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Statement by Mr. Mwananshiku on Zambia
Executive Board Meeting 92/151
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My Zambian authorities would like to convey their appreciation to management and staff for their support and counsel in the implementation of the economic adjustment current program under the rights accumulation decision. Directors will recall that the program, initiated just about a year ago following the multi-party elections in October last year that brought in a new Government, was embarked upon under very difficult conditions, characterized by severe distortions caused in part by years of Government intervention in the economy. The adjustment process was seriously threatened by the onset of the most severe drought in recent memory which forced radical revisions to almost all basic parameters of the program, including, in particular, the growth of real output and the external financing requirements.

Let me state at the outset that, despite the severity of the drought, Zambia was able to procure all its food requirements, thanks to the authorities' prompt action and the generous support of the international community.

As pointed out by the staff, the authorities have made notable progress in number of important areas of the program, especially in introducing structural reforms. Since assuming office in November 1991, the Government has eliminated fertilizer subsidies and liberalized its marketing. With a view to eliminating the subsidy, the price of maize has also been adjusted, resulting in a ninefold price increase to consumers. A series of decisive steps have also been taken that have transformed the exchange and trade system into one in which almost all transactions are now conducted at a freely-determined exchange rate. At the same time, interest rates have been freed and preparations for the sale of the first nineteen public enterprises are well underway. The reform of the civil service has also begun with the retrenchment of about ten percent of all public servants.

Notwithstanding these important achievements, I will be the first to admit and express regret that slippages have occurred in the implementation of the program with the result that macroeconomic conditions remain significantly unstable. The rate of inflation has been much higher than anticipated, reflecting not only the liquidity overhang inherited from the past and a number of policy-induced price rises e.g. mealie meal and oil products, but also the recent rapid growth in money supply. This monetary expansion which led to performance criteria on reserve money and credit to the Government being missed is attributable to both the authorities' failure to fully sterilize copper export receipts above the baseline projection and the budget being more expansionary than had been projected.

In regard to the latter, Directors will recall that a distinction between the drought and non-drought budgets was made in the program in order to enhance transparency and facilitate monitoring. As outlined in the staff report, the expansion of the budget was rooted mainly in the drought budget especially in the third quarter when financing of the larger-than-projected, domestically produced maize proved to be more expensive than originally anticipated; in addition, receipts from maize sales have been lower than expected. The weakening of the non-drought budget in the second quarter was also responsible for the slippages and involved, in particular, payments to Zambia Airways. The shortfall in tax receipts during the same period exacerbated the position.

It should be noted that the adjusted international reserve target for end-September which took into account the higher copper prices that obtained was also missed. In this connection, it is worth pointing out that recent developments in the balance of payments have been dominated by the impact of higher copper prices and substantial shortfalls in the disbursement of external assistance. Also, the more expensive short-term lines of credit of the Bank of Zambia were liquidated. As a result of the continuing discussions with creditors, the ceiling on external arrears was also not observed. Nevertheless, it is also important to acknowledge the fact that Zambia was able to meet all the obligations falling due to the Fund and reduced arrears as programmed, while remaining current with the World Bank.

My authorities are keenly aware that the reforms now underway will not achieve the desired results of transforming the economy and resuming sustainable growth if the macroeconomic conditions are not stabilized quickly. They realize that developments in the monetary and fiscal sectors significantly contributed to the slippages under the program and have instructed me to assure the Executive Board of their determination to move swiftly in reducing the budget deficit and bringing down the growth of money supply in order to put the program back on track. Accordingly, they have taken a number of specific measures in the fourth quarter of 1992 to mop up excess liquidity in the economy, a prerequisite to reducing inflationary pressures early in 1993.

As a result of the Government decision to redress anomalies in the wage awards that had been granted earlier and in line with the need to restructure Government's pay scales, an adjustment in civil service salaries was made in September that could have worsened the fiscal position. However, this increase will be covered by action taken on the revenue side involving the application of bureau de change exchange rate in the assessment of import duties. Other fiscal actions include the payment of a mandatory dividend by ZIMCO; the cutting of budgetary funding for non-essential and less urgent spending; the recovery or freezing of the overfunding that had been made to certain ministries; and, the collection of sums owed by certain parastatals and other entities to the Government. Thus far, K2 billion has already been collected.

The Government has eliminated budgetary subsidies to Zambia Airways as from October 31, 1992. Armed with the recently completed consultant's report on the airline, some significant and radical changes are also being prepared for immediate action.

In the monetary sector, the authorities have raised the core liquid assets ratio to commercial banks; introduced a rediscount charge on treasury bills; and raised the Bank rate. At the same time, ZCCM's copper export receipts that accrue above the baseline price currently (90c per lb) are being retained directly by the Bank of Zambia. This is a new scheme which will ensure that those copper earnings are fully sterilized.

With the foregoing measures in place, my authorities are confident that their program will be brought back on its medium-term path of adjustment, setting the stage for the formulation of the 1993 budget, consistent with a more ambitious objective to restore macroeconomic stability rapidly. To this end, my authorities have agreed with the staff on a broad macroeconomic framework as outlined in the staff paper. Meanwhile, a staff team has just returned from Lusaka on a technical assistance mission to assist the authorities in articulating their budget proposals.

In the light of the size of the deviations from program targets, my authorities will not accumulate rights at the end of September as originally programmed. They have requested that the end-December ceilings be modified on the basis of the recent developments and to re-phase the rights. Barring unforeseen developments, my authorities are confident that they would be able to begin accumulating rights again following the observance of the modified end-December ceilings. All indications are that the program is back on course.

In conclusion, I would like to take this opportunity to express the deep sense of appreciation of my authorities about the generous response of the international donor community to Zambia's requests in support of the program and the additional requirements arising from the effects of the drought. My authorities are also thankful to the members of the Paris Club for the generous and comprehensive debt relief that has been granted. A preliminary meeting with donors was convened last week to assess the financing requirements for the period ahead. It is encouraging that donors have once again signified a readiness to assist Zambia.

In the light of the foregoing, I would like to request the Board to approve the draft decisions as proposed in the two staff papers.

