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CONFIDENTIAL

December 8, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Zambia - Overdue Financial Obligations to the Fund -
Further Review Following Declaration of Ineligibility

The attached paper is scheduled for discussion by the Executive Directors on Wednesday, December 16, 1992. A draft decision appears on page 3.

Mr. Corr (ext. 38774) or Mr. Menon (ext. 37640) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Zambia - Overdue Obligations to the Fund -
Further Review Following Declaration of Ineligibility

Prepared by the Treasurer's, African, and Legal Departments
(In consultation with the Policy Development and Review Department)

Approved by David Williams, Mamoudou Touré, and François Gianviti

December 8, 1992

1. On December 16, 1992, the Executive Board is scheduled to conduct the review of Zambia's rights accumulation program for 1992 and the fourteenth review of Zambia's overdue obligations following the declaration of Zambia's ineligibility to use the general resources of the Fund on September 30, 1987. In the decision adopted at the last review on July 17, 1992, 1/ the Fund welcomed the Zambian authorities' intention to pursue a rights accumulation program and called on external donors and creditors to augment grants and concessional lending in support of Zambia's adjustment efforts.

This paper describes recent developments with respect to Zambia's overdue financial obligations to the Fund and contains a draft decision proposed for adoption by the Executive Board.

2. In the period since the last review on July 17, 1992, Zambia has made payments to the Fund totaling SDR 36.4 million. Of this amount, SDR 22.0 million was used to settle obligations falling due in the period and SDR 14.4 million was applied towards reducing Zambia's arrears to the Fund. Refunds of burden sharing and retroactive reductions in the rate of charge, which have been applied towards reducing overdue obligations, totaled SDR 0.5 million during the same period. As indicated in Attachment II, as of December 8, 1992, Zambia's overdue obligations to the Fund amounted to SDR 905.8 million. Zambia's forthcoming obligations to the Fund through 1995 are estimated at SDR 178.4 million. 2/ Deferred income from Zambia's overdue charges, which is subject to burden sharing, amounted to SDR 250.8 million as of October 31, 1992.

Zambia's arrears to the Fund of SDR 905.8 million are equivalent to 335 percent of quota and 145 percent of total Fund credit outstanding to Zambia (including Trust Fund loans). SDR 620.7 million (69 percent) of Zambia's total overdue obligations represents overdue principal, which is equal to 230 percent of quota and 99.6 percent of Fund credit outstanding to Zambia.

1/ Decision No. 10084-(92/91), adopted July 17, 1992. See Attachment I.

2/ In accordance with the Executive Board Decision No. 10000-(92/58)G/TR adopted April 17, 1992, as of May 1, 1992, special charges ceased to accrue on Zambia's overdue obligations in the GRA.

On January 31, 1992, Zambia cleared its arrears to the World Bank and IDA. Tables 1, 2, and 3 of the Appendix provide information on various factors relevant to Zambia's recent payments position vis-à-vis the Fund and other international creditors.

3. On July 17, 1992, the Executive Board endorsed Zambia's rights accumulation program and approved the accumulation of rights for a maximum amount equivalent to SDR 836.9 million. 1/ A description of performance under the program is contained in the staff report and memorandum of economic and financial policies for the review of the 1992 rights accumulation program for Zambia. 2/

As required under the rights accumulation program, Zambia has settled all obligations falling due to the Fund (with some short delays) in the period since the inception of the rights accumulation program. Zambia has also been observing the performance criterion, under the rights accumulation program, to make additional payments to reduce arrears to the Fund by SDR 22.0 million by December 31, 1992. Since the start of the rights accumulation program in July 1992, Zambia has made payments totaling SDR 14.4 million towards arrears reduction; a further payment of SDR 7.6 million for this purpose is expected in mid-December 1992, which would reduce Zambia's arrears to SDR 898.2 million.

4. The Executive Board has emphasized two criteria for judging the extent to which a member with protracted arrears is cooperating with the Fund, namely, the member's payments performance and the adoption of appropriate economic adjustment policies. Since the last review on July 17, 1992, Zambia has observed the performance targets under the rights accumulation program to meet obligations falling due to the Fund and to reduce arrears to the Fund. Zambia has also made significant progress under its rights accumulation program in the areas of structural reform and market liberalization. However, because of policy slippages and unexpectedly high net outlays related to the "drought budget", a number of end-September 1992 performance criteria under the program were not observed, and macroeconomic stabilization is far from being achieved. The authorities remain committed to the rights accumulation program and steps have been taken to mop up excess liquidity and to strengthen the budgetary position. Further corrective policy measures to reinforce the adjustment effort will be taken in 1993. The staff has proposed that the Executive Board complete the review under the rights program, modify certain end-December performance criteria and rephase the accumulation of rights related to September 1992 evenly over the remaining program period. In the circumstances, notwithstanding the macroeconomic policy slippages, the staff considers that Zambia's cooperation with the Fund may be judged satisfactory, and no remedial measures are proposed.

1/ EBS/92/114 (7/01/92)

2/ EBS/92/199 (12/1/92)

Executive Board consideration of the establishment of suitable performance criteria, program reviews, and phasing for the second year program (1993) under the decision on accumulation of rights for Zambia (EBS/92/114, Supplement 2), is envisaged for end-March 1993. In this light, the draft decision provides for further review of Zambia's overdue obligations to the Fund at the time of the Executive Board's consideration of Zambia's 1993 rights accumulation program, or within six months, whichever is earlier.

The following draft decision, which could be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

Draft Decision

1. The Fund has further reviewed the matter of Zambia's overdue obligations to the Fund in light of the facts and developments described in EBS/92/208 (12/8/92).
2. The Fund regrets the slippages that have occurred in the implementation of the rights accumulation program that was endorsed by the Executive Board on July 17, 1992. The Fund notes the continued progress on structural reform and economic liberalization as well as the recent actions by the authorities to redress slippages in fiscal and monetary policies. The Fund urges Zambia to intensify these efforts in 1993 by adopting a strong and credible package of corrective policy measures to put the program back on track. The Fund calls on external donors and creditors to augment flows of grants and concessional lending in support of Zambia's adjustment efforts on a timely basis. The Fund intends to continue to collaborate actively with Zambia under the intensified collaborative approach.
3. The Fund notes the recent payments by Zambia and welcomes the recent reductions in the level of Zambia's arrears to the Fund. The Fund regrets, however, the continued existence of Zambia's arrears to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. The Fund stresses that full and prompt settlement of these arrears should be given the highest priority.
4. The Fund will review the matter of Zambia's overdue financial obligations to the Fund at the time of the Executive Board's consideration of the first review of Zambia's rights accumulation program as contemplated under paragraph 4.c of the decision on the accumulation of rights for Zambia (EBS/92/114, Supplement 2), or within six months of the date of this decision, whichever is earlier, in the light of actions taken by Zambia in the meantime regarding payments to the Fund and implementation of the rights accumulation program.

Attachments

INTERNATIONAL MONETARY FUND

Zambia - Overdue Financial Obligations -
Review Following Declaration of Ineligibility

Executive Board Decision No. 10084-(92/91)
Adopted July 17, 1992

1. The Fund has reviewed further the matter of Zambia's overdue financial obligations to the Fund in the light of the facts and developments described in EBS/92/117 (7/10/92).

2. The Fund welcomes the active cooperation of the Zambian authorities with respect to the adoption and implementation of the comprehensive adjustment policies contained in EBS/92/114. The Fund also welcomes the authorities' intention to pursue a rights accumulation program during the period through March 1995. The Fund calls on external donors and creditors to augment flows of grants and concessional lending in support of Zambia's adjustment efforts on a timely basis. The Fund intends to continue to collaborate actively with Zambia under the intensified collaborative approach.

3. The Fund regrets the continued existence of Zambia's arrears to the Fund, which places a financial burden upon other members and reduces Fund resources needed to help others. In this regard, the Fund welcomes the payments made by Zambia in 1992. The Fund notes Zambia's intention, under the rights accumulation program, to make payments equivalent to obligations falling due to the Fund in the remainder of 1992 and reduce arrears to the Fund at least to SDR 898.7 million by December 31, 1992 and at least to SDR 836.9 million by December 31, 1993. The Fund stresses that full and prompt settlement of these arrears should be given the highest priority.

4. The Fund will review the matter of Zambia's overdue financial obligations to the Fund again at the time of the first review of the rights accumulation program or within six months of the date of this decision, whichever is earlier, in the light of the actions taken by Zambia in the meantime regarding payments to the Fund and implementation of the rights accumulation program.

Zambia--Overdue Financial Obligations
(As of December 8, 1992)

Type of Obligation	Total Amount Overdue (In SDRs)	Date of the Longest Outstanding Overdue Obligation
<hr/>		
1. <u>Principal</u>		
Repurchases	614,016,721	7/14/86
Trust Fund repayments	<u>6,652,508</u>	4/28/89
Subtotal	620,669,229	
2. <u>Interest and Charges</u>		
Quarterly charges	140,736,859	8/08/86
Semiannual charges	97,491,193	7/18/86
Assessments	50,347	4/30/87
Charges on arrangements	108,624	5/16/87
Trust Fund interest	157,751	6/30/89
Special charges (GRA)	45,868,462	2/23/87
Special charges (TF)	<u>701,463</u>	5/19/89
Subtotal	285,114,699	
Total:	<u>905,783,928</u>	

Zambia - Overdue and Forthcoming Obligations
as of December 8, 1992

(In millions of SDRs)

Type of Obligation	Outstanding as of 12/8/92	Forthcoming 1/					Total through 1995 3/
		1992 2/	1993	1994	1995	1996	
Repurchases	614.0	--	2.2	--	--	--	616.2
Quarterly charges	140.7	--	24.0	24.0	23.6	22.7	235.0
Semiannual charges	97.5	--	16.8	16.5	16.5	16.6	163.9
Net SDR charges	--	--	3.7	3.7	3.7	3.7	14.8
Trust Fund repayments and interest	6.8	--*	--*	--*	--*	--*	6.9
Special charges (GRA) 4/	45.9	--	--	--	--	--	45.9
Special charges TF	<u>0.7</u>	<u>--*</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>0.2</u>	<u>1.5</u>
Total 3/	905.8 5/	--*	46.9	44.4	44.0	43.2	1,084.2 5/

* Less than SDR 50,000.

1/ On the basis of Zambia's present use of Fund credit, Trust Fund loans outstanding, and position in the SDR Department. Charges are projected on the basis of current rates of charge, on the assumption that obligations falling due are settled on their due dates.

2/ Due after December 8, 1992.

3/ Components may not add to totals because of rounding.

4/ Special charges on overdue obligations of Zambia in the GRA ceased to accrue as of May 1, 1992.

5/ Includes overdue charge on stand-by arrangement of SDR 108,624 and overdue assessments of SDR 50,347.

Table 1. Zambia: Payments Indicators, 1989-92

	1989	1990	1991	1992 (Jan-Sept)
<u>(In millions of SDRs)</u>				
1. Payments to the Fund				
a. Obligations falling due to the Fund	180.2	180.7	127.4	84.1
b. Payments made to the Fund	14.3	22.4	109.6	96.3
c. Refunds	0.1	2.2	3.3	1.4
d. Arrears to the Fund <u>1/</u>	751.2	907.3	921.8	912.0
2. Foreign exchange receipts				
a. Exports	1,100.3	930.7	790.6	577.2
b. Current account receipts <u>2/</u>	1,236.7	1,222.8	1,244.5	957.4
3. Foreign exchange obligations and use				
a. Imports	795.8	798.7	693.9	657.3
b. Debt service payments due <u>3/</u>	745.0	691.9	1,010.4	516.9
c. Debt service payments made <u>4/</u>	155.1	189.1	461.0	232.5
4. Gross international reserves <u>1/</u>	130.0	150.1	117.1	123.3
5. Total external debt arrears <u>1/</u>	2,453.3	1,837.4	1,734.0	1,657.0
<u>(In percent)</u>				
6. Obligations falling due to the Fund, as percent of:				
a. Exports	16.4	19.4	16.1	14.6
b. Current account receipts <u>2/</u>	14.6	14.8	10.2	8.8
c. Imports	22.6	22.6	18.4	12.8
d. Debt service payments due <u>3/</u>	24.2	26.1	12.6	16.3
e. Debt service payments made <u>4/</u>	116.2	95.6	27.6	36.2
f. Gross international reserves <u>1/</u>	138.6	120.4	108.8	68.2

Table 1 (concluded). Zambia: Payments Indicators, 1989-92

	1989	1990	1991	1992 (Jan-Sept)
7. Payments made to the Fund, as percent of:				
a. Exports	1.3	2.4	26.1	16.7
b. Current account receipts <u>2/</u>	1.2	2.0	14.3	10.1
c. Imports	1.8	2.7	15.8	14.7
d. Debt service payments due <u>3/</u>	1.9	3.2	10.8	18.6
e. Debt service payments made <u>4/</u>	9.2	11.8	23.8	41.4
f. Gross international reserves <u>1/</u>	11.0	14.9	93.6	78.1
g. Obligations falling due to the Fund	7.9	12.4	86.0	114.5
8. Arrears to the Fund, <u>1/</u> as percent of:				
a. Exports	68.3	97.5	116.6	118.5
b. Current account receipts <u>2/</u>	60.7	74.2	74.1	71.4
c. Imports	94.4	113.6	132.8	104.1
d. Debt service payments due <u>3/</u>	100.8	131.1	91.2	132.3
e. Debt service payments made <u>4/</u>	484.3	479.9	200.0	392.3
f. Gross international reserves <u>1/</u>	577.8	604.5	787.2	739.7
g. Total external arrears <u>1/</u>	30.6	49.4	53.2	55.0

Source: Staff estimates.

1/ End of period.

2/ Including official transfers.

3/ Includes payments due to the Fund and programmed cash payments against arrears.

4/ Includes payments made to the Fund. The difference with Appendix Table 2 represents payments made by the copper company Zambia Consolidated Copper Mines, Ltd. (ZCCM).

Reductions in commercial arrears and other arrears on short-term debt are not included.

Table 2. Zambia: Medium- and Long-Term External Debt
Service Payments, 1989-92 ^{1/}

(In millions of U.S. dollars)

	1989	1990	1991	1992 (Jan-Sept)
1. Multilateral	<u>35.1</u>	<u>81.8</u>	<u>526.5</u>	<u>232.3</u>
African Development Bank/Fund	10.7	19.3	14.0	23.8
European Community	3.1	0.6	2.1	1.0
European Investment Bank	--	3.4	5.0	2.9
BADEA ^{2/}	--	0.8	--	--
International Fund for Agricultural Development	0.2	0.5	0.7	1.0
OPEC	0.2	--	0.2	0.2
IMF	18.0	30.7	155.0	94.9
IBRD/IDA	--	14.9	337.6	103.0
IFC	2.9	11.6	11.9	5.5
2. Bilateral	<u>18.6</u>	<u>12.8</u>	<u>12.3</u>	<u>8.3</u>
Paris Club creditors	10.1	10.6	11.0	8.2
Other bilateral creditors	8.5	2.2	1.3	0.1
3. Other	<u>22.1</u>	<u>22.5</u>	<u>18.9</u>	<u>11.3</u>
Total	<u>75.7</u>	<u>119.9</u>	<u>557.7</u>	<u>251.9</u>

Source: Bank of Zambia; and staff estimates.

^{1/} Excludes payments made by State Copper Company (ZCCM).

^{2/} Arab Bank for Economic Development in Africa.

Table 3. Zambia: External Debt and Arrears, 1989-91

(In millions of SDRs; end of period)

	Debt 1/		Arrears	
	1989	1990	1991 Est.	1991 Est.
Multilateral institutions	<u>1,952.3</u>	<u>2,091.4</u>	<u>2,006.5</u>	<u>987.6</u>
IMF 2/	891.1	957.0	928.4	921.8
IBRD	474.6	488.5	261.3	24.7
IDA	196.1	197.1	330.7	2.7
ADB/ADF	136.7	186.7	204.0	5.1
Other	253.8	262.1	282.1	33.4
Bilateral	<u>2,285.3</u>	<u>2,304.4</u>	<u>2,046.2</u>	<u>416.0</u>
Japan	316.3	322.3	306.9	10.0
Germany	420.2	496.2	296.8	15.7
United Kingdom	250.7	235.3	259.2	...
Former U.S.S.R.	261.1	250.3	258.2	189.2
United States	342.6	315.4	236.9	7.3
France	127.9	119.4	116.5	19.5
China	128.3	114.7	114.4	1.1
Other	438.1	450.8	457.4	173.2
Financial institutions	<u>83.6</u>	<u>82.2</u>	<u>85.4</u>	<u>85.4</u>
Suppliers	<u>207.9</u>	<u>189.8</u>	<u>201.9</u>	<u>83.6</u>
Total	<u>4,529.1</u>	<u>4,667.8</u>	<u>4,340.0</u>	<u>1,572.6</u>

Sources: Ministry of Finance, Bank of Zambia, IBRD Debtor Reporting System, and staff estimates.

1/ Public and publicly-guaranteed debt; includes arrears on principal and interest, including imputed interest on arrears.

2/ Includes Trust Fund.