FOR AGENDA

EBS/92/199

CONFIDENTIAL

December 1, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Zambia - Midterm Review of the 1992 Rights Accumulation Program

Attached for consideration by the Executive Directors is the staff report for the midterm review of the 1992 rights accumulation program for Zambia, which is tentatively scheduled for discussion on Wednesday, December 16, 1992. A draft decision appears on pages 28 and 29.

Ms. Dillon (ext. 38313) or Mr. Katz (ext. 37465) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

ZAMBIA

Staff Report for the Midterm Review of the 1992 Rights Accumulation Program

Prepared by the African Department and
the Policy Development and Review Department

(In consultation with the Fiscal Affairs, Legal, Monetary
and Exchange Affairs, and Treasurer's Departments)

Approved by E.L. Bornemann and Thomas Leddy

November 30, 1992

I. Introduction and Background

Discussions relating to the midterm review of the 1992 rights accumulation program (RAP) were held in Lusaka during October 20-November 3, 1992. 1/ The staff met with President F.J.T. Chiluba; the Minister of Finance, Honorable E.G. Kasonde; the Governor of the Bank of Zambia, Mr. D.C. Mulaisho; and other senior officials and representatives of the parastatal and private sectors.

On July 17, 1992, the Executive Board endorsed Zambia's economic and financial program for 1992, decided to monitor that program during the period to end-March 1993, and approved the decision on the accumulation of rights by Zambia (EBS/92/114, Supplement 2) for up to a maximum amount equivalent to SDR 836.9 million, of which Zambia has so far accumulated an amount equivalent to SDR 83.69 million. 2/ The first review under the decision on accumulation of rights for Zambia is to be completed not later than December 31, 1992.

In the second and third quarters of 1992 slippages occurred in macroeconomic performance, reflecting to a large extent unforeseen developments related to the severe drought that hit the region, but also

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1/ The mission consisted of Ms. Dillon (head-AFR), Messrs. Katz (AFR), Brown (PDR), McCarten (FAD), and Gordon (AFR), and Mrs. Salama (assistant-ADM). Mr. Hill, the resident representative in Lusaka, also participated in the discussions.

2/ The previous rights accumulation program (EBS/91/59) was canceled on the same date.

policy developments. In a letter to the Managing Director dated November 30, 1992 (Appendix I), the Minister of Finance and the Governor of the Bank of Zambia describe the steps taken to bring the adjustment effort back on course and the understandings reached on the broad parameters of the 1993 budget, and request that the Fund modify the end-December performance criteria. On this basis, it is proposed that the review be completed with no accumulation of rights for end-September and that the remaining SDR 752.7 million of rights be rephased evenly in eight installments over the remainder of the program, increasing the amount of each accumulation to SDR 94.09 million (Table 1).

Zambia was declared ineligible to use the general resources of the Fund on September 30, 1987. The Fund has since reviewed the matter of Zambia's overdue obligations to the Fund on a number of occasions, the most recent being July 17, 1992. At that time, Directors welcomed the adoption by Zambia of a new rights accumulation program for 1992. Noting the recent payments by Zambia and acquisitions of SDRs to meet forthcoming obligations to the Fund, Directors stressed that the full and prompt settlement of Zambia's arrears to the Fund should be given the highest priority. The rights accumulation program provides that Zambia will discharge forthcoming obligations to the Fund as they fall due in 1992, and make additional payments totaling SDR 22 million, to reduce arrears to SDR 898.7 million by December 31, 1992; and by a further SDR 62.3 million during 1993. Zambia has met all obligations falling due to the Fund so far this year. As of November 25, 1992, Zambia had reduced its arrears to the Fund by SDR 14.8 million from the end-1991 level. On November 25, 1992, Zambia's overdue obligations to the Fund amounted to SDR 907.0 million, or the equivalent of 335.6 percent of quota, and Zambia's outstanding use of Fund resources was SDR 616.2 million (228.0 percent of quota) from the General Resources Account and SDR 6.7 million under the Trust Fund.

The World Bank has continued its support for Zambia's adjustment effort, most recently through a Privatization and Industrial Reform Credit (PIRC) totaling US$200 million (which was approved by the Bank's Board on June 24, 1992); the first tranche of US$100 million has been disbursed.

Appendices II and III provide summaries of Zambia's relations with the Fund and the World Bank Group, respectively; and Appendices IV and V present Zambia's basic data and social indicators, respectively.

II. Recent Developments and Performance Under the Program

Macroeconomic performance in 1992 to date has been dominated by rapid monetary expansion, persistently high inflation, and a sharp decline in real output caused by the drought (Table 2). During the first nine months of 1992 broad money grew at a seasonally adjusted annual rate of 113 percent, and inflation reached an annual rate of 188 percent. While Zambia has moved decisively in handling the drought relief effort and in implementing key

Table 1. Zambia: Modified Schedule of Rights Accumulation, 1992-95

Amount (Cumulative)	Availability date	Conditions necessary for accumulation
SDR 83.69 million (SDR 83.69 million)	Accumulated on Board approval of rights accumulation program (July 17, 1992)	
-- (SDR 83.69 million)	November 15, 1992	Observance of performance criteria for September 30, 1992 and completion of review.
SDR 94.09 million (SDR 177.78 million)	February 15, 1993	Observance of performance criteria for December 31, 1992.
SDR 376.35 million (SDR 554.13 million)	1993/94	Observance of performance criteria and completion of applicable reviews.
SDR 282.26 million (SDR 836.39 million)	1994/95	(Same as above)

1/ Total rights are SDR 0.51 million lower than in EBS/92/114, reflecting the reduction in Zambia's outstanding obligations that has resulted from refunds under burden sharing since the decision on accumulation of rights.

Table 2. Zambia: Selected Economic and Financial Indicators, 1986-94

	1986	1987	1988	1989	1990	1991	1992 Prog.	1992 Modified program	1993 Projections	1994 Projections
	(Annual percentage changes, unless otherwise indicated)									
National income and prices										
GDP 1/	0.7	2.7	6.3	-1.0	-0.5	-1.8	-9.0	-9.0	13.2	4.0
GDP deflator	82.0	48.6	46.4	102.0	113.7	97.5	141.3	176.1	...	...
Consumer prices										
Period average	54.8	47.1	54.0	128.3	109.6	93.4	152.7	180.7	...	...
End-period	34.6	50.4	64.1	158.0	105.0	111.0	101.1	171.3	55.0	...
Copper prices 2/	0.63	0.74	1.16	1.33	1.21	1.06	0.93	1.03	0.92	0.92
External sector (in SDRs)										
Exports, f.o.b.	-30.6	12.7	28.1	27.7	-15.2	-14.9	-9.4	-4.1	-11.0	7.2
Of which: copper	(-26.7)	(16.3)	(28.4)	(31.4)	(-19.1)	(-15.7)	(-21.2)	(-7.2)	(-13.4)	(-0.3)
Imports, c.i.f.	-29.3	2.8	10.7	20.5	0.3	-12.7	34.6	31.7	-9.1	-4.0
Nonmaize imports, c.i.f.	-29.3	2.8	10.7	20.5	0.3	-12.7	8.1	4.1	5.1	5.1
Real effective exchange rate (depreciation, -)	-51.8	5.4	55.6	32.3	-7.5	0.7	...	...	...	...
Gross reserves (weeks of nonmaize imports)	5.2	5.2	8.1	8.5	8.1	8.8	10.0	9.3	10.3	11.2
Government budget										
Revenue and grants	103.0	36.3	28.7	105.0	142.1	134.3	202.1	147.6	...	...
Expenditure and net lending	165.6	-5.6	43.6	90.3	115.9	102.8	93.4	137.5	...	...
Money and credit										
Broad money	93.1	54.3	61.6	65.3	45.8	98.7	35.0	93.7	20.0	...
Domestic credit 3/	64.9	22.2	47.2	56.4	27.0	146.7	31.4	72.6	...	...
Interest rate (bank lending rate: end of year)	33.5	18.4	25.0	35.0	40.0	46.0	...	...	...	...
	(As a percentage of GDP, unless otherwise indicated)									
Gross domestic savings	22.6	18.0	18.7	14.4	14.6	11.7	-1.2	3.1	...	...
Gross national savings 4/ 5/	3.3	6.1	6.6	7.6	12.3	13.6	6.2	11.4	...	...
Gross domestic investment	23.8	13.9	11.4	9.9	15.3	13.5	14.5	14.5	...	...
Consumption	77.4	82.0	81.3	85.6	85.4	88.3	101.2	96.9	...	...
Government budget										
Revenue and grants	24.7	22.1	18.7	19.2	21.9	26.4	32.4	26.0	...	...
Foreign interest	12.9	5.5	3.8	3.4	5.7	5.7	5.3	5.6	...	...
Other expenditures and net lending	38.8	26.5	26.5	25.4	23.6	24.9	21.7	23.3	...	...
Balance										
Overall (accrual basis)	-26.9	-9.9	-11.5	-9.6	-7.4	-4.1	5.4	-2.9	...	...
Excluding grants and interest (cash basis)	-14.1	-2.1	-7.3	-6.5	-4.1	-7.9	-2.6	-3.7	-1.2	...
External current account										
Overall balance 5/	-20.5	-7.8	-4.8	-2.3	-3.1	0.1	-8.3	-3.1	-7.8	-8.4
Balance excluding official transfers and interest	-3.7	3.2	6.6	4.4	-1.1	-2.3	-16.9	-12.4	-13.8	-10.2
External debt service 6/	111.1	101.5	80.9	58.0	59.2	67.9	61.0	59.4	61.4	53.6

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

1/ At constant 1977 prices.
2/ Average export prices. c.i.f., in U.S. dollars per pound.
3/ Change as a percent of beginning-of-period money.
4/ Including unrequited transfers.
5/ Assumes that half of residual external financing gaps for 1993 and 1994 are filled on grant terms. The actual external current account deficit is likely to be smaller.
6/ Scheduled payments, as a percent of receipts from exports of goods and nonfinancial services.

structural reforms, there have been slippages in the fiscal area and in the sterilization of excess copper earnings. The end-September performance criteria on reserve money, net claims on Government (NCG), and net international reserves (NIR) were missed by wide margins (Table 3).

1. Drought-related developments

Zambia, in common with its neighbors, suffered a devastating and potentially catastrophic drought during the 1991/92 crop season (May-April). The loss of two thirds of the domestic maize crop is estimated to have reduced GDP in 1992 by 9 percentage points. However, with substantial assistance from the international community, the Government has been successful in containing the adverse impacts of the drought; food shortages have been avoided and targeted free food and food-for-work programs have been put in place. The contracting of emergency maize imports began early in 1992, and supplies have been arriving on a timely basis since late May (Table 4). The direct balance of payments impact of the drought--through increased maize imports, reductions in nontraditional exports (including electricity), and requirements for electricity imports--is now estimated at about US$290 million for 1992 and another US$70 million in early 1993.

To combat the adverse effects of the drought, the Government, in concert with official donors and various nongovernmental organizations (NGOs), has established a Program to Prevent Malnutrition (PPM) for the crop year 1992/93. Expenditures under the PPM include (i) funding food-for-work projects such as digging irrigation ditches, building feeder roads, and preparing land for the new crop season; (ii) the provision of free food to those unable to work; and (iii) transporting maize for sale to remote and ordinarily self-sufficient rural regions. It is expected that 1.7 million people--about one fifth of the population--will be assisted under the PPM and that 100,000 metric tons of maize and other foods--about one eighth of total food aid--will be distributed through PPM projects.

Based on the information available at that time, the projected fiscal implications of the drought and the associated donor assistance were built into the rights accumulation program approved by the Board in July. 1/ Subsequent events have, however, confounded many of the original budgetary

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1/ From the time the program was formulated, it has been considered useful to partition fiscal transactions into drought and nondrought components. In addition to direct drought relief operations, the drought budget includes receipts from the sale of donor-financed maize and net lending related to maize marketing, fertilizer procurement, and input credit. The nondrought budget is the budget excluding the items referred to above. Table 5 presents the drought and nondrought budgets on a quarterly basis. Table 6 provides the more conventional fiscal presentation. The fiscal discussion and fiscal tables value donor-financed maize and maize grants at the price at which the maize is sold to mills (for further discussion see EBS/92/114, p. 14).

Table 3. Zambia: Performance Criteria Under Rights Program, Second Half 1992

	1991 Dec.	1992 Sept. Program	1992 Sept. Adjusted	1992 Sept. Actual	1992 Dec. Program	1992 Dec. Modified Program
			(In millions of kwacha)			
Reserve money 1/	21,962	28,889	26,247	32,808	30,551	37,533
Net claims on Government by banking system 1/	30,938	29,217	12,258 2/	24,291	20,584	24,281 3/
Debt swaps 1/ 4/	...	1,250	1,250	1,063	1,250	1,250
			(In millions of SDRs)			
Net international reserves 5/ 6/	-811.2	-783.7	-766.2 7/	-784.5	-756.8	-770.1 8/
New external loan commitments 1/ 9/	...	142.9	142.9	--	142.9	142.9
One to five year subceiling	...	71.4	71.4	--	71.4	71.4
Stock of short-term debt 1/ 10/	274.7	315.9	315.9	218.0	315.9	315.9
Minimum reduction in external payments arrears 11/ 12/	1,054.0 13/	-91.7	-128.7	-109.0	-125.9	-123.3
Minimum reduction in arrears to IMF 11/	921.8	-7.8	-8.1	-9.8	-23.1	-23.4

1/ Ceiling. The indicative limit on debt swaps and the external loan commitments ceilings are cumulative from January 1, 1992.

2/ Program ceiling adjusted down by (a) increase in nonbank holdings of government debt of K 5,683 million over the level at end-December 1991; (b) receipt of excess copper taxes from ZCCM of K 7,140 million and (c) a downward revision of K 4,137 million to the March 1992 base number made since the program was negotiated.

3/ Limit to be adjusted downward (a) if, and to the extent that, net nonproject external financing to the budget exceeds the amounts envisaged in the program, i.e., K 17,445 million between end-December 1991 and end-December 1992; (b) by the amount that total nonbank holdings of government debt exceeds the level at end-September 1992; (c) by the amount of any receipts from the mineral resource levy and company income tax payments from ZCCM in excess of K 800 million between end-September 1992 and end-December 1992, up to the amount of any cumulative excess copper earnings (ECE) that have not been sterilized by other means; and (d) by the amount of any proceeds received from the sale of parastatals.

4/ Indicative targets only.

5/ Floor.

6/ Net international reserves are defined as gross reserves minus outstanding Fund credit (including Trust Fund loans) and Fund charges in arrears. Floor is adjustable, as provided for under the copper contingency mechanism.

7/ Adjusted upward under the provisions of the copper contingency mechanism by US$64 million and adjusted downward by US$43 million to reflect the use of earmarked deposits of copper receipts to pay off a corresponding oil credit line against which they were held.

8/ Reflects current projections of likely donor disbursements and incorporates the upward adjustment for excess copper earnings through September; fourth quarter projections continue to be based on a price of US$.90 per pound in November-December, and the target will be revised upward to reflect earnings from prices above that level, minus any shortfall in donor assistance.

9/ Commitments on external loans (other than debt rescheduling) with an original maturity of more than one year contracted or guaranteed by the Government, Bank of Zambia, and parastatals, except borrowing on concessional terms according to the DAC definition and borrowing from multilateral institutions. This ceiling, and the subceiling for debt with a maturity of 1-5 years, will be increased and the ceiling on short-term debt decreased to the extent that the Bank of Zambia is able to refinance its existing short-term liabilities as medium-term liabilities.

10/ Disbursed debt of Government, Bank of Zambia, and parastatals, excluding normal trade credit for imports and interest arrears. See also adjustment described in Footnote 9.

11/ Data for December 1991 are stocks. Targets are cumulative reductions from January 1, 1992.

12/ Excludes overdue payments to bilateral or commercial creditors that may arise pending consideration of requests for rescheduling of these payments.

13/ Revised upward, reflecting new data on arrears.

Table 3 (concluded). Zambia: Performance Criteria Under Rights Program, Second Half 1992

Structural Performance Criteria, Second Half 1992		Status
Shift OGL from a positive list to a negative list.	By end-September 1992	Satisfied
Continue to ensure that any debt-swap operations entered into after March 1, 1992 are at a market-related discount.	From March 1, 1992	Satisfied
Lodge cash balances of all ministries at the Bank of Zambia.	From June 26, 1992	Satisfied
Ensure that the maximum bank lending rate exceeds the annualized rate of inflation in the preceding three months.	Before completion of review	No longer applicable; ceiling removed but rates remain negative in real terms.

Table 4. Zambia: Maize Imports, 1992-93

(In millions of U.S. dollars)

	1992					1993		1992-93
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Cumulative
				(In thousands of metric tons)				
Maize import volume								
Contracted	79	335	250	284	955	100	--	1,055
Commercial	59	86	100	40	285			285
Grants in kind	20	249	150	251	670	100	--	770
United States	20	234		48	302			302
Joint 1/				187	187	100		287
EEC		5	98		103			103
World Food Program 2/			49	2	51			51
Japan			10	5	15			15
Australia			3		3			3
NGOs				10	10			10
Arrived	0	79	193	359	632	316	100	1,055
Commercial	0	59	55	131	245	40		285
Grants in kind	0	20	138	228	387	276	100	770
United States		20	121	113	254	48		302
Joint 1/					--	187	100	287
EEC			5	85	90	13		103
World Food Program 2/				30	30	21		51
Japan			10		10	5		15
Australia			3		3			3
NGOs					--	10		10
				(In millions of U.S. dollars)				
Maize import costs/financing								
Maize cost 3/	11	69	66	96	242	59	15	316
Acquisition	6	50	38	40	134	11	--	145
Freight/handling	6	19	27	56	108	48	15	171
Financing	11	69	66	96	242	59	15	316
Grants in kind	2	27	19	57	106	53	15	174
Acquisition	2	27	17	28	74	11	--	85
United States	2	26		5	33			33
Joint 1/				21	21			21
EEC		1	11		11			11
World Food Program 2/			5	--	6			6
Japan		1		1	2			2
Australia			--		--			--
NGOs			1		1			1
Freight	--	--	3	29	32	42	15	89
United States				18	18	7		26
Joint 1/					--	28	15	43
EEC			1	11	12	2		14
World Food Program 2/					--	3		3
Japan			1		1	1		2
Australia			--		--			--
NGOs					--	1		1
Other (cash payments)	9	42	46	39	136	6	--	142

Sources: Zambian authorities; World Food Program; and USAID.

1/ Shipments financed jointly by Germany, the Netherlands, Norway, Sweden, the United Kingdom, and the United States.

2/ Financed by Germany, Japan, the Netherlands, and the United States.

3/ Acquisition costs are generally assumed to be incurred when a shipment is contracted; freight and handling costs are incurred during the period in which the maize arrives in Zambia.

Table 5. Zambia: Central Government Operations, 1992

(In millions of kwacha)

	Q2		Q3		Q4		1992	
	Program	Actual	Program	Actual	Program	Revised	Program	Revised
Nondrought revenue 1/	22,770	20,747	27,756	29,626	31,190	36,530	97,312	102,499
Tax revenue	25,148	24,004	28,124	31,475	31,817	36,530	100,293	107,213
Company income tax	3,700	3,422	3,922	3,173	4,177	3,680	14,070	12,546
Personal income tax (PAYE)	3,469	3,825	4,060	5,729	4,329	7,000	14,329	19,026
Other nonmining income taxes	509	373	547	674	575	740	1,936	2,092
Domestic excises	3,746	2,740	4,121	4,963	4,392	5,190	15,210	15,844
Domestic sales tax	2,628	2,114	4,164	3,709	4,394	3,980	13,209	11,826
Import taxes	7,047	6,859	8,945	9,132	10,940	12,940	31,940	33,939
Mineral sector	4,050	4,670	2,365	4,095	3,010	3,000	9,600	11,940
Nontax revenue	847	588	1,197	1,445	1,583	2,200	4,020	4,625
Blocked copper taxes	-3,225	-3,845	-1,565	-3,295	-2,210	-2,200	-7,000	-9,340
Nondrought expenditure 2/	25,457	29,579	28,708	29,376	28,645	35,640	98,284	110,070
Personal emoluments	7,510	6,155	7,507	7,321	7,507	10,221	25,600	26,772
Severance pay	--	--	1,800	1,300	--	500	1,800	1,800
Recurrent departmental charges (RDCs)	4,860	4,979	5,727	3,767	6,312	7,012	21,094	19,954
Subsidies	1,131	1,817	--	--	--	--	2,231	2,917
Transfers and pensions	2,536	4,055	3,063	3,550	3,249	4,560	10,906	14,224
Other (military)	3,188	4,094	3,504	5,230	3,737	5,000	12,791	16,687
Capital expenditure and net lending	5,433	6,655	6,507	5,930	7,441	5,969	21,782	20,956
Exceptional expenditure 3/	800	1,825	600	2,278	400	2,378	2,080	6,761
Nondrought deficit (accrual basis) 4/	-2,687	-8,832	-951	250	2,545	890	-972	-7,571
Payment of arrears	1,000	999	--	200	408	200	1,900	1,891
Change in balances of ministries at BOZ (increase-)	--	-3,000	--	-2,000	--	1,000	--	-4,000
Nondrought deficit (cash basis) 4/	-3,687	-6,831	-951	2,050	2,137	-310	-2,872	-5,462
Drought deficit	-757	600	-3,607	-11,298	4,544	-1,837	866	-11,849
Total deficit	-4,443	-6,231	-4,558	-9,248	6,681	-2,147	-2,006	-17,311
Domestic debt service 5/	-2,396	-2,848	-1,990	-5,165	-1,221	-7,000	-7,970	-17,376
Net Foreign Financing	631	-663)	9,283	9,566	3,214	9,157	24,308	29,239
Domestic Financing	6,208	3,398	-2,735	11,909	-8,674	-10	-14,332	6,165
Blocked copper taxes	3,225	3,845	1,565	3,295	2,210	2,200 6/	7,000	9,340
Bank financing 5/	2,983	-2,425	-4,300	4,910	-11,043	-2,210 6/	-21,332	-8,857
Other domestic financing	--	1,978	--	3,704	159	--	--	5,683
Adjustments necessary for reconciliation with BOZ:	--	6,344	--	-7,061	--	--	--	-717
Identified change in float	--	2,600	--	-2,600	--	--	--	--
Unexplained residual	--	3,744	--	-4,461	--	--	--	-717

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

1/ Net of blocked copper taxes.
2/ On a funding basis.
3/ Includes subventions to Zambia Airways.
4/ Primary deficit excluding grants, blocked copper taxes, and drought-related budget.
5/ Excludes interest paid to Bank of Zambia (BOZ)
6/ Net claims on government ceiling is adjusted downward by the amount of blocked copper taxes; therefore the ceiling for end-December is the end-September figure plus the sum of these two lines.

Table 6. Zambia: Central Government Operations, 1986-92

(In percent of GDP)

	1986	1987	1988	1989	1990	1991	1992 Prog.	1992 Modified program
Revenue and grants	24.7	22.1	18.7	19.2	21.9	26.1	32.4	26.0
Tax revenue	21.2	19.7	15.5	16.4	17.7	16.1	17.2	15.7
Mineral sector 1/	3.1	2.4	1.8	2.7	2.8	1.3	0.5	0.4
Import taxes	6.9	7.6	5.2	5.6	6.5	5.3	5.9	5.5
Domestic goods and services	4.6	4.0	3.7	4.0	4.3	5.0	5.2	4.4
Income taxes (nonmining)	6.5	5.7	4.9	4.1	4.2	4.4	5.6	5.4
Nontax revenue	2.2	1.9	1.6	0.7	0.3	0.3	0.7	0.7
Grants	1.3	0.5	1.6	2.1	3.9	9.6	14.4	9.6
Expenditure and net lending	51.7	32.0	30.3	28.8	29.3	30.3	27.0	28.9
Current expenditure	40.1	28.6	25.2	21.1	22.9	23.0	21.3	22.1
Personal emoluments	5.1	5.1	3.8	3.1	3.5	4.2	4.7	4.3
Severance pay	--	--	--	--	--	--	0.3	0.3
Recurrent departmental charges	4.4	5.5	4.7	4.2	3.6	3.3	3.9	3.2
Subsidies 2/	4.4	3.4	4.7	3.1	3.2	3.5	1.2	1.0
Interest: domestic 3/	3.6	2.2	2.0	1.7	1.2	1.5	1.4	2.8
Interest: foreign	12.9	5.5	3.8	3.4	5.7	5.7	5.3	5.6
Transfers and pensions	3.1	2.1	2.0	1.8	2.3	2.5	2.0	2.3
Other	6.7	4.8	4.2	3.9	3.3	2.3	2.4	2.7
Capital expenditure and net lending	7.5	3.3	4.5	4.7	5.5	6.9	4.7	5.2
of which: net agricultural lending	...	...	...	...	...	2.2	0.7	1.9
Exceptional expenditure 2/	4.1	0.1	0.5	3.0	0.9	0.4	1.0	1.5
Overall balance (accrual basis)	-26.9	-9.9	-11.5	-9.6	-7.4	-4.2	5.4	-2.9
Adjustment to cash basis 4/	-2.3	0.6	--	0.1	0.2	-1.3	-0.4	0.3
External interest arrears (increase +)	4.0	4.3	2.9	2.6	-12.3	-7.2	-2.5	-2.2
Debt relief: interest	6.3	--	--	--	16.7	7.7	-0.8 5/	4.5
Overall balance after interest relief and arrears (cash basis)	-19.0	-5.0	-8.7	-6.9	-2.8	-5.0	1.7	-0.3
Financing	19.0	5.0	8.7	6.9	2.8	5.0	-1.7	0.3
External (net)	10.1	-0.3	4.1	1.0	1.3	-0.2	0.2	-0.6
Domestic (net)	8.9	5.2	4.6	5.9	1.5	5.2	-1.9	0.9
Banking system 3/ 6/	4.6	0.6	4.2	3.5	1.8	4.6	-1.9	-1.1
Other	4.4	4.6	0.4	2.4	-0.2	0.6	--	2.0
Memorandum items:								
Primary balance excluding grants (cash)	-14.1	-2.1	-7.3	-6.5	-4.1	-7.9	-2.6	-3.7

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

1/ Excludes excess copper earnings sterilized through budget in 1992.
2/ Includes drought-related expenditures in 1992.
3/ Excludes interest paid to Bank of Zambia (BOZ).
4/ Includes net changes in domestic arrears and increases in line ministries deposits at BOZ.
5/ Assumed that US$64 million in moratorium interest deferred in 1991 would be paid in 1992.
6/ Excludes parastatal counterpart deposit to external debt payment.

predictions and, for 1992 as a whole, net drought-related outlays are now projected to exceed program by almost K 13 billion (2 percent of GDP). As explained below, this deviation reflects--about in equal part--greater-than-expected costs of financing the purchase of the domestic maize crop and lower-than-expected receipts from the sale of donor maize. Both sources of deviation are largely attributable to an underestimation of the impact on consumer demand of the sixfold increase in maize meal prices that has occurred in the 12 months since the new Government took office.

In the third quarter, drought budget expenditures exceeded those included in the program by K 6.5 billion (about 1 percent of GDP), primarily reflecting the cost of the maize marketing exercise. In light of the small domestic maize crop and the preference of consumers for white maize (domestically produced) over yellow maize (donor-provided), it had been assumed under the program that the loans made by the Government to finance the purchase of the domestic crop would be repaid quickly. However, white maize consumption was less than had been envisaged, both because of the early arrival of yellow maize imports and because of the high price set for white maize. Moreover, the marketed domestic crop has proved to be somewhat larger than expected. As a result, K 5 billion in crop loans remained outstanding at end-September, representing an unprogrammed expenditure of 0.8 percent of GDP.

The effect of outstanding crop loans on the drought budget in the third quarter owing to reduced white maize consumption was not offset by greater-than-expected sales of donor-financed yellow maize, both because of the price differential and because the total amount of maize going through the mills was also unexpectedly low. Receipts from donor maize sales were also depressed by lower into-mill prices subsequently being agreed with donors, partly in response to a decline in world prices, and by longer-than-expected lags in payments from millers for maize received.

In the fourth quarter, with maize meal consumption continuing to be depressed, no reduction is foreseen in the amount of crop loans outstanding, and the shortfall in receipts from the sale of donor-financed maize is expected to persist; for 1992 as a whole, receipts from maize sales are now projected at no more than K 6 billion, or less than half the programmed level. The costs of handling and storing imported maize will also be larger than expected, but most of the excess over program will be incurred in 1993. This expenditure overrun is partly a function of the authorities' success in handling the logistics of the emergency imports. Given that the whole region required emergency maize imports, the original expectation was that the transport network would be hard pushed to bring maize into Zambia much ahead of consumption needs. However, with the Government moving quickly to secure supplies, stocks of maize are now accumulating within Zambia. Indeed, given the decline in demand, it is likely that stocks of donated maize will still be on hand next May when the 1993 crop begins to be marketed; 1/ this may effectively provide some head start on the authorities' plan to develop a strategic maize reserve, as described in the PFP.

2. Structural reform

Implementation of structural policies has also moved quite rapidly, with exchange and financial system liberalization running well ahead of the program timetable. The official exchange rate has been adjusted frequently and the differential between the official rate and that in the export retention market, which is freely determined, remained near 20 percent from July through end-September. 2/ The Open General System (OGL) was shifted to a negative list in late September (a performance criterion under the program) and its coverage was widened on a number of occasions during the third quarter until it reached about 95 percent of imports. 3/ A system of foreign exchange bureaus began operation on October 14, 1992, under which there is virtually unrestricted access to foreign exchange for current transactions. 4/ Nontraditional exports and the proceeds from other current transactions may be sold in either the export retention or bureau market. There was a brief overshooting of the exchange rate in the bureau market during its initial hours of operation, when it reached a peak of K 360 per U.S. dollar compared with the previous day's retention market rate of about K 260. Subsequently both the bureau and retention rates settled in the range of K 320 per U.S. dollar by late November (mid point between the buying and selling rates). The official exchange rate was K 236.6 per U.S. dollar on November 20, 1992; in the context of the accelerated liberalization of the exchange system, and in consultation with the staff, the authorities permitted the spread between the official and retention/bureau rates to widen temporarily to about 30 percent pending early unification (see below).

While it had been anticipated that the ceiling on bank lending rates would be raised to a level that was positive in real terms, pending their

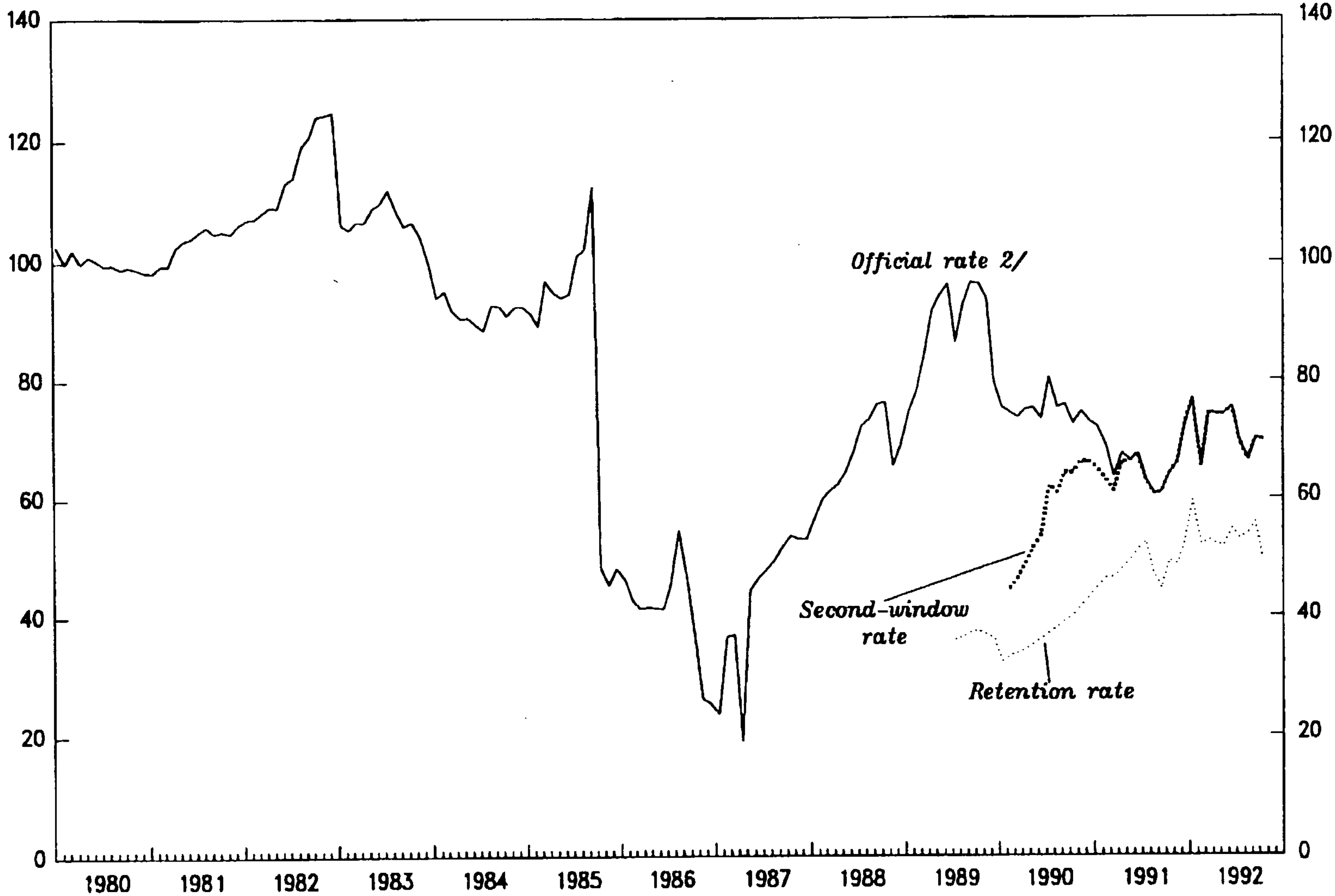
1/ Key donor agencies are monitoring closely the adequacy of food supplies in all countries in the region and in one case to date some maize intended for Zambia was diverted and sold to a neighbor with less secure sources of supply.

2/ As a result, Zambia's international competitiveness, as measured by the standard Information Notice System index of the real effective exchange rate, has remained roughly unchanged since early 1992 (Chart 1).

3/ Measured as a percentage of total imports in the 1980-85 base period. It had previously been expected that understandings on a timetable for such an expansion of the OGL would be reached during the present review.

4/ Foreign exchange is available through the bureau market for all current transactions other than debt service and imports of jewelry, precious metals, and weapons, up to US$6,000. In addition, there is no limit for licensed transactions, and most such transactions are eligible for license.

CHART 1
ZAMBIA
REAL EFFECTIVE EXCHANGE RATE INDICES[1], JANUARY 1980-OCTOBER 1992
(Period average, 1980=100; foreign currency per kwacha)



Sources: IMF Information Notice System; and staff estimates.

1/ Weighted by total trade.
2/ First-window rate from February 1990 to October 1991.

future decontrol, interest rates were instead freed ahead of schedule. Effective September 14, the ceiling on commercial bank lending rates and the floor on deposit rates were removed. Since the liberalization, interest rates have risen, with the differential between borrowing and deposit rates widening somewhat. At end-September commercial bank lending rates, at up to 90 percent (annual basis, compared with 73 percent in early September), were negative in real terms as the banking system experienced excess liquidity and low loan demand.

Progress was made in the civil service reform program with the retrenchment of 12,000 government employees in the third quarter. In the area of privatization, the Government's original target under the World Bank's PIRC was to initiate the final negotiations for at least ten parastatals by December. In fact, 19 parastatals have been offered for sale. The initial bidding process has proceeded as scheduled, but the evaluation of the final bids is likely to take longer than expected both because more bids were received than expected and because of delays in staffing the Privatization Agency. Initiation of final negotiations is now expected for January.

3. Fiscal and monetary developments

Reserve money at end-June exceeded the projection by K 1.7 billion (8 percent of the stock at end-1991) owing, inter alia, to a delay into July on the part of the copper company (ZCCM) in shifting its liquid balances from the commercial banks into the Bank of Zambia, which it was to have done before end-June. 1/ Consequently, reserve money and broad money increased in the second quarter at seasonally adjusted annual rates of 178 percent and 203 percent, respectively (Table 7).

In the budgetary area, tax receipts fell short of the program projection for the second quarter by almost K 2 billion (8 percent), primarily on account of a delay into July of a large oil excise tax payment; and expenditure fundings in June were K 4 billion (16 percent) higher--mainly for local councils and Zambia Airways and defense and capital outlays (Table 5). Consequently, on a funding basis, the nondrought primary deficit was some K 6 billion larger than expected. However, because of an increase in deposits of line ministries with the Bank of Zambia (BOZ) and a rise in the float, a net repayment to the banking system was recorded in the second quarter, whereas net use of bank credit by the Government had been expected under the program. The quality and timeliness of key data, including the accounts of the Bank of Zambia, remain very poor, and the staff has devoted

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1/ During the third quarter ZCCM purchased K 27 billion in treasury bills but by end-September all but K 4 billion were rediscounted.

Table 7. Zambia: Monetary Survey, 1991-92 1/

	1991	1992				
	Dec.	March	June	September		Dec.
	Act.	Act.	Est.	Prog.	Est.	Modified prog.
	(In millions of kwacha)					
Net foreign assets	-9,935	-3,077	-9,522	5,939	16,657	20,687
Monetary authorities	-18,926	-12,553	-7,532	-4,753	-5,658	-1,628
Commercial banks	8,991	9,476	17,054	10,693	22,315	22,315
Domestic credit	55,229	55,735	64,795	68,047	74,862	90,396
Net claims on Government 2/	30,938	28,921	37,335	36,332	40,030	40,020
Monetary authorities	(19,887)	(11,981)	(18,857)	(22,047)	(6,377)	(16,958)
Commercial banks	(11,051)	(16,940)	(18,478)	(14,285)	(33,653)	(23,062)
Claims on nongovernment sector	24,291	26,814	27,460	31,716	34,832	50,376
Other items (net)	3,157	938	12,117	12,829	10,609	17,213
Monetary authorities 3/	-13,126	-21,387	-12,549	-9,509	-30,069	-23,465
Commercial banks	17,782	23,471	25,976	23,484	42,708	42,708
Transit items	-1,499	-1,146	-1,310	-1,146	-2,030	-2,030
Broad money (M2)	48,451	51,720	67,390	61,157	80,910	93,870
Memorandum items:						
Reserve money	21,962	22,899	29,001	26,247	32,808	37,533
	(In percent)					
M2 growth 4/	213.5	71.5	202.5	10.8	86.5	45.6
Change in domestic credit 5/	146.7	122.5	118.4	80.3	100.1	72.6

Sources: Zambian authorities; and staff estimates.

1/ Program data exclude the revaluation effects of exchange rate changes on the stock of net foreign assets. These revaluation effects are included in the actual data.
2/ Historical data differ from fiscal tables because of the inclusion of interest paid to Bank of Zambia, IMF charges debited to the Government, and of parastatal counterpart deposits to external debt payments.
3/ Includes adjustment to net foreign assets.
4/ Quarterly annualized, seasonally adjusted.
5/ As a percentage of M2 at the beginning of the period.

considerable time to data reconciliation and to helping the authorities improve procedures for monitoring fiscal and monetary performance. 1/

In the third quarter there was a deceleration in monetary expansion, with M2 increasing at a seasonally adjusted annual rate of 87 percent and reserve money by 81 percent. Nevertheless, the performance criterion on reserve money for end-September was exceeded even on a flow basis (Table 3). Adjusted for the lowering of the reserve requirement ratio, 2/ reserve money had been programmed to decline by K 1.1 billion, from the expected end-June level, or by K 2.8 billion from the actual end-June level. In fact, reserve money rose by K 3.8 billion--to K 6.6 billion in excess of the performance criterion--primarily because of the authorities' failure to sterilize a substantial increase in net foreign assets stemming from higher copper prices.

Under the program's copper contingency mechanism, and in order to contain reserve money and broad money growth at the targeted levels, the Government was to ensure that the local currency counterpart of any excess copper earnings resulting from prices above the program's baseline price of $0.90/lb was sterilized. Compared with the K 14.7 billion of cumulative excess copper earnings through end-September (2.4 percent of GDP), ZCCM paid K 7.1 billion more in taxes than had been programmed and purchased K 4 billion of treasury bills. However, the copper company kept the balance of K 3.6 billion in excess copper earnings, which contributed directly to reserve money growth. Moreover, the proceeds of the higher ZCCM tax payments and treasury bill purchases were used to help finance a cumulative fiscal slippage of K 12 billion in the second and third quarters (discussed below), instead of reducing the Government's debt to the banking system. As a consequence, there was effectively no sterilization of excess copper earnings.

Fiscal performance in the third quarter was largely dominated by the larger-than-expected deficit on the drought budget, as discussed above; the nondrought budget, on the other hand, recorded a better-than-programmed

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1/ While a great deal of reconciliation between the monetary and fiscal accounts has been achieved (including corrections to the monetary accounts), there was an unexplained residual at end-June, which reversed its sign at end-September. For the second and third quarters combined, little unexplained discrepancy remains. The rise in the float at end-June reflected funding instructions of some K 3 billion that were given late June but were not shown in the monetary accounts until July; in July there was an equivalent decline in the float.

2/ Effective September 14, 1992 the minimum reserve requirement ratio was lowered by 5 points, to 23.5 percent of deposits. Accordingly, the ceiling on reserve money for end-September has been lowered by 9 percent (K 2.6 billion). In addition, the liquid assets ratio has been raised by 4.5 points, to 35 percent of deposits, to ensure that there is no expansionary effect on liquidity.

balance. Revenue performance (excluding blocked excess copper taxes) was better than expected, reflecting the effects of continued wage increases throughout the economy on personal income tax. On the expenditure side, substantially lower-than-programmed funding for locally financed capital expenditure (after the large funding of the second quarter) and for nonwage recurrent expenditure more than offset unanticipated increases in funding for the military (for increased salary and benefit costs) and for Zambia Airways (to meet its IATA bills). As a result of these changes in funding, the composition of expenditure has shifted in favor of less productive categories. At the same time, however, deposits of line ministries with the Bank of Zambia increased by an additional K 2 billion. Consequently, the nondrought primary deficit on a cash basis was some K 3 billion better than programmed.

The performance criterion on net claims on Government (NCG) to the domestic banking system for end-September was exceeded by K 12 billion, or 2 percent of GDP, as a result of the K 6.5 billion overrun in the drought-related budget (discussed above), K 3.7 billion of higher-than-expected domestic interest payments, and a shortfall in net foreign financing. Domestic interest payments were substantially higher than programmed, because ZCCM had increased its holdings of treasury bills, 1/ and also because the emergence of excess liquidity in the banking system was associated with larger holdings of treasury bills. 2/ This brought about a shift in the composition of credit to the Government away from the BOZ and in favor of the commercial banks. Accordingly, the fiscal slippage made a more pronounced contribution to broad money growth than to that of reserve money.

4. External sector developments

Zambia has benefitted since mid-1992 from a recovery in copper production and strong world market prices for copper. From June to end-September copper prices averaged US$1.12/lb, compared with the program's baseline assumption of US$0.90/lb; while prices have again since receded to less than US$1.00/lb, the world copper price is still expected to average almost US$1.03/lb for the full year 1992. During the first half of the year the excess copper receipts resulting from the higher copper price were more than offset by shortfalls in external assistance, and Zambia's net international reserves declined by SDR 17.4 million instead of increasing as had been envisaged under the program. Following a third-quarter increase in donor disbursements, the program's copper contingency mechanism was

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1/ The sterilization of excess copper earnings under the program was to have been effected through noninterest-bearing means.
2/ Banks' liquid asset holdings at end-September were over 50 percent of deposits, compared with a required ratio of 35 percent.

triggered and the end-September reserve target was adjusted upward by US$64 million. 1/ Actual net international reserves rose by SDR 57.9 million in the third quarter, but still fell short of the adjusted reserve target by SDR 18.3 million (Table 3).

On July 23, 1992 the Paris Club agreed to a comprehensive rescheduling on enhanced concessions of amounts in arrears or falling due from July 1992 to March 1995 (SM/92/150, 8/4/92), which resulted in estimated debt relief of US$450 million in 1992 and over US$900 million through March 1995. This made a major contribution to meeting the financing requirement for 1992. For the year as a whole, the combination of debt relief and disbursements of balance of payments assistance, commodity assistance, and drought relief is expected to total about US$1.3 billion (Table 8).

III. Policies and Prospects for the Remainder of 1992 and 1993

In discussions for the review of Zambia's rights accumulation program, the authorities indicated their determination to design a policy strategy for the remainder of 1992 and 1993 that would contain the inflationary impacts of recent slippages and unexpected drought-related developments, and bring performance during 1993 as close as possible to the medium-term path envisaged at the time of the Executive Board's approval of the rights accumulation decision for Zambia. To this end, specific actions have been taken to mop up excess liquidity in the system in order to help ensure that inflation can be brought down quickly in 1993. The expected impacts are embodied in revised program targets for 1992; consistent with these targets, the authorities are requesting the modification of certain performance criteria for end-December. Preparations are under way on a 1993 budget consistent with the Government's objectives of a reduction in inflation to 55 percent (December/December) from a currently projected 170 percent in 1992 and a resumption of economic growth, with real GDP rising by 13 percent after a decline of 9 percent in 1992, as well as the continuation of the structural reform process. 2/

1/ Under the copper contingency mechanism, the program target for net international reserves was to be adjusted upward by the amount of any excess copper earnings resulting from above-program copper prices, after deduction of any shortfalls in net external assistance. Cumulative excess copper earnings through end-September were US$91 million, while the cumulative shortfall in net external assistance was US$27 million, resulting in the upward adjustment of US$64 million (SDR 46 million) in the NIR target.

2/ The 1993 macroeconomic framework and budget will be elaborated in detail in the context of discussions on the rights accumulation program for 1993.

Table 8. Zambia: External Financing Requirements, 1992-94

(In millions of U.S. dollars)

	July program (EBS/92/114)			Revised projections		
	1992	1993	1994	1992	1993	1994
1. Current account, excluding interest and official transfers	-550	-296	-272	-454	-440	-345
(Drought impact)	(-270)	(-48)	(...)	(-289)	(-72)	(...)
2. Debt service obligations	-739	-652	-641	-771	-677	-648
Nonmultilateral organizations	-514	-437	-424	-536	-453	-431
Paris Club creditors	-411	-318	-285	-411	-318	-285
Other 1/	-103	-119	-139	-125	-135	-146
Multilateral organizations	-225	-215	-217	-235	-223	-217
World Bank	-63	-53	-54	-73	-77	-77
IMF	-95	-93	-97	-95	-77	-74
Other	-67	-69	-66	-67	-69	-66
3. Targeted reduction of arrears	-170	-88	--	-186	-101	...
Nonmultilateral organizations	-30	...	...	-91	...	...
Paris Club creditors	-30	...	...	-91	...	...
Other	...	...	...	...	...	...
Multilateral organizations	-140	-88	...	-95	-101	...
World Bank	-40	...	...	-39	...	...
IMF	-31	-88	...	-32	-91	...
Other	-69	...	...	-24	-10	...
4. Change in gross official reserves (increase -)	-35	-30	-30	-15	-30	-30
5. Gross financing requirement (= 1+2+3+4)	-1,494	-1,066	-943	-1,426	-1,248	-1,023
6. Debt relief	--	--	--	526	337	282
Paris Club	...	...	...	451	262	212
Other 2/	...	...	...	75	75	70
7. Identified disbursements	1,024	731	670	900	644	445
World Bank (nonproject)	240	150	150	240	125	125
Balance of payments support from other donors	396	270	220	323	162	...
Commodity assistance	105	52	53	224	118	60
Project assistance	264	240	225	200	247	260
Suppliers, private and short-term capital, net	20	19	22	-87	-8	--
8. Financing requirement, after debt relief and identified disbursements	-470	-335	-273	--	-267	-296

Sources: Bank of Zambia, and staff estimates

1/ Includes imputed interest on residual financing gap.

2/ Includes deferral and temporary accumulation of arrears to nonmultilateral organizations pending conclusion of rescheduling discussions.

1. Fiscal policy

Several measures have been introduced to strengthen the fiscal position during the fourth quarter of 1992 and establish a better base for 1993. First, effective November 2, all import duty assessments were shifted to the new bureau de change exchange rate. This action was taken to cover the cost of adjustments to the various civil service wage scales to correct certain anomalies, between different branches of the service and between different grades, that had arisen in the context of last April's major restructuring and decompression of civil service pay and benefits. The anomaly adjustment, which was made in October (retroactive to September 1), will increase total personal emolument costs by about 30 percent on an annual basis.

Second, understandings have been reached with the parastatal holding company (ZIMCO), whereby a mandatory dividend of K 1.1 billion will be declared and paid to the Government before mid-December 1992. Third, funding for specific nonessential expenditure items, primarily military and domestically financed capital expenditures, has been cut by a total of K 1.5 billion. Fourth, in view of apparent overfunding of certain ministries and services in the first three quarters of 1992, action is being taken to block the associated balances at the BOZ in order to prevent spending of the excess in the fourth quarter. With these measures in place, it is expected that the nondrought budget (excluding grants) will record a small primary deficit of K 0.3 billion in the fourth quarter of 1992, or K 2.4 billion worse than program. The combined drought deficit and nondrought primary deficit (excluding grants) in the fourth quarter, at K 2.1 billion, would exceed the program target by K 8.8 billion (1.4 percent of GDP).

The revised 1992 budget is now expected to record a primary deficit (cash basis, excluding grants) of 3.7 percent of GDP, or 1.1 percent of GDP above program. On the revenue side, receipts from company income tax and from sales taxes were below program, most likely owing to the impact of the drought on economic activity and of higher maize prices on the composition of household spending. On the other hand, personal income tax receipts were above program, and almost 1 percent of GDP higher than in 1991, reflecting the combined effects of the income tax reform enacted in April 1992 and continued large wage increases in the economy. On the expenditure side, in addition to the higher outlays for the drought and domestic interest, expenditures on the military and transfers to Zambia Airways were well above what had been envisaged when the program was formulated.

In order to meet the macroeconomic objectives, the 1993 budget will aim at a primary deficit of about 1 percent of GDP in the overall budget (excluding grants); 1/ a small primary surplus will still be targeted for 1994. After taking account of external financing and debt service, the Government would make a net repayment of about 2 percent of GDP to the banking system. Key areas that are to be addressed in the 1993 budget to achieve this outcome are wage policy, military expenditures, Zambia Airways, and maize pricing, as well as the composition of expenditure.

At the request of the Government, overseas consultants have proposed a restructuring plan for Zambia Airways that, by radically reducing domestic, regional, and international routes and associated equipment and staff, could be expected to virtually eliminate budgetary transfers. A plan of action intended to sharply reduce such transfers in early 1993 is being prepared, and a cabinet decision is expected in early December.

With regard to maize and fertilizer transactions in 1993, the most important expenditure item will again be the cost of maize marketing. While the Government would like to see the private sector take over these functions as rapidly as possible, it will take time to build up private sector capacity. For 1993, the Government intends to limit its provision of funds for crop purchases, i.e., as loans to the cooperatives, to about 2 percent of GDP, consistent with purchasing no more than 70 percent of the domestic crop.

Finally, understandings have been reached that fundings for nonwage recurrent expenditure (e.g., on medical and educational supplies and on maintenance) and domestically financed capital expenditure should rise at least to the levels relative to GDP that were envisaged earlier. At the same time, wage costs and military spending are to be reduced somewhat relative to GDP.

2. Monetary policy

Monetary policy during the remainder of 1992 will focus on mopping up the excess liquidity in the banking system. To this end, the Bank of Zambia

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1/ The 1993 fiscal outlook differs from that envisaged in the PFP (which was formulated before the onset of the drought, but retained as an overall target in the program) in two important respects: on the one hand, the budget now stands to benefit in 1993 from the sale of donated maize; on the other hand, since less government financing was extended in 1992 to purchase the drought-reduced maize crop, repayments in 1993 will be correspondingly smaller. These effects are offsetting and of similar orders of magnitude; however, the 1.2 percent of GDP expected in receipts from the sale of donor maize is treated as a below the line financing item, while the reduction in loan repayments is recorded above the line. When both sides are taken into account, the present projection of a primary deficit of 1.2 percent of GDP (excluding grants) would entail an underlying fiscal position consistent with the pre-drought PFP target of balance in the primary budget (excluding grants).

introduced a number of measures in early November 1992: (i) the core liquid assets ratio for commercial banks was raised by 7.5 percentage points, to 42.5 percent of deposits; (ii) a charge of 5 percent on rediscounting of treasury bills was introduced (previously treasury bills were automatically discountable without charge); and (iii) the bank rate was raised from 49 percent to 54 percent. Moreover, the BOZ has begun to retain at source ZCCM's excess copper receipts from prices above the baseline. Finally, a concerted effort has been initiated to collect certain overdue amounts, such as K 2.2 billion already collected by BOZ from ZCCM for transactions that were not correctly debited at the time and the almost K 3 billion in the payment of external debt service counterpart on which parastatals are currently behind.

These measures, together with the projected fiscal outcome and a targeted increase of US$12 million in net foreign assets, would limit the increase in reserve money in the fourth quarter to K 4.7 billion, or 44 percent on an annual seasonally adjusted basis (compared with 81 percent in the third quarter if adjusted for the lowering of the reserve requirement ratio). The growth of broad money would decelerate, on a seasonally adjusted annual basis, from 87 percent in the third quarter to 46 percent. For 1992 as a whole, reserve money and broad money are expected to grow by 83 percent and 94 percent, compared with program targets of 26 percent and 35 percent, respectively.

Monetary policy for 1993 is expected to target growth of 20 percent in M2, consistent with the desired reduction in inflation. In combination with the projected reduction in credit to Government and a US$30 million increase in gross international reserves, this would leave scope for a real increase in credit to the private sector. In 1993, the Government intends to develop a financial market that will enable monetary control to be effected indirectly through the purchase and sale of government debt rather than through reliance on reserve and liquid asset requirements. An MAE technical assistance team is expected to visit Lusaka in early 1993 to assist the authorities in the introduction of this measure.

3. External sector policies and financing requirements

The Government intends to establish a unified, market-determined exchange rate for all transactions other than OGL imports in early December 1992. The Bank of Zambia will continue to purchase all export proceeds of the state mining company, ZCCM, and to provide foreign exchange for ZCCM and the Government; however, the exchange rate for these transactions will be the one determined in the retention/bureau market. In order to smooth the impact on domestic prices, the rate of depreciation of the official exchange rate has been accelerated, eliminating gradually the spread between the two rates.

Foreign exchange for OGL imports, which is derived almost entirely from donor assistance, will be sold to importers by the Bank of Zambia at a somewhat less depreciated exchange rate, reflecting the associated higher transactions costs and delays arising, inter alia, from documentation requirements beyond those for normal commercial transactions. The spread between the official and OGL rates will be determined administratively and will be adjusted continuously in light of demand in the OGL market and any changes in donor procedures; it is expected to be set initially at about 15-20 percent. More generally, the Government will be keeping the documentation and other requirements in the retention and bureau markets under review with the intention of reducing transactions costs and increasing efficiency.

As a result of higher copper export revenues, the external current account deficit for 1992 (excluding interest obligations and official transfers) is now projected to be about US$100 million less than the program projection, at about US$450 million (Table 9). However, a downward revision of the program's copper price assumption for 1993 and the recent sharp decline in world market prices for cobalt, from over US$20/lb to US$12-15/lb, have led to an increase of about US$140 million in the projected deficit for 1993. This projection is based on world copper and cobalt prices of US$0.92/lb and US$12/lb, respectively, and leaves scope for an increase of about 5 percent in nonmaize imports. In combination with debt relief and expected disbursements of project and commodity assistance, this would leave a financing requirement of about US$550 million to be met through disbursements of balance of payments assistance. Firm indications of assistance already received from multilateral and bilateral donors would cover just over half of this amount. Discussions of prospects for donor financing in 1993 will be initiated at an informal meeting in Paris on December 11, 1992, to be followed by a Consultative Group meeting in March 1993.

The program continues to assume debt relief from other bilateral and private creditors comparable to that already received from the Paris Club creditors. Preliminary work for a possible debt buyback operation that would apply to a large part of these obligations, supported by the IDA debt reduction facility, is expected to be completed in early 1993.

The program for 1993 is expected again to incorporate a copper contingency mechanism, under which the export proceeds resulting from world copper prices in excess of US$0.97/lb (after deduction of any shortfall in net external assistance) will be used to increase international reserves, with the impact on reserve money to be sterilized. Additional copper revenue resulting from prices between US$0.92 and US$0.97 per pound will be available for the discretionary use of Zambia. To offset directly the monetary impact of any upward adjustment in the reserve level, and to ensure that the gains from temporarily higher copper prices do not lead to permanent increases in ZCCM costs, the kwacha counterpart of export revenues resulting from world copper prices in excess of US$0.97/lb will be retained at source by the Bank of Zambia. The program target for net claims on Government would be adjusted downward by the amount of any resulting upward adjustment of the target for net international reserves.

Table 9. Zambia: Balance of Payments, 1989-94

(In millions of U.S. dollars)

	1989	1990	1991 (Rev.)	July program (EBS/92/114) 1992	1993	1994	Revised projections 1992	1993	1994
Trade balance	387	179	129	-306	-74	-70	-222	-193	-107
Exports, f.o.b.	1,407	1,263	1,082	1,004	1,056	1,062	1,064	947	1,016
Copper	1,231	1,055	895	723	757	740	852	738	736
Other metals	106	95	103	177	169	176	112	79	129
Nonmetals	70	113	84	105	135	153	100	130	150
Imports, f.o.b.	-1,020	-1,084	-952	-1,310	-1,130	-1,132	-1,286	-1,140	-1,123
Metal sector	-372	-346	-285	-320	-338	-358	-317	-338	-358
Fertilizer	-73	-49	-34	-40	-38	-41	-44	-45	-47
Petroleum	-103	-119	-83	-93	-104	-110	-83	-82	-87
Maize 1/	...	...	...	-276	-48	...	-269	-72	...
Other	-473	-570	-550	-581	-602	-623	-573	-603	-631
Services (net)	-579	-538	-593	-530	-517	-522	-519	-536	-550
Interest 2/	-401	-332	-378	-313	-314	-333	-313	-314	-333
Other factor	--	--	-13	-13	-20	-21	-13	-20	-21
Nonfactor	-178	-206	-202	-204	-183	-168	-194	-202	-196
Unrequited transfers	44	253	468	566	451	390	629	512	372
Private	-28	-43	-40	-40	-41	-43	-38	-38	-38
Official 2/	72	296	508	606	492	433	667	550	410
Current account 2/	-149	-106	4	-269	-135	-195	-112	-217	-285
Metal sector	875	671	584	456	451	407	525	346	362
Nonmetal sector 2/	-1,024	-778	-579	-725	-586	-602	-637	-563	-647
Memorandum items:									
Current account, excluding interest obligations and official transfers	205	-48	-90	-550	-296	-272	-454	-440	-345
Drought impact	...	...	...	-270	-48	...	-289	-72	...
Metal sector	910	745	655	529	534	501	596	426	451
Nonmetal sector excluding drought impact	-705	-793	-745	-809	-782	-773	-761	-794	-796
Copper export volume ('000 metric tons)	432	440	375	380	390	400	400	390	390
Copper price (US$/lb)	1.33	1.21	1.06	0.93	0.94	0.90	1.03	0.92	0.92

Sources: Bank of Zambia; and staff estimates.

1/ Figure shown reflects timing of payment, rather than date of importation.
2/ Assumes half of residual financing gaps are filled on grant terms. The actual current account balance is likely to be smaller.

IV. Summary of Performance Criteria and Reviews

The proposed modified performance criteria for reserve money, net claims on Government, net international reserves, and the reduction in external payments arrears for end-December 1992 are set out in Table 3. Given that interest rates have been freed and the maximum bank lending rate has been eliminated, and in view of the authorities' intention to develop in 1993 a financial market that will enable monetary control to be effected indirectly through the purchase and sale of government debt, the structural performance criterion relating to the maximum bank lending rate is no longer applicable, and it is proposed that it be eliminated. No modifications are proposed with respect to the other three structural performance criteria; to the quantitative performance criteria on external borrowing, short term debt, and reduction in arrears to the Fund; or to the indicative limit on money creation through debt swaps.

V. Staff Appraisal

The new Government has established an impressive record of structural reform and market liberalization in its 12 months in office. Early on, fertilizer subsidies were eliminated, maize prices increased very substantially, and a comprehensive income tax reform was introduced. Since July, the exchange system has been liberalized through a widening of the export retention market, the introduction of bureaux de change, and increased coverage of the OGL import system in combination with a shift to a negative list. In the financial sector, interest rates have been decontrolled ahead of schedule. Substantial progress has also been made on civil service reform--with the retrenchment of 10 percent of the service, and toward privatization--with the offer for sale of 19 parastatals. The impact of these reforms, together with the atmosphere of political openness and stability that the new democratically elected Government has projected, has begun to generate confidence among domestic businessmen and interest on the part of potential foreign investors.

A particularly impressive economic achievement of the new Government has been its success in managing the drought relief effort. With generous assistance from the international community, the Government has succeeded in avoiding food shortages; and through targeted free food and food-for-work programs even the poor population in remote areas is being fed.

Notwithstanding its record of structural reform, the Government remains far from establishing macroeconomic stability. Macroeconomic performance in recent months has been dominated by fiscal slippages, excessive wage awards, and rapid monetary expansion, resulting in higher inflation. In addition, the economy is experiencing a sharp decline in real output caused by the drought. For 1992 as a whole, broad money growth is now expected to reach 95 percent, and inflation 170 percent--the highest in Zambia's history.

The end-September 1992 performance criteria on the budget, reserve money, and international reserves under the program were all missed by wide margins, and the performance criterion on external arrears was not observed due to continuing discussions with some creditors. The main sources of monetary expansion were the increase in net foreign assets of the banking system, as actual copper prices were well above the program assumptions, and fiscal slippage caused largely by unexpected drought-related developments. Under the program, the local currency counterpart of excess copper earnings was to have been sterilized by being retained by the Bank of Zambia, or transferred to the Government and used to reduce the Government's net indebtedness to the banking system. In the event, the copper company was allowed to keep about one fourth of the excess copper earnings and the balance, while paid to the Government in higher taxes or invested in treasury bills, was used not to reduce the Government's debt to the banking system, but rather to finance a higher-than-programmed fiscal deficit.

The authorities recognize that large macroeconomic imbalances and high inflation pose considerable risks to the market reforms already achieved, and they have stressed their determination to bring inflation down quickly--to an annual rate of 20 percent in the fourth quarter of 1993. To this end, the authorities undertook to design a policy strategy for the remainder of 1992 and 1993 that would contain the inflationary impacts of recent slippages and unexpected drought-related developments, and provide the basis for improved performance in 1993. The authorities have recently taken actions to mop up excess liquidity in the system and to strengthen the budgetary position, in order to help ensure that inflation can be brought down quickly in 1993.

Preparations are under way on a 1993 budget consistent with these objectives. Key areas that are to be addressed in the 1993 budget are wage policy, military expenditures, and Zambia Airways, as well as the composition of expenditure more generally. Wage costs have in recent years absorbed an increasing share of government resources. The staff has underscored the need for wage restraint and for ensuring that wage decisions are fully integrated into the budget process. With respect to Zambia Airways, the authorities have moved fairly quickly toward addressing a budgetary problem that emerged only in mid-1992; certain facilities have already been cut back and a major airline consulting firm brought in, and the Cabinet is expected to consider shortly an action plan that would sharply reduce budgetary transfers by the second quarter of 1993. For a better balanced composition of expenditure, the share of nonwage recurrent expenditure on civilian goods and services--including medical supplies, educational equipment, and maintenance of existing infrastructure--and on domestically financed capital expenditure should increase in relation to GDP, while military spending is reduced.

As much as the Government may want to encourage private agents to take a greater role in the purchasing of maize from farmers for storage and eventual sale to the mills, experience suggests that the Government, primarily through the cooperatives, will inevitably remain a significant player in the maize marketing exercise over the near term. The Government will need to ensure that, in line with announced policy and once the drought ends, no subsidies are provided with respect to maize. It will also need to ensure that crop financing through the budget is limited in scope and repaid on a timely basis.

The recent increase in the required liquid assets ratio, together with the hike in the bank rate and the introduction of a charge for rediscounting treasury bills, should help to some degree to reduce the excess liquidity in the banking system; the rediscount charge also represents a structural improvement that would stimulate the development of an interbank market. In view of the size of the copper sector, the authorities cannot exercise control over the monetary aggregates without effective tools to sterilize the impact of fluctuations in copper revenues. The experience of recent months has shown that indirect methods of sterilizing excess copper earnings are not effective. Consequently, the authorities have decided to move to direct sterilization at source; at present this is being done by the Bank of Zambia.

A timely and accurate data base is essential for macroeconomic performance. Despite fairly substantial donor-provided technical assistance, the quality and timeliness of key data--including monetary data--remain very poor, and in some respects have even deteriorated. The staff has devoted considerable time to working with the authorities in reconciling monetary and fiscal data, and made concrete suggestions to improve the monitoring of monetary and fiscal performance. But additional progress is urgently needed.

It is highly encouraging that the authorities intend shortly to introduce a unified, market-determined exchange rate for all transactions other than OGL imports. The exchange rate for such imports will need to be kept under close review, to avoid the emergence of distortions. In addition, the staff would encourage the authorities to continue efforts to reduce tariff and nontariff barriers to imports in conjunction with a reduction of existing import duty exemptions. It would caution that the increasingly open exchange and trade system will place an even higher premium on macroeconomic stabilization.

The international donor community has responded generously to Zambia's requests both to support its program and to meet the additional requirements resulting from the drought in 1992. In addition, the Paris Club agreed to a comprehensive rescheduling that resulted in extremely generous debt relief. The financing need for 1993 will likely be somewhat larger than expected in July due to developments in world metal markets, and meeting that need will require a further major effort by Zambia's key donors. The staff considers that Zambia's program warrants such continued support, and is confident that this financing requirement can be met if Zambia maintains its performance in the structural area and demonstrates its commitment to macroeconomic stability through stronger fiscal and monetary measures, particularly wages and interest rates.

The staff commends the record of the new Government in meeting all obligations to the Fund as they fall due and in reducing Zambia's arrears. In the present circumstances there are risks with respect to both policies and financing. The staff is encouraged, however, by the actions taken by the authorities in the fiscal and monetary areas to mop up liquidity and to improve the base for the 1993 budget, as well as the authorities' record in the structural reform areas. The staff also judges that the authorities' policy strategy for the fourth quarter of 1992 and 1993 is designed to bring performance as close as possible to the medium-term path of the rights program. The staff therefore recommends that modifications be granted for the end-December performance criteria on reserve money, net claims on Government, net international reserves, and external arrears; and that the structural performance criterion on the maximum bank lending rate be eliminated in view of the decontrol of interest rates and the authorities' intention to develop a financial market that will enable monetary control to be effected indirectly through the purchase and sale of government debt.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

Zambia - Review Under Rights Accumulation Program

1. Zambia has consulted with the Fund in accordance with paragraph 4(b) of the decision on accumulation of rights for Zambia (EBS/92/114, Supplement 2) and paragraph 6 of the letter dated June 26, 1992, from the Minister of Finance of Zambia, in order to review the implementation of Zambia's rights accumulation program.

2. The letter, with annexed table, dated November 30, 1992, from the Minister of Finance and the Governor of the Bank of Zambia shall be attached to the decision on accumulation of rights for Zambia, and the letter, with annexed memorandum and tables, dated June 26, 1992, shall be read as supplemented and modified by the letter and annexed table dated November 30, 1992.

3. Accordingly,

   a. Paragraph 2(a) of the decision on accumulation of rights for Zambia shall be amended to read:

      "For the period until March 31, 1993 Zambia will accumulate rights for up to an amount equivalent to SDR 177.78 million, provided that such rights shall not exceed the equivalent of SDR 83.69 million until February 15, 1993."

b. The references in paragraphs 4(a)(i) through (viii) and paragraph 4(b) of the decision on accumulation of rights for Zambia to the paragraphs and tables of the letter and memorandum of June 26, 1992, shall comprehend references to the corresponding paragraphs and table of the letter dated November 30, 1992.

4. The Fund determines that the review contemplated under paragraph 4(b) of the decision on accumulation of rights for Zambia has been completed, and that Zambia may resume accumulating rights under the decision on accumulation of rights for Zambia, for the period until March 31, 1993, subject to observance of the modified performance criteria for end-December 1992.

Lusaka, November 30, 1992

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. This letter supplements our letter of June 26, 1992 and attached economic policy memorandum, communicates the policy strategy and the main macroeconomic objectives that will underly the budget for 1993, and seeks the modification of the performance criteria for end-December 1992.

2. It has been just a little over one year since the present Government took office after the first multiparty elections since 1968. The Government set an ambitious agenda to extend the structures of democracy to all levels of government and society while transforming the economy into one where private initiative and market forces played the guiding role. At the same time it sought to rapidly reduce inflation and restore macroeconomic stability in order to lay the foundation for a resumption of investment and growth. Unfortunately, the new Government inherited a very difficult economic situation, reflecting both the immediate problem of a large liquidity overhang and the more fundamental distortions caused by years of government intervention and misallocation of resources. These difficulties were compounded in early 1992 as southern Africa was hit with the worst drought in this century.

3. Looking back, we believe much has been achieved. Most importantly, the drought situation has, with the generous support of the international community, been managed successfully. Necessary maize purchases have been made and, barring a major disruption to regional transport, the people of Zambia will continue to be fed. Zambia's progress in a wide range of structural reforms during the first half of this year was outlined in the Memorandum of Economic and Financial Policies attached to our letter of June 26, 1992, and important further steps have been taken since then. Liberalization of the exchange system has been high on our agenda for early action.

4. After substantially expanding the scope of the export retention market in two stages in March and June, the Bank of Zambia adjusted the official exchange rate during June through September to reach and maintain the targeted spread of no more than 20 percent between the official rate and the market-determined retention rate. On October 15, the Government introduced bureaux de change where, inter alia, foreign exchange can be sold on a no-questions-asked basis and there is virtually unrestricted access to foreign exchange for current transactions, including travel, up to a limit

of US$6,000. All goods with the exception of jewelry, precious metals, and weapons, and all services with the exception of external debt payments are automatically eligible for bureaux financing. The OGL import system, which remains in the official market, was shifted to a negative list basis in September and its coverage has been extended to about 95 percent of base period imports. The Government also took an important step toward financial liberalization and development when, on September 14, it freed interest rates, eliminating both the ceiling on lending rates and the floor on deposit rates. In both this and exchange system reform, the Government has moved well ahead of the timetables earlier envisaged.

5. Perhaps the most fundamental, and difficult, reforms the Government has undertaken are with respect to maize and fertilizer. Fertilizer prices have been decontrolled and fertilizer can now be freely imported and traded. Consumer prices for maize meal have been deregulated but the Government, as the major supplier of maize to the mills in this drought year, has had no choice but to continue to establish the into-mill price. The price of maize meal to the consumer rose by 600 percent from November 1991 through October of this year, with the most recent increase being in response to a 40 percent adjustment in the into-mill price effected in September. Also, the size of the civil service has been decreased by nearly 10 percent in 1992 due to a freeze on new hires and the termination of over 12,000 employees. An additional 10,000 public sector employees are targeted for retrenchment in the first half of 1993. Programs for counseling and in some cases retraining of these employees are being developed.

6. The Government's commitment to privatizing nearly all of the more than 100 parastatal enterprises has remained firm. In order to foster public debate and ensure broad public support of the program, a Privatization Bill was adopted by Parliament in June setting up a Zambian Privatization Agency to oversee these sales. Nearly 300 requests to bid have been received for the first 19 parastatals offered for sale. Government expects to begin negotiations with the top chosen bidders for at least ten of those parastatals in January.

I. Macroeconomic developments through September

7. Against the background of steady progress on structural reforms, the biggest disappointment of our first year in office has been the persistence of high inflation, reflecting a larger fiscal deficit and more rapid money supply growth than programmed. Inflation is now expected to reach about 170 percent December-to-December, compared with a program target of 100 percent. In monitoring and analyzing fiscal performance during 1992, we have found it useful to break the government accounts into a drought and a non-drought budget; the drought budget includes transactions related to maize for the 1992/93 marketing season and to fertilizer for the next crop

planting, as well as direct drought relief operations. 1/ The higher-than-programmed fiscal deficit in the six months through September of this year can be attributed primarily to a slippage in the non-drought budget in the second quarter, and to a much larger deficit on the drought budget in the third quarter. Indeed, performance on the non-drought budget improved sharply in the third quarter and a small surplus was recorded compared with a programmed small deficit. Net banking system claims on Government exceeded the adjusted end-September target by K 12.0 billion (2 percent of GDP).

8. The deterioration in the non-drought budget during the second, quarter after a good first quarter result, was even sharper than had been anticipated when the program was formulated. Second quarter tax receipts were K 1.8 billion less than projected at that time, as a result primarily of weak collections of domestic sales and excise taxes, while expenditure fundings were K 5 billion higher. The higher fundings resulted from: a larger than anticipated need for Government payments to Zambia Airways to meet its IATA bills; a decision to provide a one-time transfer to local councils prior to the introduction from July 1, 1992 of a new regime where, inter alia, the larger councils are to become self-supporting; and higher-than-planned funding for Government-financed capital projects and for the military. After adjusting for a buildup of unspent line ministry balances at the Bank of Zambia, the non-drought budget recorded a deficit of about K 6.8 billion in the second quarter, compared with a programmed deficit of K 3.7 billion. There was a surplus of K 0.6 billion on the drought budget in the second quarter, compared to the deficit of K 0.8 billion that had been projected, reflecting a slow start in the provision of agricultural credit.

9. In the third quarter of this year the balance on the non-drought budget was about K 1.2 billion better than programmed on a fundings basis and, as the line ministries continued to accumulate balances at the Bank of Zambia, about K 3.0 billion better on a cash basis. However, the drought-related deficit reached K 11.3 billion, compared to a programmed K 3.6 billion. Also, as the result of the cumulated higher deficits, domestic interest obligations rose sharply compared with program projections.

10. The main factors leading to the better-than-projected performance on the non-drought budget in the third quarter were substantially higher income tax receipts, reflecting the effects of the income tax reform as well as continued wage increases throughout the economy, and substantially lower funding than programmed for capital expenditures (after the large funding of the second quarter) and for recurrent departmental charges (essentially, nonwage recurrent expenditures); this more than offset further calls to meet Zambia Airways IATA bills (K 2.3 billion total outlays in the third quarter) and higher funding for the military, primarily for increased salary and

1/ Unless otherwise specified, references to the non-drought budget position are to the primary balance excluding grants. The drought budget includes as well receipts from sales of donor-financed maize and fertilizer.

benefit costs. While pleased with the overall result on the non-drought budget in the third quarter, the Government has strong concerns about recent shifts in the composition of spending which, as discussed below, it intends to redress.

11. The poor performance of the drought budget in the third quarter primarily reflects the financing of the purchase of the domestic crop, which has turned out to be a much more expensive exercise than had been envisaged. It was originally expected that the small quantity of marketed white maize would be quickly consumed and the associated crop loans quickly repaid. However, as a result of the early arrival of yellow maize imports and the significantly higher price of white maize, consumption of domestic maize has been slow. At end-September, K 5 billion in crop loans remained outstanding and this figure is expected to be a little higher by the end of the year, representing an unbudgeted expenditure in 1992 of over 1 percent of GDP. This higher expenditure is not being offset by additional government receipts from sales of yellow maize, both because of the price differential and because of lower total consumption. Receipts from sales of donor maize are also being depressed by lower-than-anticipated into-mill prices in light of world market conditions and a lag in collecting money from the mills, and there is now expected to be a shortfall of K 6.6 billion in 1992 compared with the program. The positive side of these developments is that the country is likely to enter the new marketing season next May with significant maize stocks, whereas none were expected.

12. Balance of payments developments during June-September 1992 were dominated by the impacts of higher-than-programmed copper export revenues; delays in some disbursements of external assistance; and the decision by the Bank of Zambia to unwind certain expensive short-term lines of trade credit. During the second and third quarters of 1992, copper export prices averaged US$1.07 per pound, compared with the program assumption of US$0.90 per pound, and copper export volume also ran about 12 percent above program. The additional copper export revenues of US$39 million through end-June resulting from high copper prices were more than offset by a shortfall of US$45 million in net external assistance, leading to a small decline in net international reserves; in addition, international reserves were reduced by a further US$43 million due to the use of earmarked deposits to pay off an oil import financing facility. Net international reserves at end-June fell short of the projected level, adjusted for this transaction, by SDR 4.5 million.

13. By end-September the cumulative additional export receipts resulting from high copper prices reached US$91 million, and with some recovery in donor disbursements the cumulative shortfall in net external assistance was reduced to US$27 million. As a result, the copper contingency mechanism was triggered and the net international reserve target was adjusted upward by US$64 million. Due mainly to higher-than-programmed foreign exchange expenditures by the Government, and also to some further unwinding of short-term trade facilities, actual net international reserves fell short of the adjusted target by SDR 18.3 million.

14. The other external sector targets for the second quarter--for external borrowing, short-term external debt, reduction of external arrears, and reduction of arrears to the IMF--were all met. The third quarter targets for external borrowing, short-term external debt, and arrears to the IMF were met; however, due to continuing discussions with some creditors, the target for total external arrears was exceeded by about SDR 20 million.

15. Under the provisions of the contingency mechanism, and in order to keep reserve money growth to the targeted increase, the Government was to ensure that the kwacha counterpart of any excess copper earnings resulting from prices above the US$0.90/lb. baseline projection was sterilized. The kwacha counterpart of cumulative excess copper earnings in 1992 through September was K 14.7 billion, of which K 7.1 billion was sterilized through blocking higher-than-programmed company tax payments to the Government and K 4.0 billion through the acquisition by ZCCM of treasury bills from the Bank of Zambia. The balance of K 3.6 billion was not sterilized, contributing to the K 6.6 billion excess of reserve money over target at end-September. The large fiscal deficits in the second and third quarters were financed primarily through borrowing from the commercial banks, while bank credit to the nongovernment sectors fell sharply in real terms.

II. Policies for the fourth quarter of 1992

16. The Government is determined to move quickly to bring the fiscal performance back on track and, moreover, to take specific actions in the fourth quarter of 1992 to mop up excess liquidity in the economy in order to ensure that inflation can be brought down quickly in 1993. These various actions on the fiscal and monetary front are enumerated below.

17. Unfortunately, the Government began the quarter with a need to make further adjustments in personal emoluments. As described in our earlier memorandum, in the second quarter of this year a far-reaching income tax reform was introduced, bringing cash allowances and other fringe benefits within the tax net. At the same time, the Government sought to introduce a major restructuring and decompression of the civil service wage scales. While the increase in gross pay and benefits that was negotiated with the unions in this environment exceeded the increase originally envisaged by a substantial margin, it was subsequently determined that major anomalies had arisen between the relative pay of different branches of the public service and between different positions within the same service. The Cabinet determined that these anomalies had to be corrected but that the additional cost was to be covered by new tax measures. The corrections, which were made effective from September 1, will increase the total personal emoluments bill by 32 percent at an annual rate. Effective November 2, all import duty assessments were shifted to the new bureau de change exchange rate; this tax increase was sufficient to cover the net cost of the anomaly adjustment.

18. In order to strengthen the fiscal position, in the fourth quarter of 1992 the Government has taken the following actions:

-- understandings have been reached with the parastatal holding company (ZIMCO) whereby a mandatory dividend of K 1.1 billion will be declared and paid to the Government no later than December 10;

-- specific steps have been taken to contain funding for nonessential or non-urgent expenditures, primarily in military and capital spending, for a total savings of K 1.5 billion;

-- in view of the apparent overfunding of certain ministries and services to date in 1992, action has been taken to recover the associated balances at the Bank of Zambia in order to prevent the spending of these ministries and services from significantly exceeding funding in the fourth quarter.

On this basis it is estimated that the non-drought budget (cash) will be approximately in balance in the fourth quarter, compared with a programmed surplus of K 2.1 billion--the difference being almost exactly accounted for by continued Government payments to Zambia Airways. The drought budget, reflecting a continuation of the factors outlined above, is expected to record a deficit of K 1.8 billion compared with a programmed surplus of K 4.5 billion. After taking account of debt service costs and foreign assistance--domestic debt service and net disbursements of foreign assistance are both projected at well above program levels and largely offsetting--the Government expects its indebtedness to the banking system to be little changed in the fourth quarter, compared with the significant reduction targeted in the program. The proposed revised performance criterion on net banking system claims on Government for end-December is set out in the attached table.

19. Major action is clearly needed to address the situation of Zambia Airways, which has exhausted channels for commercial borrowing and faces a deteriorating financial position. After this budgetary problem emerged in the second quarter, an international consulting firm was called in at the request of the Government and its report has now been submitted. A plan of action that targets elimination of budgetary support for Zambia Airways by early 1993 is being prepared in the form of a cabinet memorandum. A cabinet decision is expected by early December for immediate implementation.

20. In addition to the above fiscal measures, the Bank of Zambia has taken a number of steps to reduce the excess liquidity in the economy. In early November, the core liquid assets ratio for commercial banks was raised from 35 percent to 42.5 percent, and a charge of 5 percent on the rediscount of treasury bills was introduced (previously treasury bills were discountable without charge). Also in early November, the bank rate was raised from 49 to 54 percent. The Bank has also launched a major effort to identify and collect certain overdue amounts. Already in the fourth quarter the BOZ has debited ZCCM accounts for K 2.2 billion in foreign exchange outlays for transport and debt service costs which were incorrectly not debited at the time. Parastatals have not been meeting their obligation to pay into the Bank of Zambia the kwacha counterpart of rescheduled debt service obligations; while more than K 3 billion is due on this account, the

monetary program conservatively provides for collections of K 600 million in the remainder of 1992. To ensure that excess copper earnings accruing in the fourth quarter are fully sterilized, a new procedure has been put in place whereby ZCCM's earnings from world prices above the baseline price are being retained at source by the Bank of Zambia. Finally, no new debt swap operations are to be undertaken in the fourth quarter of 1992.

21. Taking into account the foregoing factors, as well as a targeted increase of US$12 million in net foreign assets at the baseline copper price, reserve money is projected to increase by K 4.7 billion in the fourth quarter, which would imply broad money growing at 45.6 percent on a seasonally adjusted basis. The proposed revised performance criterion for end-December is set out in the attached table. For the year as a whole, broad money is now expected to increase by 94 percent, compared with a program target of 35 percent.

22. It is proposed that the end-December 1992 performance criteria on net international reserves and external arrears be modified on the basis of recent developments, additional information on arrears to multilateral creditors, and updated projections of likely donor disbursements. Taking into account the US$64 million of net excess copper earnings through end-September, the modified net international reserves target would be SDR -770.1 million; this target will be adjusted upward by the amount of any further net excess copper earnings, as provided for in the copper contingency mechanism. The modified target for the cumulative reduction in external arrears at end-December would be SDR 123.3 million.

III. Objectives and policies for 1993

23. While work on the 1993 budget is still at a preliminary stage, we have established the broad objectives for the Government's macroeconomic policy and for the budget. Performance with respect to the budget deficit, money growth, and inflation has been a major disappointment, and restoring macroeconomic stability will be our priority task for 1993. The rapid pace of structural reform in 1992, although essential to our goal of liberalizing the economy, rendered macroeconomic management more difficult. The reform agenda is far from completed, but we do not expect that the economy will again be rocked by the series of adjustments and shocks that were confronted in the past 12 months.

24. The Government is targeting a reduction in December-to-December inflation from 170 percent in 1992 to 55 percent in 1993, and an annualized rate of inflation of 20 percent in the final quarter of next year. Given the inflationary momentum in the economy, we believe that money supply growth will need to be kept below 20 percent in order to ensure that these price goals are achieved. We are also targeting an increase of US$30 million in gross international reserves and seek to ensure that credit to the nongovernment sectors expands in real terms. To attain these objectives we will need an overall budgetary outturn, after taking into account certain differences in the accounting treatment with respect to maize, that is

consistent with the 1993 target in the PFP, i.e., balance in the primary budget (excluding grants). Given projected debt service payments, and targeted levels of foreign assistance, the Government would make net repayments to the domestic banking system equal to about 2 percent of GDP.

25. Certain policy actions will be key to achieving these objectives. Zambia Airways will have to be substantially restructured and we aim to cut such budgetary subsidies sharply in the first quarter of 1993 and eliminate them entirely from the second. The into-mill prices of maize will need to continue to be adjusted in line with present understandings, i.e., with a view to establishing competitive border pricing at a market exchange rate before the next marketing season. The participation of the private sector in maize and fertilizer marketing will be increased substantially, although it is expected that Government and its institutions will need to continue to play an important role in this transitional period; in particular, it is targeted that government-financed stocks of maize at end-1993 will not exceed 5 million 90-kg bags. The Government's wage bill will need to be contained in real terms and the Government intends to reduce somewhat military spending relative to GDP. Provided that the ratio of nonmining revenues to GDP is at least maintained in 1993, the foregoing actions should permit recurrent nonwage spending (particularly for health and education) and government-financed capital spending to rise to the levels targeted earlier, i.e., to 3.5 percent of GDP and 1.7 percent of GDP, respectively.

26. The Government also intends to continue to move ahead rapidly in 1993 with its agenda for structural reform, including the establishment in early December 1992 of a unified exchange system (for all transactions other than OGL imports) with a market-determined rate. In the monetary area in 1993, the Government intends to develop a financial market that will enable monetary control to be effected indirectly through the purchase and sale of government debt rather than through reliance on reserve and liquid asset requirements. Both macroeconomic and structural policies will be elaborated in the context of Zambia's program for 1993.

IV. Balance of payments and external financing

27. Due mainly to higher copper export revenues, the projected external current account deficit for 1992 (excluding interest obligations and official transfers) has been reduced by US$100 million compared with the original program projections, to about US$450 million. However, the recent sharp decline in world market prices for cobalt has led to an increase of about US$100 million a year in the projected current account deficits for 1993-94. This projection is based on a copper export price of US$0.92 per pound, and leaves scope for increases of about 5 percent a year in nonmaize imports, to support economic recovery and diversification. The program for 1993 will again incorporate a copper contingency mechanism, under which export proceeds resulting from world copper prices in excess of US$0.97/lb. will be used to increase international reserves, with the impact on reserve money to be sterilized.

28. The external financing requirement for 1992 is projected to have been met through debt relief from the Paris Club and other creditors, disbursements of project and nonmaize commodity assistance, and US$680 million of balance of payments and maize assistance. For subsequent years, after taking into account debt relief from the Paris Club and expected debt relief from other creditors, disbursements of project and nonmaize commodity assistance, and about US$70 million of remaining maize grants expected to be received in early 1993, the remaining financing requirement to be filled through balance of payments support is projected at US$550 million in 1993 and US$420 million in 1994. The Government will describe its external financing requirements in greater detail at an informal donor meeting on December 11, 1992, and will be seeking indications of support at that meeting and a March 1993 Consultative Group meeting.

29. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of Zambia's economic program, but will take any further measures that may become necessary for this purpose. Zambia will remain in close consultation with the Fund during the period of the program and will consult with the Fund on the adoption of any measures that may be appropriate in accordance with the Fund's policies on such consultations. In addition, the Fund will conduct with Zambia a review of the program to be completed no later than March 31, 1993, at which time the performance criteria and timing of reviews of the program for 1993 will be established.

Sincerely,

Emmanuel G. Kasonde
Minister of Finance

Dominic C. Mulaisho
Governor, Bank of Zambia

Attachments

Zambia: Performance Criteria Under Rights Program,
Second Half 1992

	1991	1992				
	Dec.	Sept.			Dec.	
		Program	Adjusted	Actual	Program	Modified Program
		(In millions of kwacha)				
Reserve money 1/	21,962	28,889	26,247	32,808	30,551	37,533
Net claims on Government by banking system 1/	30,938	29,217	12,258 2/	24,291	20,584	24,281 3/
Debt swaps 1/ 4/	...	1,250	1,250	1,063	1,250	1,250
		(In millions of SDRs)				
Net international reserves 5/ 6/	-811.2	-783.7	-766.2 7/	-784.5	-756.8	-770.1 8/
New external loan commitments 1/ 9/	...	142.9	142.9	--	142.9	142.9
One to five year subceiling	...	71.4	71.4	--	71.4	71.4
Stock of short-term debt 1/ 10/	274.7	315.9	315.9	218.0	315.9	315.9
Minimum reduction in external payments arrears 11/ 12/	1,054.0 13/	-91.7	-128.7	-109.0	-125.9	-123.3
Minimum reduction in arrears to IMF 11/	921.8	-7.8	-8.1	-9.8	-23.1	-23.4

1/ Ceiling. The indicative limit on debt swaps and the external loan commitments ceilings are cumulative from January 1, 1992.

2/ Program ceiling adjusted down by (a) increase in nonbank holdings of government debt of K 5,683 million over the level at end-December 1991; (b) receipt of excess copper taxes from ZCCM of K 7,140 million and (c) a downward revision of K 4,137 million to the March 1992 base number made since the program was negotiated.

3/ Limit to be adjusted downward (a) if, and to the extent that, net nonproject external financing to the budget exceeds the amounts envisaged in the program, i.e., K 17,445 million between end-December 1991 and end-December 1992; (b) by the amount that total nonbank holdings of government debt exceeds the level at end-September 1992; (c) by the amount of any receipts from the mineral resource levy and company income tax payments from ZCCM in excess of K 800 million between end-September 1992 and end-December 1992, up to the amount of any cumulative excess copper earnings (ECE) that have not been sterilized by other means; and (d) by the amount of any proceeds received from the sale of parastatals.

4/ Indicative targets only.

5/ Floor.

6/ Net international reserves are defined as gross reserves minus outstanding Fund credit (including Trust Fund loans) and Fund charges in arrears. Floor is adjustable, as provided for under the copper contingency mechanism.

7/ Adjusted upward under the provisions of the copper contingency mechanism by US$64 million and adjusted downward by US$43 million to reflect the use of earmarked deposits of copper receipts to pay off a corresponding oil credit line against which they were held.

8/ Reflects current projections of likely donor disbursements and incorporates the upward adjustment for excess copper earnings through September; fourth quarter projections continue to be based on a price of US$.90 per pound in November-December, and the target will be revised upward to reflect earnings from prices above that level, minus any shortfall in donor assistance.

9/ Commitments on external loans (other than debt rescheduling) with an original maturity of more than one year contracted or guaranteed by the Government, Bank of Zambia, and parastatals, except borrowing on concessional terms according to the DAC definition and borrowing from multilateral institutions. This ceiling, and the subceiling for debt with a maturity of 1-5 years, will be increased and the ceiling on short-term debt decreased to the extent that the Bank of Zambia is able to refinance its existing short-term liabilities as medium-term liabilities.

10/ Disbursed debt of Government, Bank of Zambia, and parastatals, excluding normal trade credit for imports and interest arrears. See also adjustment described in Footnote 9.

11/ Data for December 1991 are stocks. Targets are cumulative reductions from January 1, 1992.

12/ Excludes overdue payments to bilateral or commercial creditors that may arise pending consideration of requests for rescheduling of these payments.

13/ Revised upward, reflecting new data on arrears.

Zambia: Performance Criteria Under Rights Program, Second Half 1992 (concluded)

Structural Performance Criteria, Second Half 1992		Status
Shift OGL from a positive list to a negative list.	By end-September 1992	Satisfied
Continue to ensure that any debt-swap operations entered into after March 1, 1992 are at a market-related discount.	From March 1, 1992	Satisfied
Lodge cash balances of all ministries at the Bank of Zambia.	From June 26, 1992	Satisfied
Ensure that the maximum bank lending rate exceeds the annualized rate of inflation in the preceding three months.	Before completion of review	No longer applicable; ceiling removed but rates remain negative in real terms.

Zambia: Fund Relations

(As of October 31, 1992)

I. Membership Status: Joined September 23, 1965; Article XIV

II. General Resources Account:

	SDR Million	% Quota
Quota	270.30	100.0
Fund holdings of currency	888.15	328.6
Reserve position in Fund	.02	.0

III. SDR Department:

	SDR Million	% Allocation
Net cumulative allocation	68.30	100.0

IV. Outstanding Purchases and Loans:

	SDR Million	% Quota
Stand-by arrangements	238.21	88.1
Extended arrangements	189.06	69.9
CCFF	190.60	70.5
Trust fund	6.65	2.5

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	2/21/86	5/15/87	229.80	35.00
Stand-by	7/26/84	2/07/86	225.00	80.00
Stand-by	4/18/83	4/17/84	211.50	144.00

VI. Projected Obligations to Fund (SDR Million; Based on Existing Use of Resources Only):

		Forthcoming				
	Overdue 10/31/92	1992	1993	1994	1995	1996
Principal	622.3	--	2.2	--	--	--
Charges/interest	285.1	7.7	44.8	44.5	44.1	43.2
Total	912.0	7.7	47.0	44.5	44.1	43.2

VII. Exchange Rate Arrangement:

The exchange system consists of a dual exchange rate arrangement. The official exchange is determined by the Bank of Zambia with adjustments at weekly intervals. It covers imports under the OGL system, government transactions, the copper company (ZCCM), Zambia Airways, and the state oil company. Virtually all other foreign exchange transactions take place in the Bureau de Change/Export retention market, where the exchange rate is market determined. On November 15, 1992 the official exchange rate was K 230.8 = US$1 and at the average retention rate, K325 = US$1.

VIII. Article IV Consultations and Rights Accumulation:

a. The dates and composition of missions to discuss the 1992 Article IV consultation and the rights accumulation program for 1992 were:

1. February 15-24, 1992. Ms. Dillon (head-AFR), Messrs. Nowak (AFR), Brown (ETR), and Gordon (AFR), and Mrs. Saunders (assistant-STA). Ms. Kirmani, the Fund's resident representative in Lusaka, also participated in the discussions.

2. May 22-June 11, 1992. Ms. Dillon (head-AFR), Messrs. Nowak, Katz (AFR), Brown (ETR), McCarten (FAD) and Gordon (AFR), and Ms. Duane (assistant-AFR). Mr. Hill, the resident representative in Lusaka, participated in the discussions, as did Mr. Mwananshiku.

3. October 20 - November 3, 1992. Ms. Dillon (head-AFR), Messrs. Katz (AFR), Brown (ETR), McCarten (FAD), and Gordon (AFR) and Mrs. Salama (assistant-ADM). Mr. Hill, the resident representative in Lusaka, participated in the discussion.

b. Zambia is on a 12-month Article IV consultation cycle; the last Article IV consultation was concluded by the Executive Board on July 17, 1992. The following decisions were adopted:

1. The Fund takes this decision relating to Zambia's exchange measures subject to Article VIII, Section 2(a) and 3, and in concluding the 1992 Article XIV consultation with Zambia in light of the 1992 Article IV consultation with Zambia conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. Zambia continues to maintain restrictions on the making of payments and transfers for current international transactions as described in EBS/92/114, in accordance with Article XIV, except that the multiple currency practice

arising from the spread between the official exchange rate and the rates for foreign exchange in the export retention market are subject to Fund approval under Article VIII, Sections 2(a) and 3, and that the limitations on the availability of foreign exchange for certain current transactions, including limitations on personal remittances and the nonavailability of foreign exchange for tourism, and the restrictions evidenced by some external payments arrears are subject to Fund approval under Article VIII, Section 2(a). The Fund approves the retention by Zambia of the multiple currency practice arising from the spread between the official rate for foreign exchange and the rates in the export retention market until March 31, 1993 or the conclusion of the 1993 Article IV consultation with Zambia, whichever is earlier. The Fund encourages the authorities to remove the other exchange restrictions as soon as possible.

c. The 1992 Rights Accumulation Program was approved by the Executive Board on July 17, 1992. The following decisions were adopted:

1. The Fund notes that, in accordance with the authorities' request, the accumulation of rights for Zambia in the amount equivalent to SDR 836.9 million approved on April 17, 1991 (EBS/91/59, Supplement 2) has been canceled as of the date of this decision.

2. The Fund approves the accumulation of rights for Zambia as set forth in EBS/92/114.

IX. Technical Assistance:

The Monetary and Exchange Affairs Department has furnished the Bank of Zambia with a Research Advisor (August 1981-August 1983), an Advisor to the Governor (February 1982-February 1984), an Economic Advisor (November 1983-June 1986), an External Debt Consultant (November 1983-November 1984), a head of the Exchange Rate Section (October 1985-April 1987), an Operations Advisor (August 1990-August 1992) and a head of the Banking Supervision Department and an advisor in the Research Department (both since January 1991). The Fiscal Affairs Department has provided an advisor on tax administration (from August 1992).

Technical assistance missions from the Fiscal Affairs Department visited Zambia March 25-April 9, 1984, May 13-20, 1986, April 25-May 16, 1989, and May 14-June 1, 1990. Missions from the Statistics Department visited Lusaka twice in 1985, once in 1986, and most recently in December 1989 to review government and banking data. A technical assistance mission from the Monetary and Exchange Affairs Department visited Zambia September 7-18, 1992 to review banking legislation.

X. Resident Representative:

A Fund resident representative took up position in Lusaka in June 1990. Since March 1992 the Fund resident representative is Mr. John Hill. Previously, the Fund had a resident representative stationed in Lusaka between November 1983 and July 1987.

World Bank Group Relations with Zambia

1. The World Bank Group has provided over 60 loans and credits to Zambia since 1956, with total commitments amounting to over US$1,300 million. These commitments have financed operations in several areas, including energy, transportation, communications, rural water supply, secondary and higher education, teacher training and technical education, commercial and small-holder agriculture (commercial crops, family farming, coffee production, dairying, integrated rural development), industrial forestry, and fisheries. Other loans and credits have supported the country's mining and manufacturing sectors and the urban sector. Two program loans were approved in the early 1970s, and three adjustment credits were approved in the period 1985-86. Disbursements were suspended in May 1987 when Zambia abandoned the reform program and stopped paying debt service. Adjustment lending resumed after clearance of arrears in early 1991, and the latest adjustment operations was approved in June 1992. A free-standing technical assistance (TA) credit was approved in 1978 to help the Government improve its planning and project preparation; a second TA credit was approved in 1986 to support improvements in economic management; and a third was just recently approved to assist in parastatal reform and privatization. The International Finance Corporation (IFC) has provided nine loans and six equity participations in support of private enterprise activities, including food production and processing, shoe manufacturing, packaging and plastic wrap, textiles, tourism, mining, and development finance.

2. The main elements of the Bank's strategy are to support efforts to:

- achieve macroeconomic stability and initiate a path of sustainable and equitable growth through elimination of the budget deficit, attaining a competitive exchange rate, and increasing the allocation of resources to economic and social sectors by restructuring the composition of public expenditure;

- ensure sufficient access to imports, and an adequate reserve cushion, through maintenance of an appropriate exchange rate and other measures to encourage exports and to use imports wisely, and through coordination of donor assistance and efforts to secure needed debt elimination and rescheduling;

- improve the climate for private sector development through deregulation, provision of infrastructure, and privatization of parastatals;

- strengthen human resource capacity by rehabilitating the education and health infrastructure and improving the quality of education and health services; and

- implement an effective environmental strategy.

3. In the context of this strategy, the Bank is providing urgent support to mitigate the effects of this year's drought. Thus, the allocation for the most recent policy adjustment credit was increased from $100 million to US$200 million, and some existing operations are being revised to provide funding for drought-related activities. The Bank is also actively coordinating donor support for Zambia. The most recent Consultative Group meeting was held in Paris in March 1992.

4. Zambia's withdrawal rights under Bank loans and IDA credits were suspended on May 1, 1987 because of arrears on obligations owed to the Bank. On March 5, 1991, the Bank approved, subject to the clearance of arrears, an Economic Recovery Credit (and supplemental IDA Reflows) in the amount of SDR 169 million (US$237 million). On March 13, 1991 Zambia cleared all its arrears to the World Bank and IDA, and disbursements resumed. Policy slippage in mid-1991, particularly on maize pricing, led to a withdrawal of donor support, nonpayment of debt service, and a second suspension of disbursements in September. Following the elections in October, agreement was reached with the new government, the new arrears were cleared, and disbursements resumed in late January 1992. Accordingly, the Bank's loans to Zambia are no longer in nonaccrual status, and the Bank has ended its suspension of new lending and of disbursements of previously approved IBRD loans and IDA credits. A summary of Bank Group financial relations with Zambia is presented below.

World Bank Group Relations with Zambia

Zambia: Status of Bank Group Operations

(In millions of U.S. dollars; as of October 30, 1992)

Loan or Credit No.	Fiscal Year	Borrower	Purpose	Bank (Amount in US$ million, less cancellations)	IDA (Amount in US$ million, less cancellations)	Undis-bursed (Amount in US$ million, less cancellations)	Closing Date
			SUMMARY STATEMENT OF LOANS AND IDA CREDITS				
C14370-ZAM	1984	Zambia	Forestry III		22.40	7.81	09/30/92(R)
C15290-ZAM	1985	Zambia	Fisheries		7.10	7.73	12/31/91(R)
C15750-ZAM	1985	Zambia	Railways IV		20.00	23.85	06/30/92(R)
C16790-ZAM	1986	Zambia	Technical Assistance II		8.00	6.96	12/31/92
C17430-ZAM	1987	Zambia	Coffee II		20.40	22.48	06/30/95
C17460-ZAM	1987	Zambia	Agriculture		13.00	13.29	12/31/95
C22690-ZAM	1991	Zambia	Mining Technical Assistance II		21.00	20.37	06/30/97
C22730-ZAM	1991	Zambia	Social Recovery Project		20.00	16.16	07/31/97
C24050-ZAM (S)	1992	Zambia	Privatization/Ind. R.		200.00	150.72	06/30/94
C24060-ZAM	1992	Zambia	PIRC Technical Assistance		10.00	10.29	12/31/97
C24220-ZAM	1993	Zambia	Marketing and Processing		33.00	33.97	06/30/99
C24290-ZAM	1993	Zambia	Education Rehabilitation I		32.00	31.29	06/30/98
			LIST OF CLOSED SALS AND SECALS				
C15450-ZAM	1985	Zambia	Agriculture Rehabilitation		24.15	.00	06/30/88
CA0050-ZAM	1986	Zambia	Agriculture Rehabilitation		9.85	.00	06/30/88
CA0040-ZAM	1986	Zambia	Industrial Reorientation		42.00	.00	12/31/88
C16300-ZAM	1986	Zambia	Industrial Reorientation		19.46	.00	12/31/88
C17200-ZAM	1986	Zambia	Recovery Credit		50.00	.00	06/30/91 (R)
C22140-ZAM	1991	Zambia	Recovery Credit		210.00	.00	06/30/92
C22141-ZAM	1991	Zambia	Recovery Credit		27.20	.00	06/30/92
C22142-ZAM	1992	Zambia	Recovery Credit		10.00	.00	06/01/93
L23910-ZAM	1984	Zambia	Export Rehab. and Diver.	71.92		.00	09/30/88

(R) Indicates formally revised closing date.

World Bank Group Relations with Zamiba (concluded)

Zambia: Statement of IFC Investments

(In millions of U.S. dollars; as of October 31, 1992)

Investment Number	FY	Obligor	Type of Business	Loan	Equity	Total
216-ZA 250-ZA	1972 1973	Zambia Bata Shoe	Shoes	2.1	0.2	2.3
307-ZA 394-ZA	1975 1978	Century Products Ltd.	Plastic Wrap	0.9	0.2	1.1
324-ZA	1976	DBZ Bank of Zambia	Development Finance		0.5	0.5
623-ZA	1982	Ethanol Company of Zambia	Chemical Petrochemical	3.7	0.6	4.3
1001-ZA	1988	Gwembe Valley Development	Food/Food Processing	3.7	0.8	4.5
1132-ZA	1989	Masstock (Zambia)	Food/Food Processing	8.2		8.2
527-ZA 721-ZA	1980 1985	Kafue Textiles	Textiles	10.7		10.7
743-ZA	1985	Moongwe Development Corp.	Food/Food Processing	1.8	0.3	2.1
709-ZA 2159-ZA	1984 1991	Zambia Hotel Properties Ltd.	Tourism	22.4		22.4
483-ZA 600-ZA	1980 1982	ZCCM	Mining	53.1		53.1
		Total gross committments		106.6	2.6	109.2
		Less: Cancellations, terminations, exchange adjustments, repayments, write-offs, and sales		71.5	2.4	73.9
		Total commitments held by IFC		35.1	0.2	35.3
		Total undisbursed		6.5	0.0	6.5
		Total disbursed		28.6	0.2	28.8

ZAMBIA - Basic Data

Area, population, and GDP per capita

Area	752,600 square miles
Population	
Total (1990 estimate)	8.1 million
Growth rate	3.7 percent
GDP per capita (1990)	SDR 310

	1986	1987	1988	1989	1990 Est.	1991 Est.
Gross domestic product and expenditure (at current market prices) 1/			(In millions of kwacha)			
Gross domestic product	12,963	19,778	30,021	60,024	127,650	247,623
Agriculture	(1,578)	(2,180)	(5,056)	(10,562)	(...)	(...)
Mining	(2,355)	(2,689)	(3,155)	(7,720)	(...)	(...)
Manufacturing	(2,936)	(5,547)	(9,496)	(2,705)	(...)	(...)
Government services 2/	(1,169)	(1,488)	(2,171)	(2,705)	(...)	(...)
Other sectors	(4,925)	(7,874)	(10,143)	(17,105)	(...)	(...)
Gross domestic expenditure	13,120	18,961	27,820	57,310	128,540	252,117
Consumption	(10,033)	(16,219)	(24,407)	(51,372)	(108,957)	(218,733)
Investment	(3,087)	(2,742)	(3,413)	(5,964)	(19,583)	(33,270)
External resource gap (-) or surplus (+) at market prices	-156	818	2,201	2,689	-891	-4,494
			(In percent of GDP)			
Consumption	77.4	82.0	81.3	85.6	85.4	88.3
Investment	23.8	13.9	11.4	9.9	15.3	13.5
External resource gap (-) or surplus	-1.2	4.1	7.3	4.5	-0.7	-1.8
Prices (period averages)			(In percent)			
GDP deflator	82.0	48.6	46.4	102.0	113.7	97.5
CPI (low-income)	54.0	45.7	54.7	128.8	111.0	92.6
CPI (high-income)	60.1	56.4	50.2	125.4	100.2	98.6
CPI (composite)	54.8	47.1	54.0	128.3	109.6	93.4
Government finance			(In millions of kwacha)			
Revenue and grants	3,206	4,371	5,628	11,535	27,926	64,657
Expenditure and net lending	6,699	6,327	9,087	17,294	37,340	74,933
Current	5,198	5,661	7,560	12,687	29,181	56,840
Capital and net lending	973	653	1,365	2,801	7,059	17,082
Overall deficit (accrual basis) (-)	-3,493	-1,955	-3,459	-5,759	-9,414	-10,276
Overall deficit (cash basis) (-) 3/	-2,468	-983	-2,601	-4,169	-3,580	-12,363
Financing	2,468	983	2,601	4,169	3,580	12,363
External	1,310	-54	1,220	621	1,617	-525
Domestic	1,159	1,038	1,381	3,548	1,963	12,888
Overall accrual deficit/GDP (%)	-26.9	-9.9	-11.5	-9.6	-7.4	-4.1
Money and credit (end of period)						
Foreign assets (net)	-9,348	-8,242	-7,259	-5,527	-544	-4,182
Net domestic credit (net)	5,374	6,274	9,658	15,338	19,783	55,229
Claims on the Government (net)	(3,487)	(3,778)	(5,201)	(6,489)	(5,584)	(30,938)
Claims on the private sector	(1,888)	(2,497)	(4,457)	(9,049)	(14,199)	(24,291)
Money and quasi-money (M2)	4,062	6,266	10,126	16,729	24,390	48,451
Money (M1)	(2,304)	(3,225)	(5,245)	(7,950)	(12,548)	(22,468)
Balance of payments			(In millions of SDRs)			
Exports, f.o.b.	596	671	859	1,098	931	792
Of which: copper	(489)	(569)	(731)	(960)	(777)	(656)
Imports, c.i.f.	-581	-597	-661	-796	-799	-698
Trade balance	15	74	199	301	132	95
Services (net)	-301	-319	-369	-451	-397	-434
Transfers (net)	85	58	48	34	177	343
Current account balance	-201	-187	-122	-116	-88	3
Capital account (net)	-201	-165	-147	-82	-238	-37
Medium- and long-term flows	(-33)	(-163)	(-109)	(-87)	(-110)	(-15)
Short-term and errors and omissions	(-168)	(-1)	(-38)	(5)	(-128)	(-22)
Overall surplus or deficit (-)	-402	-351	-270	-198	-326	-37

Sources: Central Statistical Office; Bank of Zambia; and staff estimates.

1/ Central Statistical Office estimates up to 1989 and staff estimates thereafter.
2/ Includes public administration, defense, and economic and social services.
3/ Overall deficit after interest relief and arrears.

Social and Demographic Indicators - Zambia

Area

752,600 square kilometers

Population (1990)

8.1 million
Annual rate of growth: 3.7 percent

Population characteristics (1990)

Population density:	11 per sq km
Urban population (percent of total)	50
Proportion in capital city as a percentage of urban population	24
Population age structure (percent):	
0-14 years	49
15-64 years	49
65 and above	2

Health

Life expectancy at birth (1990)	50
Infant mortality (aged under 1, percent) (1990)	8.2
Population per physician (1984)	7,150
Population per nursing person (1984)	740

Income distribution (1973)

Percent of national income,	
highest quintile	63
lowest quintile	4

GDP per capita (1990)

In SDRs	310

Access to safe water (1987)

Percent of population - urban	76
- rural	41

Labor force (1987)

Female (percent)	29
Agriculture (percent)	73
Industry (percent)	10

Nutrition (1989)

Per capita calorie intake per day	2,077

Education (1989)

Percent of age group:	
Primary school enrollment	95
Secondary school enrollment	20
Enrollment in tertiary educaiton	2

Source: World Bank, World Development Report, 1992.