memorandum item:							
Domestic balance (cash) 4/ 5/	-3,747	-17,701	-22,889	-61,522	-29,157	7,940	49,411
Overall balance (cash) 5/	-9,155	-18,965	-9,784	-83,084	-119,914	-114,071	-213,216

Source: Zambian authorities and staff estimates.

1/ Including sales tax/VAT on imported goods.

2/ Excluding accrued arrears.

3/ Including interest arrears and debt relief.

4/ Fiscal balance excluding grants, interest payments on foreign debt, and foreign financed capital expenditures.

5/ To approximate a cash-based presentation an adjustment is made for line ministries' payments of arrears and changes in balances.

Table 11. Zambia: Summary of Central Government Operations, 1990-96  
(In percent of GDP)

	1990	1991	1992	1993	1994	1995	1996
Revenue and grants	24.6	27.4	28.5	23.9	26.9	26.6	23.2
Revenue	20.3	18.7	18.4	15.9	21.2	21.1	20.0
Tax revenue	19.9	18.3	17.5	15.3	19.8	19.3	18.4
Company income tax	6.3	4.4	2.7	2.7	2.0	1.4	1.3
Personal income tax	1.5	2.2	3.8	2.8	4.1	4.7	4.2
Excise taxes	2.9	3.6	2.7	2.2	3.3	3.0	3.1
Sales tax/VAT	1.9	2.1	2.2	2.3	3.6	3.8	3.4
Trade taxes 1/	7.3	6.1	6.0	5.3	6.5	5.8	6.0
Extraction royalty	0.0	0.0	0.0	0.0	0.2	0.6	0.4
Nontax revenue	0.4	0.4	0.8	0.5	1.4	1.8	1.6
Grants	4.3	9.0	10.2	8.0	5.6	5.5	3.1
Total expenditures and net-lending	32.9	34.7	31.0	29.4	33.7	31.2	27.0
Current expenditure	26.7	29.3	27.2	26.3	29.5	25.7	21.3
Wages and salaries	5.3	6.1	6.0	4.8	5.4	6.3	5.4
Recurrent departmental charges	4.6	4.1	3.7	3.7	3.0	3.6	2.9
Transfers and pensions	2.6	2.8	2.4	2.6	4.2	3.8	2.4
Subsidies	3.6	4.0	0.8	0.2	0.0	0.0	0.0
Interest due	7.8	8.5	8.5	12.3	12.3	9.2	7.9
Other current expenditure 2/	2.9	1.4	2.9	0.4	3.0	2.0	1.9
Agricultural expenditure	0.0	2.4	3.0	2.4	1.5	0.9	0.7
Capital expenditure	6.2	5.4	3.8	3.2	4.2	5.5	5.7
Net-lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual)	-8.3	-7.2	-2.5	-5.6	-6.8	-4.6	-3.8
Financing	8.3	7.2	2.5	5.6	6.8	4.6	3.8
Domestic	2.0	5.0	0.1	-0.8	2.5	0.3	-1.1
Non-banks	-0.3	1.6	1.9	0.4	0.1	-0.1	0.0
Banking system	2.0	4.8	-2.5	-1.2	1.2	-0.1	0.3
Domestic arrears	0.2	-1.4	0.8	0.0	1.3	0.1	-1.3
Change in balances	0.0	0.0	0.0	0.0	-0.1	0.5	-0.2
Foreign 3/	6.3	2.2	2.3	6.4	4.3	4.3	4.9
Memorandum items:							
Domestic balance (cash) 4/ 5/	-3.3	-8.1	-4.0	-4.2	-1.4	0.3	1.2
Overall balance (cash) 5/	-8.1	-8.7	-1.7	-5.6	-5.7	-4.0	-5.2

Source: Zambian authorities and staff estimates.

1/ Including sales tax/VAT on imported goods.

2/ Excluding accrued arrears.

3/ Including interest arrears and debt relief.

4/ Fiscal balance excluding grants, interest payments on foreign debt, and foreign financed capital expenditures.

5/ To approximate a cash-based presentation an adjustment is made for line ministries' payments of arrears and changes in balances.

Table 12. Zambia: Summary of Central Government Revenues and Grants, 1990-96  
(In millions of kwacha)

	1990	1991	1992	1993	1994	1995	1996
Revenue and grants	27,927	59,833	162,434	353,506	569,289	751,600	944,858
Revenue	23,001	40,814	104,521	235,256	449,618	595,911	816,585
Tax revenue	22,577	39,954	99,819	227,248	418,879	545,911	751,452
Company income tax	7,120	9,509	15,651	39,487	43,011	38,355	54,462
Personal income tax	1,701	4,825	21,464	41,859	86,202	134,153	172,703
PAYE 1/	1,092	3,793	19,249	35,132	69,732	104,716	128,830
Withholding tax and other	609	1,032	2,215	6,727	16,470	29,437	43,873
Excise taxes	3,266	7,804	15,526	33,067	70,204	84,616	126,623
Sales tax/VAT	2,182	4,600	12,765	34,394	76,104	107,678	136,854
Trade taxes 2/	8,308	13,216	34,413	78,441	138,536	163,155	242,906
Extraction royalty	0	0	0	0	4,821	17,954	17,904
Nontax revenue	424	860	4,702	8,008	30,739	50,000	65,133
User fees and charges	...	...	...	...	12,292	17,255	12,102
Privatization receipts 3/	...	...	...	...	...	12,468	27,022
Other exceptional receipts	...	...	...	...	18,446	20,277	26,009
Grants	4,926	19,656	57,913	118,250	119,671	155,689	128,000

Source: Zambian authorities; and staff estimates.

1/ Pay-As-You-Earn.

2/ Including sales tax/VAT on imported goods.

3/ Net of direct privatization costs.

Table 13. Zambia: Summary of Central Government Expenditures, 1990-96

(In millions of kwacha)

	1990	1991	1992	1993	1994	1995	1996
Total expenditures and net lending	37,342	75,655	176,527	436,457	713,907	881,169	1,099,774
Current expenditure	30,283	63,897	155,063	389,568	624,735	726,913	868,578
Wages and salaries	5,960	13,272	34,045	70,529	115,051	177,903	220,777
Personal emoluments	5,960	13,272	34,045	70,529	92,188	151,262	201,497
Non-defense	4,483	10,458	26,303	50,158	68,974	124,337	169,712
Defense	1,477	2,814	7,742	20,371	23,214	26,925	31,785
Wage adjustment	0	0	0	0	22,863	26,641	19,280
Recurrent departmental charges	5,157	8,846	20,907	54,425	63,181	100,672	119,636
Non-defense	4,651	8,177	18,887	51,647	60,267	91,498	112,308
Defense	506	669	2,020	2,778	2,914	9,174	7,328
Transfers and pensions	2,909	6,162	13,954	38,498	89,663	106,997	96,165
Grants and payments	0	0	0	0	80,009	93,997	82,726
Pensions	0	0	0	0	9,654	13,000	13,439
Subsidies	4,060	8,744	4,437	2,500	0	0	0
Interest due	8,859	18,445	48,591	182,618	260,493	258,729	322,149
Domestic debt	1,584	3,662	15,577	71,463	102,538	77,029	121,849
Foreign debt	7,275	14,783	33,014	111,155	157,955	181,700	200,300
Other current expenditure 1/	3,337	3,104	16,325	5,406	64,424	57,012	79,494
Defense	2,237	2,092	7,073	0	13,042	7,856	4,888
Awards and compensation	0	0	0	0	0	0	22,636
Contingency	0	0	0	0	0	0	15,122
Zambia Revenue Authority funding	0	0	0	0	0	0	24,339
Civil service reform	0	0	1,703	4,101	1,980	1,127	1,750
Bank of Zambia capitalization	0	0	0	0	0	0	3,500
Other	1,100	1,012	7,549	1,305	49,402	48,029	7,259
Agricultural expenditure	0	5,324	16,804	35,592	31,923	25,600	30,357
Drought relief	0	0	0	0	0	6,750	575
Strategic food reserve	0	0	0	0	27,623	2,500	14,500
Input financing	0	0	0	0	4,300	9,350	3,250
Other 2/	0	0	0	0	0	7,000	12,032
Capital expenditure	7,059	11,758	21,464	46,889	89,173	154,256	231,196
Financed by the government of Zambia	4,000	6,258	9,670	18,232	36,700	58,256	40,596
Non-defense	0	0	0	0	33,786	54,455	38,895
Defense	0	0	0	0	2,914	3,801	1,701
Foreign financed	3,059	5,500	11,794	28,657	52,473	96,000	190,600

Source: Zambian authorities; and staff estimates.

1/ Including unclassified expenditures.

2/ Funding of Agricultural Sector Investment Program.

Table 14. Zambia: Expenditures by Functional Classification (Domestic Budget), 1990-96 1/

	1990	1991	1992	1993	1994	1995	1996
(In millions of kwacha)							
General public services	6,716	14,436	46,889	83,368	145,482	156,552	...
Defense	4,220	5,575	16,835	23,149	42,083	47,756	45,702
Public order and safety	1,022	2,651	5,172	15,711	5,998	8,349	...
Education	2,499	6,020	11,980	28,915	49,902	68,121	95,925
Primary education	718	2,317	4,010	11,059	23,317	24,720	43,000
Secondary education	424	833	1,795	3,009	7,129	8,154	9,950
Tertiary education	530	1,247	2,943	8,284	10,118	18,711	21,199
Other	827	1,623	3,232	6,563	9,338	16,536	21,776
Health	2,780	3,287	8,144	24,818	44,409	55,657	66,416
Social security and welfare	517	2,230	3,057	11,788	19,659	23,597	...
Housing and community services	154	418	428	79	5,992	13,048	...
Recreational, cultural and religious affairs	463	778	1,866	4,254	9,587	11,889	...
Energy	30	52	195	652	16,875	31,814	...
Agriculture, forestry and fishing	1,729	3,791	3,229	7,926	53,171	51,453	...
Mining, manufacturing and construction	268	997	3,837	2,351	4,842	7,349	...
Transport and communication	1,131	2,251	11,401	12,168	3,304	3,315	...
Debt service	1,584	3,662	15,577	71,463	102,538	77,029	121,849
Other	3,895	9,224	3,109	10,003	...	47,540	378,982
Total	27,008	55,372	131,719	296,645	503,842	603,469	708,874
(In percent of total)							
General public services	24.9	26.1	35.6	28.1	28.9	25.9	...
Defense	15.6	10.1	12.8	7.8	8.4	7.9	6.4
Public order and safety	3.8	4.8	3.9	5.3	1.2	1.4	...
Education	9.3	10.9	9.1	9.7	9.9	11.3	13.5
Primary education	2.7	4.2	3.0	3.7	4.6	4.1	6.1
Secondary education	1.6	1.5	1.4	1.0	1.4	1.4	1.4
Tertiary education	2.0	2.3	2.2	2.8	2.0	3.1	3.0
Other	3.1	2.9	2.5	2.2	1.9	2.7	3.1
Health	10.3	5.9	6.2	8.4	8.8	9.2	9.4
Social security and welfare	1.9	4.0	2.3	4.0	3.9	3.9	...
Housing and community services	0.6	0.8	0.3	0.0	1.2	2.2	...
Recreational, cultural and religious affairs	1.7	1.4	1.4	1.4	1.9	2.0	...
Energy	0.1	0.1	0.1	0.2	3.3	5.3	...
Agriculture, forestry and fishing	6.4	6.8	2.5	2.7	10.6	8.5	...
Mining, manufacturing and construction	1.0	1.8	2.9	0.8	1.0	1.2	...
Transport and communication	4.2	4.1	8.7	4.1	0.7	0.5	...
Debt service	5.9	6.6	11.8	24.1	20.4	12.8	17.2
Other	14.4	16.7	2.4	3.4	...	7.9	53.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Ministries of Finance, Education and Health; and staff estimates.

1/ Total expenditure (Table 13) excluding interest payments on foreign debt, and foreign-financed capital expenditures.

Table 15. Zambia: Zambia Consolidated Copper Mines Ltd.,  
Consolidated Profit and Loss Account, 1989/90 - 1996/97 1/

(In millions of kwacha)

	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97
Sales	32,876	60,775	123,333	359,086	574,957	1,121,301	1,591,158	1,504,730
Of which: copper	28,853	56,789	74,955	248,664	390,579	598,245	1,236,300	1,111,300
Cost of sales	22,430	42,774	91,782	251,136	570,039	1,007,392	1,473,157	1,555,370
Profit/loss (-) on sales	10,446	18,001	31,551	107,950	4,918	113,909	118,001	-50,640
Other costs (net) 2/	4,890	6,775	17,241	41,657	76,327	79,086	128,638	143,356
Profit/loss (-) before taxation	5,556	11,226	14,310	66,293	-71,409	34,823	-10,637	-193,996
Profit/loss (-) after taxation 3/	2,586	5,190	4,103	41,529	-72,733	3,436	-29,981	-198,722

Source: Zambia Consolidated Copper Mines, Ltd.

1/ The ZCCM financial year runs from April 1 to March 31.

2/ Includes net interest, exchange losses, and share of associated companies' profits.

3/ Including taxation recoveries from the carry-over of losses against profits for the previous year.



Table 16. Zambia: Monetary Survey, 1990-96

	1990	1991	1992	1993	1994 1/	1995 1/	1996
(In billions of kwacha; end-of-period)							
Net foreign assets	...	...	...	...	-692	-985	-1,217
Monetary authorities	...	...	...	...	-738	-1,092	-1,394
Commercial banks	5	9	36	94	47	107	176
Net domestic assets	...	...	...	...	1,040	1,526	1,944
Net domestic credit	...	...	...	...	248	398	542
Net claims on government 2/	...	...	...	...	85	92	113
Monetary authorities	...	...	...	...	13	-58	-46
Commercial banks	3	11	33	66	72	150	159
Claims on nongovernment	...	...	...	...	163	306	429
Monetary authorities	...	...	...	...	2	25	25
Commercial banks	13	22	42	92	161	281	404
Other items, net	...	...	...	...	792	1,128	1,402
Broad money	29	61	106	214	348	541	727
Narrow money	15	24	51	96	144	228	270
Currency outside banks	5	9	19	40	57	79	106
Demand deposits	10	15	32	56	82	140	163
Bank of Zambia deposits	0	0	0	0	6	9	1
Quasi-money	15	37	55	118	204	312	457
Savings deposits	4	8	...	...	67	74	114
Time deposits	11	29	...	...	109	151	182
Foreign currency deposits	...	...	...	...	28	88	161
(Twelve-month percentage change)							
Net foreign assets	...	...	...	...	...	-42.4	-23.6
Net domestic assets	...	...	...	...	...	46.7	27.4
Net domestic credit	...	...	...	...	...	60.4	36.3
Net claims on government 2/	...	...	...	...	...	7.7	22.7
Claims on nongovernment	...	...	...	...	...	88.3	40.4
Other items, net	...	...	...	...	...	42.4	24.3
Broad money	75.7	108.7	73.1	101.5	62.8	55.3	34.4
Narrow money	83.0	68.2	109.8	87.4	50.0	57.9	18.4
Quasi-money	69.1	148.5	48.7	114.6	73.2	53.2	46.3
(Twelve-month change as percentage of beginning-period broad money)							
Net foreign assets	...	...	...	...	...	-84.2	-43.0
Net domestic assets	...	...	...	...	...	139.6	77.4
Net domestic credit	...	...	...	...	...	43.0	26.7
Net claims on government 2/	...	...	...	...	...	1.9	3.9
Claims on nongovernment	...	...	...	...	...	41.2	22.8
Other items, net	...	...	...	...	...	96.5	50.7
Broad money	75.7	108.7	73.1	101.5	62.8	55.3	34.4
Narrow money	39.4	33.8	43.8	42.3	22.5	24.0	7.7
Quasi-money	36.3	75.0	29.3	59.2	40.3	31.2	26.7
Memorandum items:							
Velocity (GDP/average M2)	3.9	3.6	5.4	6.9	6.1	6.3	6.2
Money multiplier 3/	2.5	2.8	2.9	2.2	2.5	5.1	4.3

Sources: Bank of Zambia; and staff estimates.

1/ Since January 1995 balance sheet of the BoZ is being compiled on the basis of the new chart of accounts.

Complete historical data go back to December 1994 only.

2/ Net claims on government reported by the banking system do not match the fiscal statistics as the Bank of Zambia has not reconciled its records of public bonds in circulation for 1994 and 1995.

3/ Ratio of broad money to reserve money.

The increase in the multiplier in 1995 resulted from the reduction in the required reserve ratio from 30 to 3 percent.

Table 17. Zambia: Accounts of the Monetary Authorities, 1990-96

	1990	1991	1992	1993	1994	1995 1/	1996
(In millions of kwacha)							
Net foreign assets	...	...	...	...	-1,012	-1,092	-1,394
Gross reserves	...	...	...	...	192	200	271
Liabilities	...	...	...	...	-1,204	-1,293	-1,665
Net domestic assets	...	...	...	...	1,154	1,198	1,563
Net domestic credit	...	...	...	...	26	79	139
Net claims on government	...	...	...	...	13	-58	-46
Claims on government	...	...	...	...	52	102	181
Government deposits	...	...	...	...	-39	-160	-226
Claims on nongovernment	...	...	...	...	13	137	185
of which: claims on banks	...	...	...	...	11	122	160
Other items, net	...	...	...	...	1,128	1,119	1,424
Reserve money	12	22	36	97	142	105	169
Currency in circulation	5	11	21	47	64	92	127
Liabilities to commercial banks	6	11	15	50	77	12	40
Liabilities to nonbanks	0	0	0	0	1	2	2
(Twelve-month percentage change)							
Net foreign assets	...	...	...	...	...	-8	-28
Net domestic assets	...	...	...	...	...	4	30
Net domestic credit	...	...	...	...	...	203	77
Net claims on government	...	...	...	...	...	-541	-21
Claims on nongovernment	...	...	...	...	...	967	36
Other items, net	...	...	...	...	...	-1	27
Reserve money	76	90	66	165	47	-26	60
(Twelve-month change as percentage of beginning-period reserve money)							
Net foreign assets	...	...	...	...	...	-57	-286
Net domestic assets	...	...	...	...	...	31	346
Net domestic credit	...	...	...	...	...	37	57
Net claims on government	...	...	...	...	...	-50	11
Claims on nongovernment	...	...	...	...	...	87	46
Other items, net	...	...	...	...	...	-6	289
Reserve money	76	90	66	165	47	-26	60

Source: Bank of Zambia.

1/ Since January 1995, the balance sheet of the BoZ is being compiled on the basis of the new chart of accounts. Complete historical data only go back to December 1994.

Table 18. Zambia: Accounts of Commercial Banks, 1990-96

(In billions of kwacha)

	1990	1991	1992	1993	1994	1995	1996
Net foreign assets	5	9	36	94	47	107	176
Gross assets	7	12	43	103	57	116	191
Liabilities	-2	-3	-7	-8	-11	-9	-14
Net domestic assets	15	30	41	64	241	344	442
Net position with the BoZ	8	15	19	50	93	-26	-23
Currency	1	1	2	7	16	14	20
Current accounts at the BoZ	0	1	2	5	8	20	3
Statutory reserves (kwacha)	7	12	15	38	69	9	29
Statutory reserves (forex)	0	0	0	0	2	0	11
Credit from BoZ	0	0	0	0	3	69	87
Domestic credit	16	33	75	158	225	441	563
Net claims on government	3	11	33	66	72	150	159
Claims	4	14	38	71	85	194	216
Treasury bills	4	14	38	71	81	142	164
Other assets	0	0	0	1	4	53	52
Deposits	-1	-3	-6	-6	-12	-45	-58
Claims on nongovernment	13	22	42	92	153	291	404
Other items, net	-9	-18	-53	-143	-77	-71	-98
Private sector liabilities	20	39	77	159	288	451	618
Demand deposits	8	13	32	56	99	203	344
Savings and time deposits	12	26	45	103	189	248	274

Source: Bank of Zambia.

Table 19. Zambia: Structure of Interest Rates, 1990-96

(In percent; end-of-period)

	1990	1991	1992	1993	1994	1995	1996
Bank rate	34.0	42.0	54.0	122.5	24.8	51.5	69.8
Treasury bill rate 1/ 2/	30.5	40.0	47.0	115.9	23.1	51.3	75.3
One-year government bond 3/	9.5	11.0	11.0	11.0	...	43.6	37.0
18-month government bond 3/	...	15.0	15.0	15.0	...	...	...
Deposit rates 4/							
Kwacha deposits							
Savings	27.0	33.0	43.0	80.9	13.3	30.6	30.8
Short-term deposits	25.6	27.9	...	...	16.4	40.9	47.0
3 to 6 months	29.0	33.2	...	...	14.4	36.7	38.3
6 to 12 months	29.5	33.0	...	...	13.3	33.1	...
12 months and over	30.3	33.8	...	...	...	...	...
24-hour call rate	...	...	36.5	66.3	9.9	31.1	30.1
Notice (7-90 days)	...	...	46.6	85.2	...	...	...
Fixed deposit (30 days-365 days)	...	...	48.8	93.6	...	...	...
Lending rates 4/							
Bank overdraft (minimum)	38.5	46.0	60.6	119.6	45.8	66.7	69.0
Residential mortgages (minimum)	35.0	36.0	42.0	75.0	...	...	...
Commercial and individual mortgages	39.0	45.0	55.0	90.0	...	...	...

Source: Bank of Zambia.

1/ Annualized (weighted by maturity).

2/ Treasury bill rates became market determined in 1993.

3/ One-year bond introduced in December 1989; 18-month bond introduced in January 1991.

4/ Commercial bank rates were liberalized in 1992.

Table 20. Zambia: Balance of Payments, 1990-96

	1990	1991	1992	1993	1994	1995	1996
(In millions of U.S. dollars)							
Current account	-93	8	-108	-127	-60	-148	-221
Trade balance	179	133	-182	-24	64	39	-105
Exports, f.o.b.	1,263	1,085	1,120	994	1,066	1,233	1,093
Metals	1,150	998	1,020	870	910	984	754
Other	113	88	100	124	157	248	339
Imports, c.i.f.	-1,084	-952	-1,302	-1,019	-1,003	-1,194	-1,199
Metals sector	-346	-285	-349	-242	-287	-265	-232
Other	-738	-667	-953	-777	-716	-929	-967
Services, net	-206	-222	-201	-197	-206	-242	-124
Transfers, net	253	481	603	321	319	298	213
Interest on official debt	-329	-381	-325	-216	-233	-252	-198
Other factor transactions, net	10	-3	-3	-10	-4	9	-8
Capital account 1/	-261	-99	-150	-56	-14	-68	141
Official disbursements	169	317	467	455	212	234	193
Official amortization	-318	-337	-358	-306	-309	-338	-255
Private capital, net 1/	-112	-79	-259	-205	83	36	203
Overall balance	-354	-91	-258	-182	-74	-216	-80
Financing	354	91	258	182	74	216	80
IMF, net	97	-39	-39	-73	-18	4	0
Purchases	0	0	0	0	0	1,212	0
Repurchases (scheduled)	-113	-59	-6	-3	-18	0	0
Change in overdue obligations	210	21	-33	-70	0	-1,208	0
Other foreign assets, net	-3	28	-70	-14	-59	-2	-53
Central bank, net	-4	28	-91	26	-137	44	-31
Assets	7	10	-23	-5	-76	65	-3
Liabilities	-11	18	-68	31	-61	-21	-27
Commercial banks, net	1	0	21	-40	78	-46	-22
Net change in arrears (decrease -)	-465	-192	-183	-90	-76	176	-176
Debt reduction/rescheduling received	725	293	551	359	227	37	310
Memorandum items:							
Current account, excluding interest obligations and official transfers	-48	-125	-425	-224	-165	-214	-253
Copper export volume (in thousands of metric tons)	440	375	409	402	360	341	327
Copper price (US\$/lb)	1.09	1.08	0.96	0.81	0.92	1.13	0.79

Source: Bank of Zambia; and staff estimates.

1/ Including net errors and omissions.

Table 21. Zambia: Merchandise Exports, 1990-96

(In millions of U.S. dollars, unless otherwise indicated)

	1990	1991	1992	1993	1994	1995	1996
Total exports, f.o.b.	1,263	1,085	1,120	994	1,066	1,233	1,093
Metal exports, f.o.b.	1,150	998	1,020	870	910	984	754
Copper							
Value	1,055	895	867	717	729	851	568
Volume (thousands of metric tons)	440	375	409	402	360	341	327
Price (US\$/lb) 1/	1.09	1.08	0.96	0.81	0.92	1.13	0.79
Cobalt							
Value	77	94	144	149	181	133	187
Volume (metric tons)	4,860	4,500	2,709	3,587	4,299	2,326	3,866
Price (US\$/lb) 1/	7.21	9.42	24.18	18.83	19.07	26.01	21.88
Lead							
Value	1.2	0.4	0.4	0.1	0.0	0.0	0.0
Volume (thousands of metric tons)	2.0	1.0	1.0	0.4	0.0	0.0	0.0
Price (US\$/lb)	0.31	0.22	0.21	0.19	...	...	...
Zinc							
Value	16.5	8.5	8.0	3.9	0.0	0.0	0.0
Volume (thousands of metric tons)	11.0	8.0	7.0	4.5	0.0	0.0	0.0
Price (US\$/lb) 1/	0.68	0.48	0.52	0.39	...	...	...
Non-metal exports, f.o.b.	113	88	100	124	157	248	339

Sources: Bank of Zambia; and staff estimates.

1/ Net of freight and insurance.

Table 22. Zambia: Foreign Trade Volume and Unit Value, 1990-96  
(Percentage change from the preceding year, unless otherwise indicated)

	1990	1991	1992	1993	1994	1995	1996
Volume							
Exports	-16.6	-10.3	14.7	6.6	-2.9	-4.8	12.7
Imports	7.8	-2.3	7.6	-19.6	-3.9	7.2	0.7
Unit value 1/							
Exports	9.2	-4.9	-8.9	-17.7	10.4	24.7	-23.9
Imports	-1.4	-10.2	1.9	-6.2	2.4	11.1	-0.3
Terms of trade	10.7	5.9	-10.7	-12.2	7.8	12.3	-23.6
Terms of trade index (1990=100)	100.0	105.9	94.6	83.0	89.5	100.5	76.8

Source: Staff estimates.

1/ In U.S. dollar terms.

Table 23. Zambia: Net Foreign Assets of the Banking System, 1990-96

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	1996
Net international reserves	-1,818	-1,797	-1,684	-1,632	-1,039	-1,147	-1,076
Assets	175	165	188	193	268	208	211
Gold	8	9	9	10	10	0	0
Other	167	156	179	183	258	208	211
Liabilities	-1,993	-1,962	-1,872	-1,825	-1,307	-1,355	-1,287
IMF	-1,330	-1,291	-1,261	-1,186	-1,168	-1,240	-1,200
Other	-663	-671	-611	-639	-138	-115	-88
Net foreign assets of commercial banks	127	127	106	146	68	114	136
Assets	157	168	127	159	84	124	147
Liabilities	-30	-41	-21	-13	-16	-10	-11
Net foreign assets of the banking system	-1,691	-1,670	-1,578	-1,486	-971	-1,033	-940
Assets	332	333	315	352	352	332	358
Liabilities	-2,023	-2,003	-1,893	-1,838	-1,323	-1,365	-1,298

Sources: Bank of Zambia; and staff estimates.



Table 24. Zambia: Scheduled External Debt Service Payments, 1990-96

	1990	1991	1992	1993	1994	1995	1996
(In millions of U.S. dollars)							
Scheduled debt service	770	777	689	554	541	590	453
Interest	329	381	325	245	233	252	198
Of which: Fund charges/interest	117	112	89	64	42	57	10
Amortization	441	396	364	309	309	338	255
Of which: Fund repurchases	122	59	6	3	18	0	0
(In percent of exports of goods and services)							
Scheduled debt service	56.5	65.6	57.2	52.5	46.2	42.7	34.9
Interest	24.1	32.2	27.0	23.2	19.8	18.2	15.3
Of which: Fund charges/interest	8.6	9.5	7.4	6.1	3.6	4.1	0.8
Amortization	32.3	33.4	30.2	29.3	26.3	24.5	19.7
Of which: Fund repurchases	8.9	5.0	0.5	0.3	1.5	0.0	0.0
Memorandum item:							
Exports of goods and services (in millions of U.S. dollars)	1,364	1,185	1,205	1,056	1,173	1,383	1,296

Sources: Bank of Zambia; and staff estimates.

Table 25. Zambia: External Debt, 1990-96 1/

	1990	1991	1992	1993	1994	1995	1996
(In millions of U.S. dollars)							
Total external debt	6,898	6,827	6,260	6,532	6,347	7,013	7,073
Medium- and long-term debt	6,517	6,435	6,031	6,218	6,106	6,789	6,868
Multilateral	2,969	2,843	2,866	2,979	3,077	3,329	3,369
IMF	1,362	1,326	1,238	1,188	1,166	1,242	1,200
Other	1,607	1,517	1,628	1,791	1,911	2,086	2,169
Bilateral official	3,265	3,348	2,937	3,008	2,945	3,272	3,345
Paris Club	2,508	2,362	2,294	2,353	2,361	2,397	2,470
Other	757	986	643	655	584	874	874
Suppliers	171	124	102	99	84	189	154
Financial institutions 2/	112	120	126	132	0	0	0
Short-term debt	381	392	229	314	241	224	205
(In percent of exports of goods and services)							
Total external debt	505.7	576.1	519.5	618.6	541.0	507.2	545.6
Medium- and long-term debt	477.8	543.0	500.5	588.8	520.4	491.1	529.8
Multilateral	217.7	239.9	237.8	282.1	262.3	240.8	259.9
IMF	99.9	111.9	102.7	112.5	99.4	89.9	92.5
Other	117.8	128.0	135.1	169.6	162.9	150.9	167.3
Bilateral official	239.4	282.5	243.7	284.8	251.0	236.6	258.0
Paris Club	183.9	199.3	190.4	222.8	201.2	173.4	190.6
Other	55.5	83.2	53.4	62.0	49.8	63.2	67.4
Suppliers	12.5	10.5	8.5	9.4	7.2	13.7	11.9
Financial institutions 2/	8.2	10.1	10.5	12.5	0.0	0.0	0.0
Short-term debt	27.9	33.1	19.0	29.7	20.5	16.2	15.8
Memorandum item:							
Exports of goods and services							
(in millions of U.S. dollars)	1,364	1,185	1,205	1,056	1,173	1,383	1,296

Sources: Bank of Zambia; and staff estimates.

1/ Including arrears.

2/ Excludes "dormant" commercial debt not tendered in 1994 buyback, which the authorities estimate to amount to US\$85 million.

Table 26. Zambia: Nominal, Nominal Effective, and Real Effective  
Exchange Rates, 1990 Q1-1997 Q1

(Index, 1990=100)

	Official U.S. dollar/kwacha exchange rate	Nominal effective exchange rate	Real effective exchange rat
1990 Q1	123.38	126.77	100.82
Q2	105.26	108.21	99.24
Q3	92.89	91.06	99.20
Q4	78.47	73.96	100.72
1991 Q1	63.53	60.88	96.58
Q2	51.12	53.12	93.40
Q3	42.89	45.29	89.11
Q4	36.79	37.61	93.60
1992 Q1	26.64	27.18	93.33
Q2	20.83	21.28	91.41
Q3	17.14	16.61	86.42
Q4	12.27	12.74	86.63
1993 Q1	7.21	7.89	70.59
Q2	5.68	6.10	75.52
Q3	6.71	7.37	119.71
Q4	7.56	8.40	140.67
1994 Q1	4.61	5.18	94.63
Q2	4.38	4.81	95.90
Q3	4.47	4.75	99.99
Q4	4.48	4.70	103.96
1995 Q1	4.01	4.16	99.71
Q2	3.59	3.58	88.25
Q3	3.22	3.28	87.43
Q4	3.22	3.31	103.14
1996 Q1	2.91	3.06	101.19
Q2	2.43	2.59	92.71
Q3	2.39	2.53	96.57
Q4	2.36	2.52	102.81
1997 Q1	2.30	2.57	110.44

Source: IMF, Information Notice System.

