

EBS/84/72

CONFIDENTIAL

April 2, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Zaïre - Staff Report for the Review Under the
Stand-By Arrangement and Exchange Measures

Attached for consideration by the Executive Directors is the staff report for review under the stand-by arrangement for Zaïre and exchange measures. Draft decisions appear on pages 18 and 19.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Goreux (ext. 73801) or Mr. Kapur (ext. (5)8732).

Att: (1)

INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the Review Under the Stand-By Arrangement
and Exchange Measures

Prepared by the African Department and the
Exchange and Trade Relations Department

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

Approved by Oumar B. Makalou and W.A. Beveridge

April 2, 1984

I. Introduction

On December 16, 1983 the Executive Board approved two requests by Zaire: the first was for a 15-month stand-by arrangement in an amount equivalent to SDR 228 million, representing 78.4 percent of quota (EBS/83/257, 11/30/83); and the second was for a compensatory financing purchase equivalent to SDR 114.5 million (EBS/83/260, 12/1/83). The decisions were to become effective only after satisfactory arrangements had been made for the reduction of Zaire's debt service obligations for 1983 and 1984 to a level consistent with Zaire's program. Following the outcome of the Paris Club meeting on December 19-20, 1983, the Board decided to make the stand-by arrangement effective as of December 27, 1983 (EBS/83/257, Supplement 3, 12/22/83).

Zaire purchased SDR 114.5 million under the compensatory financing facility on December 30, 1983 and SDR 36 million under the stand-by arrangement on January 3, 1984 (Table 1, Attachment I). The second purchase under the arrangement, of SDR 42 million, is subject to observance of the performance criteria for end-December 1983 and completion of the first review; the third and fourth purchases, of SDR 40 million each, would be subject to the observance of the March performance criteria and completion of the proposed second review, and the observance of the June performance criteria and the completion of the third review, respectively. The fifth and sixth purchases of SDR 40 million and SDR 30 million, respectively, are subject to observance of the September and December performance criteria which will be established during the second review. As of March 30, 1984, the Fund's holdings of Zaire's currency, subject to repurchase, amounted to SDR 510.9 million, or 175.6 percent of quota; excluding holdings of SDR 221.4 million under the compensatory financing facility, they were equivalent to 99.5 percent of quota.

Discussions that provided the basis for the first program review were held in Kinshasa during the period February 12-26, 1984. ^{1/} A letter from the President of the Republic of Zaire proposing economic policies and performance criteria for 1984, including a request for waiver of observance of two performance criteria for end-December 1983, is contained in Attachment V.

All the tables are contained in Attachment I; summary statements on Zaire's relations with the Fund and the World Bank Group are provided in Attachments II and III, respectively. Selected economic and financial indicators are presented in Attachment IV.

II. Developments in 1983 and Performance Under the Program

During 1983 the Zairian authorities implemented the measures envisaged under the program and considerable progress was made in reducing domestic and external imbalances. Overall developments in the balance of payments were favorable as compared with the previous year, although the external payments situation remained very tight.

In 1983 exports were higher than projected in the program, amounting to SDR 1,424 million as a result of higher export volumes of cobalt, zinc, diamonds, gold, and crude oil. In particular, exports of artisanal diamonds increased sharply with the liberalization of artisanal trade and favorable exchange rate incentives. Receipts from GECAMINES' exports of copper were on target, as higher export volumes virtually offset the effects of lower-than-projected prices. Imports were also on target, but net expenditures on services, including interest due on medium- and long-term external public debt, were some 8 percent higher than projected, while net unrequited transfers were substantially lower. As a result, the external current account deficit, at SDR 300 million or 7.3 percent of GDP, before debt rescheduling, exceeded the program target by SDR 60 million. The overall balance of payments deficit is estimated to have amounted to SDR 433 million, before rescheduling, in 1983 compared with SDR 452 million in the program.

Zaire obtained substantial debt relief from the Paris Club creditors totaling SDR 861 million, including SDR 428 million on outstanding arrears at end-1982, SDR 336 million on debt service payments due in 1983, and SDR 97 million on moratorium interest due as of December 31, 1983. ^{2/} As a result, in 1983, the external current account deficit,

^{1/} Staff members on the mission were Mr. Louis M. Goreux (head-AFR), Mr. Ishan Kapur (AFR), Mr. Van Can Thai (FAD), Mr. Edouard Maciejewski (ETR), and Mrs. Catherine John (secretary-OMD). Mr. Evangelos A. Calamitsis (AFR) joined the mission for a few days. Mr. Tshishimbi, Alternate Executive Director, participated in the policy discussions.

^{2/} This estimate is based on data provided by the Zairian authorities in February 1984 which have not yet been fully reconciled with the corresponding creditor data.

after debt relief, was reduced to SDR 190 million (4.7 percent of GDP) compared with SDR 353 million (7.0 percent of GDP) in 1982 and the overall balance of payments deficit was reduced to SDR 97 million, as against SDR 480 million in 1982 (Table 2). This is based on a reduction in commercial and invisible arrears by SDR 12 million through cash payments in foreign exchange, compared with a minimum reduction of SDR 10 million set as a performance criterion in the program. Due to the inability of the Zairian authorities to reach debt restructuring agreements, arrears to creditors that were not participants in the Paris Club meeting increased by about SDR 57 million in 1983. Outstanding external arrears, other than those covered by the Paris Club meeting, are estimated to amount to SDR 372 million at end-1983, including SDR 183 million of commercial and invisible arrears.

Following the exchange rate reform of September 12, 1983 and the introduction of a temporary dual exchange rate arrangement, the margin between the official and free rates was kept within 10 percent until October 15, 1983, reduced to 5 percent until December 29, 1983, and further reduced to 2.5 percent until unification of the two rates on February 24, 1984. The exchange rate determination process worked relatively well through the end of 1983, and parallel market activities were considerably reduced. In January 1984, however, there was a revival of parallel market transactions mainly as a consequence of excess liquidity that had built up in the economy toward the end of 1983 and a weakening of customs controls; the exchange rate on the parallel market reached a premium over the interbank rate of 10-12 percent by the end of February. Furthermore, the demand for foreign exchange far exceeded the supply, resulting in a large imbalance between buying and selling bids on the interbank foreign exchange market. Transactions among banks outside the weekly fixing sessions remained limited both in volume and number. At the same time, partly in order to meet the performance criterion for net sales on the interbank market of SDR 14 million before end-February 1984, the Bank of Zaire stepped up its sales of foreign exchange, which caused a relative slowing down of the depreciation of the exchange rate.

After an initial depreciation of 1.8 percent in the first two weeks of the float, the free market rate stabilized during the final quarter of 1983, but fell substantially thereafter. While the free rate for the zaire depreciated by 1 percent against the U.S. dollar in the last three months of 1983, it lost about 7 percent between end-December 1983 and February 24, 1984 when the free and the official rates were unified; since then it has depreciated further by over 5 percent and as of the fixing of March 23, 1984 it was Z 35.47 per U.S. dollar, compared with Z 6.1 per U.S. dollar just prior to the exchange reform. The real effective exchange rate for the zaire depreciated by about 60 percent between January and December 1983; there was a further small depreciation of less than 1 percent in January 1984 (Chart 1, Attachment I).

As a complement to the exchange reform, virtually all the measures to liberalize and simplify the exchange and trade system were implemented. Effective November 25, 1983, the negative list of imports that was issued on September 12, 1983 was reduced further, with a very limited number of nonessential imports being subject to the prior approval of the Bank of Zaire. At the same time, a new and significantly shorter list of prohibited imports was issued, while the remaining quantitative restrictions on imports of cotton textiles and used vehicles were abolished. As of end-February 1984, only travel agencies and shipping companies are allowed to maintain resident foreign currency accounts. Also, on March 1, 1984, the 25 percent limit on payments for invisibles, which was the last remaining element of the foreign exchange allocation system applicable to the commercial banks, was abolished.

With regard to the budget, all the measures envisaged under the program were implemented and the overall budget deficit for 1983 was reduced to 2 percent of GDP from 8.7 percent in 1982 (Table 3). If government outlays financed directly through foreign loans and grants outside the budget were taken into account, the overall government deficit was brought down in terms of GDP from 11.7 percent in 1982 to 4.7 percent in 1983. In this way, net government borrowing from the banking system was cut from Z 3.3 billion in 1982 to Z 2.4 billion in 1983, notwithstanding the sizable external debt amortization, which increased from Z 0.5 billion in 1982 to Z 1.3 billion in 1983. In relation to the money stock at the beginning of each year, net government borrowing from the banking system declined sharply from 70.5 percent in 1982 to about 29.3 percent in 1983.

Total budgetary revenue increased by 76 percent in 1983, compared with 29 percent in 1982, whereas total budgetary expenditure, excluding external debt amortization, rose only by 34 percent in 1983 compared to 45 percent in 1982.

Total budgetary revenue reached the program target of Z 11 billion, recording a net gain of Z 4.7 billion over the 1982 outturn, equivalent to 8.4 percent of GDP. The revenue gain was to a small extent attributable to measures taken during the first eight months of the year, notably a simplification of rental income tax administration, and revaluation of fixed corporate assets for profits tax purposes. However, most of the increase in revenue came in the last four months of the year as the combined result of the effects of the large devaluation, the adjustment in a number of customs duties, and sharp increases in the rates of excise taxes (on beer, cigarettes, and petroleum products, ranging from 200 percent to 400 percent), with the bulk of this being attributable to taxes paid by oil companies, income taxes paid by expatriates, and duties and taxes from imports. Furthermore, the application of the new fiscal regime for GECAMINES enabled its total tax payments to increase by Z 1.7 billion to Z 2 billion.

Although total budgetary revenue was on target, its components changed relative to the program due to a number of factors. The positive factors were higher oil production and the increase in excise tax rates which resulted in higher-than-programmed contributions from the oil companies and higher taxes collected on goods and services. These favorable factors were, however, offset by two major developments: tax payments on income and profits were lower than estimated, due to the adverse impact on companies of higher oil prices, utility tariffs, and import costs; furthermore, import taxes and duties fell short of the programmed amount, due to increased evasion on account of substantially higher duties levied after the large devaluation and to the enforcement difficulties experienced by the Customs and Excise Office.

Total budgetary expenditure reached Z 12.1 billion, which equaled the program target, although there was a sharp acceleration in outlays in the last months of the year. The acceleration was due to higher payments of external debt and nondebt arrears of the Treasury attributable to a larger availability of foreign exchange; in addition, outlays for petroleum and utilities exceeded the projected amount by 50 percent due to the substantial increases in fuel and gasoline prices as well as in electricity and transport tariffs. However, efforts of the Government to strengthen budgetary controls resulted in most targets being met. Salary payments to primary and secondary schoolteachers were on target. Payments of nondebt arrears of the Treasury in foreign exchange amounted to the equivalent of US\$14 million, or US\$4 million more than programmed, while payments on domestic arrears reached Z 354 million, compared with a target of Z 204 million. Despite these satisfactory results, overruns continued to occur in certain categories of current expenditure. A small overrun in outlays of the Presidency and the Political Institutions by Z 6 million over the target of Z 910 million was attributable in part to military expenditures outside Zaire. Total salary payments exceeded the projected Z 3,241 million by Z 23 million, reflecting the continued inadequate pay mechanism and the inability of the Government, despite its efforts, to know the exact number of its employees. Despite efforts to reduce arrears, at the end of 1983 domestic arrears are estimated to have amounted to Z 506 million and nondebt arrears in foreign exchange to US\$46 million.

On the monetary side, the increase in net domestic assets was Z 3,630 million, compared with a program target of Z 4,800 million, with net claims on the Government increasing by Z 2,364 million as against Z 2,400 million contained in the program (Table 4). The stock outstanding of both net domestic assets as well as net claims on Government at the end of 1983 was, however, higher than had been programmed due to substantial revisions of the base period monetary data. The revisions to monetary statistics, which were started in November 1983, were completed for the Bank of Zaire during a technical assistance mission from the Fund in February 1984; several classification errors relating to foreign assets and liabilities were rectified and account was taken of

discrepancies between the balance sheet data of the Bank of Zaire and correspondents' accounts. ^{1/} The stock of net domestic assets and of net claims on Government at end-December 1983 was Z 14,184 million and Z 10,252 million, respectively, compared with program ceilings of Z 14,054 million and Z 9,457 million, as shown in the table below. In the attached letter, the authorities request a waiver from the Fund on the above two performance criteria.

Net Domestic Assets of the Banking System

(In millions of zaires)

	1982		1983		Change	
	Program	Revised	Program	Revised	Program	Actual
Total net domestic assets	9,254	10,554	14,054	14,184	+4,800	+3,630
Credit to Government	7,057	7,888	9,457	10,252	+2,400	+2,364
Credit to enterprises and households	1,972	1,931	3,272	2,882	+1,300	+951
Other items, net	225	735	1,325	1,050	+1,100	+315

Total domestic credit increased by 34 percent during 1983 compared with a programmed 41 percent, with credit to the Government rising by 30 percent and credit to enterprises and households by 49 percent. While credit expansion was within the program's targets, money supply expanded by almost 74 percent, compared with a program target of 51 percent. There were three factors that influenced the increase in money supply, particularly in the last four months of the year: first, the increase in net foreign liabilities was lower than estimated in the program, US\$97 million as compared with US\$132 million; second, the liquidation of resident foreign currency accounts as called for in the program took place with a delay and at a relatively more depreciated exchange rate than had been assumed; and third, while overall budgetary outlays and net credit to the Government were within the amounts programmed for the year as a whole, there was a considerable acceleration in these items during

^{1/} Mr. T. Luu (STAT), visited Kinshasa on a technical assistance mission during the period February 5-23, 1984. Technical assistance is also being provided by the National Bank of Belgium to verify and revise the classification and accounting of foreign assets and liabilities at the Bank of Zaire.

November and December 1983; money supply expanded by 34 percent in the first three quarters of the year and by 24 percent in the last quarter alone. The resulting injection of liquidity towards year-end led to the revival of parallel market activity in early 1984 and a relatively rapid depreciation of the exchange rate, as mentioned above.

The inflation rate, as measured by the consumer price index for Kinshasa, was 76 percent for 1983 as a whole compared with a target of 68 percent in the program, and 37 percent in 1982. There was a sharp acceleration in inflation after September as a consequence of the exchange rate adjustment and subsequent increases in petroleum prices and the tariffs of public utilities and domestic transport. Overall economic growth is estimated to have been less than 1 percent, with the major part of the increase coming from the services sector.

III. The Program for 1984

I. The objectives

Based on the financial outcome for 1983, and the debt relief secured from the Paris Club creditors for 1984, the main objectives of the program for 1984 remain broadly intact, although additional policy measures are needed to attain these objectives in view of the difficulties that surfaced in early 1984 regarding the exchange rate and excess liquidity in the economy. Furthermore, lower export prices of copper than had been assumed in the initial program, although partly compensated by increases in other exports, will reduce any safety margin that may have been available earlier and keep the external payments situation extremely tight. The current account deficit of the balance of payments is now targeted at about SDR 198 million (after rescheduling) or 9.6 percent of GDP, compared with an actual deficit of SDR 190 million (after rescheduling) in 1983. The overall balance of payments deficit, however, is expected to be reduced sharply from SDR 97 million in 1983 to SDR 33 million in 1984, owing to higher official capital disbursements.

The program for 1984 also assumes that tighter monetary and credit policies, as described below, would result in a slowing down of the rate of depreciation of the exchange rate of the zaire in the second half of the year, as monetary expansion is to be limited to about 35 percent and the inflation rate declines to under 50 percent. Real economic growth is likely to show some improvement as the full impact of the exchange rate adjustment and the domestic price liberalization begin to influence agricultural and manufacturing output by mid-year.

In order to achieve the above objectives, the Zairian authorities intend to reinforce the policies and measures contained in their Memorandum on the Economic and Financial Policies of the Executive Council of Zaire, dated September 12, 1983, which accompanied the

request for the stand-by arrangement. The overall thrust of the policies for 1984 is to rapidly implement a series of measures, some of which have already been put in place, to contain the budget deficit, limit the expansion of credit, remove excess liquidity from the banking system, strengthen customs control, establish a money market with sufficiently remunerative interest rates, and improve the functioning of the interbank foreign exchange market (Table 5).

2. Fiscal policy

In view of the continued critical financial situation and the prospect of a further depreciation of the exchange rate, the Government has undertaken a drastic revision of the 1984 budget that had been adopted earlier. The main thrust of the revised program is to reduce the budgetary deficit from 2 percent of GDP in 1983 to 0.5 percent in 1984, compared with a surplus of 0.3 percent of GDP as an indicative target in the original program; if government outlays financed directly through foreign loans and grants outside the budget are included, the overall government deficit would be brought down from 4.7 percent of GDP in 1983 to 3.1 percent in 1984. In this way, net bank borrowing by the Government would still remain within the Z 2.6 billion limit set at the beginning of the program, notwithstanding a higher estimate for debt amortization. In relation to broad money stock at the beginning of each year, net bank borrowing by the Government would be reduced from 29.3 percent in 1983 to 18.6 percent in 1984. In addition, a part of the deficit could be financed through the sale of Treasury bills, as mentioned below, up to an outstanding stock of Z 200 million through the end of June and Z 500 million through the end of December 1984.

Total budgetary revenue has been revised upward from the initial program to Z 20.8 billion, representing an increase of Z 9.8 billion, and equivalent to 24 percent of GDP compared with 20 percent in 1983. This increase would result from several policy measures to be implemented during the year. The most urgent action is to restore customs compliance and enforcement; to achieve this, the Government has taken various steps, including seeking immediate technical assistance from the European Communities. Furthermore, the Government intends to reduce some incentives for evasion by an early implementation of a revised customs tariff containing substantially lower duty rates on most items. Taxes and duties on imported inputs will be reduced from 3-30 percent to 0-3 percent; industrial products from 30-50 percent to 5-30 percent; luxury products from 170-200 percent to 50-90 percent; and products necessary for assembly industries, namely for assembling certain home appliances, bicycles, and motorcycles, from as high as 200 percent to 5-15 percent. The loss in import taxes and duties due to the new customs tariff is broadly estimated at Z 700 million.

Notwithstanding these losses, budgetary revenue is expected to record substantial net gains mainly due to the effects of the devaluation, the application of the new fiscal regime for GECAMINES, the impact of increased excise taxes, and from other new measures. In the

first semester of 1984 the Government will introduce a number of fees and taxes, in particular a tax on every foreign resident and a tax of 2 percent on sales of goods and services provided by hotels and restaurants. The Government has also undertaken to implement a number of fiscal measures recommended by a Fund/World Bank technical assistance mission, notably an upward adjustment of tax rates on real property, a revision and harmonization of individual income taxes, and an extension of the presumptive income tax assessment to some liberal professions and services sectors.

On the expenditure side, total budgetary outlays in 1984 have been revised upward by Z 1 billion from the initial program estimate to Z 21.2 billion, or 25 percent of GDP. This upward revision results from higher payments, in terms of zaires, of interest on external debt and of nondebt arrears in foreign exchange of the Treasury; these increased amounts are estimated at Z 2.1 billion over the original program and attributed to a more depreciated exchange rate and, in the case of external debt, to somewhat higher payments in terms of foreign exchange. As it would seem advisable to maintain the 40 percent salary increase agreed in the program for the two-year period 1983-84, of which 17 percent is due on April 1, 1984, the Government has decided to cut nonwage outlays to compensate for the higher expenditures. Accordingly, transfers and subsidies, materials and supplies, external expenditure and other current outlays have been cut by Z 840 million, and nonpriority capital projects by Z 340 million.

As the budget has become very tight with little margin for slippages, a further strengthening of budgetary controls has been initiated. The policy of progressive centralization of all government operations at the Ministry of Finance and Budget, which has benefited from the integration of the Ministry of Portfolio with the Ministry of Finance in early 1984, will be reinforced with the placing of the budget pour ordre under the direct control of the Ministry by April 30, 1984. In addition, to prevent the commitment of the unbudgeted expenditure and to avoid any accumulation of arrears, all expenditure commitments will be made solely through the Ministry of Finance and under no circumstances will the Treasury's account with the Bank of Zaire be debited without the prior approval of the Ministry; this standard procedure will be strictly observed. Furthermore, in order to better control overall wage outlays the Ministry of Finance will complete the definitive list of the personnel covered by the budget, on which work has been done for some time, prior to the end of May 1984. In the meantime, the Government has decided to freeze government employment and to strike from its payroll those who may be unjustifiably included on it. Finally, quarterly targets will continue to be maintained on key expenditure categories, including total salary outlays, salary payments for primary and secondary schoolteachers, and outlays of the Presidency and the Political Institutions, as well as on total budgetary outlays, as specified in the letter of intent. The results will be closely monitored,

and should these targets not be observed, there will be consultations with the Fund staff to reach understandings on appropriate corrective measures. The total budgetary expenditure target includes the payment of specific amounts of external debt service, domestic arrears, and nondebt arrears in foreign exchange of the Treasury. In the event that actual payments fall short of the specified amounts, the total budgetary expenditure target will be reduced by an equivalent amount.

There are indications that the financial performance of several public enterprises, on which data are both scanty and unreliable, is deteriorating. In February 1982, the Government decided to turn over to the private sector the capital and management of 37 public enterprises, as part of recommendations made by the World Bank. However, the problems with public enterprises have become more serious and need urgent attention from the Government. In January 1984, it organized a meeting of the heads of public enterprises to examine ways and means of improving the management of these enterprises so that they may become profitable. The meeting reached the following main recommendations: public enterprises should strictly observe the requirements for financial reporting within the legal required time limits; each public enterprise should establish a performance contract by which its management would commit itself to achieving fixed targets; in case of non-performance, the management should have to provide justification and could be sanctioned. While these recommendations do not have the force of law, they have nevertheless already brought about some changes in the top management of a number of public enterprises. However, in view of the seriousness and complexity of the problems which need to be addressed in a more systematic way, the Government has decided to undertake a study with the assistance of the World Bank starting in March 1984, so as to agree on the necessary measures to improve the efficiency of public enterprises. In the meantime, the Government will grant no more than Z 154 million in subsidies to public enterprises in 1984. Furthermore, to maintain the past policy of no subsidy from the budget to the petroleum sector, effective March 26, 1984, the retail prices of diesel fuel and kerosene have been raised to Z 12.50 per liter and Z 15.00 per liter, respectively.

3. Monetary and credit policies

For 1984 monetary and credit policies will be directed toward two basic objectives: the containment of overall credit expansion to rates of increase below the actual performance in 1983 with a view to reducing the rate of inflation; and, concomitantly, the absorption of excess liquidity in the banking system to a level that would improve the functioning of the interbank foreign exchange market.

Consistent with the financing of the budget deficit, the overall expansion of net domestic assets will be limited to less than 34 percent during the year, compared with 35 percent initially programmed. Given the probable evolution of the external payments situation, such an

increase in net domestic assets would be compatible with containing the growth in money supply to about 36 percent, compared with an actual increase of 74 percent in 1983, and substantially below the estimated increase in nominal GDP of 51 percent. As was the case in 1983, the program continues to channel increased credit to the private sector relative to the Government, reversing the trend of the years before 1983 when the Government's borrowing requirements "crowded out" those of the rest of the economy. Credit to enterprises (including public enterprises) and households is targeted to increase by 61 percent, compared with an actual increase of 49 percent in 1983; in absolute terms, however, the flow of credit will be limited to Z 1,750 million, compared with Z 1,900 million that had been the target in the original program, in order to limit overall monetary expansion. Quarterly credit ceilings have been set by the Bank of Zaire, and they are closely monitored to ensure their strict adherence.

As indicated in Table 6, the expansion in net domestic assets will be limited to Z 4,750 million in 1984, compared with Z 4,900 million initially programmed; within this overall limit the increase in net bank credit to the Government will be maintained at Z 2,600 million, and as indicated above, credit to enterprises and households will not exceed Z 1,750 million. Credit ceilings, as performance criteria, have been set for March and June 1984; appropriate quarterly credit ceilings will be established, as indicated in Table 6, for September and December 1984 during the proposed second review of the program.

In addition to the regulation of credit through ceilings, various measures have already been undertaken, and will be reinforced in the coming months to absorb the excess liquidity in the banking system, discourage the hoarding of bank notes, and provide a better balance between the incentives to hold foreign exchange vis-à-vis domestic currency; the latter objective is closely tied to the efficient functioning of the interbank foreign exchange market and the exchange rate determination process. Essentially, the foreign exchange market will not function satisfactorily as long as there is a permanent excess demand for foreign currency, generated partly by inadequate remuneration for deposits in the banking system in zaires. Interest rates on domestic currency deposits should be higher than interest that can be earned on foreign exchange by an amount equal at least to the expected depreciation of the exchange rate, which in turn reflects inflation differentials. Commercial banks have been unwilling to remunerate sight deposits and have discouraged term deposits, since in relation to their lending capability (which is limited by credit ceilings), they are excessively liquid; as of end-December 1983 over 90 percent of all deposits with the commercial banks were nonremunerated sight deposits. Furthermore, despite an inflation rate of over 50 percent, there has been a progressive hoarding of bank notes during 1983 since there are limits to the amounts in cash that can be withdrawn at any given time from bank accounts; currency in circulation outside the banking system increased

from an already high 40 percent of money and quasi-money at end-1982 to 44 percent at end-1983. As part of the program in 1983, lending rates of the commercial banks were freed and are now negotiated with clients; in early 1984 these rates averaged 30-32 percent on an annual basis, although the addition of commissions and charges led to an effective cost of borrowing of 38-40 percent. Deposit rates for periods up to six months (5-8 percent) and over six months (20-30 percent) were left unchanged at their floor levels since, given the liquid position of the banks, the authorities feared that if deposit rates were to be liberalized they would in fact be reduced.

In an effort to break this vicious circle, the authorities have decided to establish a money market through which holders of zaires will be offered a sufficiently remunerative rate. The objectives of the money market are twofold: first, it should provide an incentive to the banks to begin remunerating sight deposits (or encouraging term deposits) as the latter are drawn down for investment on the money market; second, realistic and broad-based deposit interest rates are a prerequisite for the eventual creation of a forward exchange market as a complement to the existing interbank market. The main monetary instrument will initially be the issuance of short-term Treasury bills on behalf of the Government by the Bank of Zaire. The bills will have maturities of 28, 56, or 91 days, and will be issued in denominations of Z 50,000, or multiples of that amount. The bills will be auctioned weekly to the nonbank public, the first such auction taking place on April 3. The initial auction will be made on the basis of a fixed interest rate, of between 45-50 percent per annum, with no limit on the amounts sold. Subsequently, however, auctions will be conducted on the basis of a limit on the amounts sold, but with a rate of remuneration contained in the discount from face value. The ceiling on net bank financing to the Government will be reduced for 1984 if the outstanding stock of Treasury bills, at face value, exceeds Z 200 million by the end of June and Z 500 million by the end of December.

In addition to an indirect incentive to banks to remunerate deposits through the provision of alternative investments, the liquidity position of the commercial banks will be brought under control through an increase in the effective reserve requirement at the Bank of Zaire. Although the legally required minimum reserve ratio with the central bank has been 25 percent for several years, the actual ratio has averaged less than 12 percent, and the penalties provided for have rarely, if ever, been enforced. Furthermore, with an abundant supply of funds from sight deposits, and less-than-required reserves with the central bank, the rediscount facilities at the Bank of Zaire are seldom used by the commercial banks. Effective March 1, 1984 the Bank of Zaire has adjusted the legal reserve ratio to 15 percent and will raise it further to 18 percent by April 30, 1984; however, at the same time a penalty interest rate of at least 5 percent per month will be rigorously applied to any shortfall from the required ratio. The application of

the new ratios is estimated to sterilize about Z 400 million by end-March and another Z 400 million by end-April 1984 from the freely usable reserves of the banks. It will, however, be necessary to keep under review developments regarding the liquidity position of the commercial banks during the forthcoming months with a view to making any modifications that might be necessary following the evolution of the exchange rate.

4. External policies

On the basis of the fiscal and monetary measures described earlier, and revised assumptions regarding copper prices and other exogenous variables, the program envisages an overall balance of payments deficit for 1984, before rescheduling, at about the same level as in 1983, although somewhat higher than had been assumed in the original program. The current account deficit, before rescheduling, is projected at SDR 314 million, compared with an actual deficit of SDR 300 million in 1983 and SDR 230 million assumed in the original program. The changes in the balance of payments projections for 1984 from those presented in EBS/83/257 relate principally to the upward revision in outflows on account of services and in official capital disbursements and to the downward revision in net unrequited transfers. However, in light of the debt relief already obtained from the Paris Club in December 1983, additional debt relief to be obtained from other creditors, and an improvement in public capital inflows, the revised current account and overall balance of payments deficits after rescheduling are projected to be SDR 198 million and SDR 33 million, respectively.

Notwithstanding a change in the assumptions regarding the average price for copper from US\$0.79 per pound to US\$0.72 per pound, total exports are projected to remain at about the level initially projected of SDR 1,520 million. The shortfall on earnings from copper exports by GECAMINES (SDR 66 million) is expected to be offset by higher earnings from the export of cobalt (SDR 11 million), diamonds (SDR 29 million), and crude oil (SDR 15 million) as a result of higher export volumes, as well as savings on marketing and refinery costs on metal exports processed abroad. Imports are projected to expand by about 5 percent, allowing for some real economic growth in 1984. In relation to the original program, expenditures on services were revised upward due principally to higher interest payments on external debt, in particular to non-Paris Club creditors. Net unrequited transfers are lower because of somewhat larger outward private transfers, notably salary remittances abroad, partly as a result of the elimination of the foreign exchange allocation system. Following the arrangements for regularization of external debt arrears to the Paris Club creditors and the recent settlement of arrears on external debt service payments due to a number of multilateral creditors and foreign governments, sizable public capital disbursements that had been withheld in 1983 are expected to be released in 1984; as a result, official capital disbursements are now expected to be larger than initially projected.

External debt service payments, based on interest and principal due, were increased from SDR 646 million to SDR 687 million for 1984 as a result of an upward revision of payments due to non-Paris Club creditors. Debt relief estimated at SDR 362 million has already been arranged with Paris Club creditors. Furthermore, in view of the initiatives already taken by the Zairian authorities, additional debt relief estimated at SDR 42 million is expected from non-Paris Club creditors, which could include SDR 16 million from official creditors, and at least SDR 26 million from commercial banks. The Zairian authorities are continuing discussions with the commercial banks of the London Club with a view to reaching an agreement on a maximum amount of payments to be made in 1984 and to restructuring the debt service payments in arrears at end-1983. They have also sent a request for debt relief, on terms broadly comparable to those of the Paris Club rescheduling, to other official creditors, as well as to bank and nonbank private creditors.

Actual debt service payments are now projected to total SDR 283 million in 1984, including SDR 256 million of payments through the Treasury, compared with projections of SDR 294 million and SDR 250 million, respectively, in the original program. They include regular monthly payments of SDR 14.25 million to a blocked account with the U.S. Federal Reserve Bank, which was set up under the Agreed Minute of the Paris Club meeting of December 1983. Arrears on commercial and invisible payments registered with the Bank of Zaire, which amounted to SDR 183 million at the end of 1983, will be reduced through cash payments in foreign exchange by SDR 8 million by the end of March 1984, and by a further SDR 12 million by the end of June 1984; for the year as a whole, commercial and invisible arrears will be reduced by SDR 40 million and, following the envisaged debt reschedulings, there will be a reduction in arrears on external debt service payments. It is proposed that the Fund approve the restriction on payments and transfers for current international transactions involved in the existence of arrears on external debt.

The key policy measures for 1984 relate to improving the functioning of the interbank foreign exchange market and complementing the actions taken or envisaged as part of monetary policies. The lack of an incentive to hold domestic currency and the existence of excess liquidity in the banking system has manifested itself in excess demand for foreign exchange. Consequently, the commercial banks have been substantial net buyers of foreign exchange on the interbank market, with the result that the banks on average have accumulated foreign exchange holdings that are estimated at the end of December 1983 at almost 240 percent of their own assets; since early 1984 this figure is estimated to have increased further. In order to restore equilibrium on the interbank market, encourage interbank transactions, and reduce incentives for speculation on the depreciation of the exchange rate, the Bank of Zaire has placed a limit on the global net foreign exchange position of each commercial bank as a proportion of its own assets

(capital, reserves, and profit/loss account) to 100 percent as of April 15 and 75 percent as of May 15, 1984; nonobservance of this limit will be penalized by a charge of at least 6 percent per month on the excess over the limit on a daily basis. Based on the estimated holdings as of the beginning of the year, this measure should incite the banks to sell about US\$43 million to their clients, or to the Bank of Zaire, by April 15, and a further US\$11 million between April 15 and May 15. It is likely that a significant part of this foreign exchange will be purchased by the private sector to raise the cover on documentary credits closer to 100 percent, particularly given the recent rapid depreciation of the exchange rate. However, the Bank of Zaire, whose own foreign exchange cash reserves have been virtually exhausted, will take advantage of this opportunity to purchase foreign exchange on the inter-bank market to begin gradually building up its reserve position; an increase in the Bank of Zaire's reserves would, in any case, be a highly desirable objective in order to ensure the viability of the floating rate regime over the medium term.

Provided that strong adjustment policies are pursued for a number of years consecutively, Zaire could reach a viable balance of payments position by the turn of this decade (Table 7). This is illustrated by the projections shown in Table 8, where export earnings are projected to rise on average by 10 percent a year in nominal terms. These export projections assume a progressive increase in the average price of copper from US\$0.72 per pound in 1984, to US\$0.80 in 1985, and US\$1.10 in 1990. With an average growth rate of 6 percent a year in imports, and little change in real per capita income, the external current account deficit could turn into a small surplus by 1988. Despite the assumption of substantial increases in gross disbursements of public capital, sizable financing gaps would continue to exist in 1985 and 1986 and would not be eliminated until 1988-89. These gaps could be filled by a combination of further debt rescheduling, exceptional financial assistance, and increased private capital inflows. Including Fund obligations on projected use of Fund resources as of end-March 1985, the debt service ratio (before rescheduling) would amount to 53 percent in 1985; it would decline gradually thereafter to 27 percent in 1990 (Table 9).

5. Performance criteria and reviews

The program for 1984 includes the following performance criteria: (a) quarterly ceilings on net domestic assets of the banking system and on net credit of the banking system to the Government for end-March and end-June 1984; (b) minimum net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange for end-March and end-June 1984; (c) ceilings on new external borrowings (commitment basis) by the Government or against government guarantee for 1984 as a whole as already established under the stand-by arrangement in EBS/83/257; and (d) the standard clauses regarding the exchange and payments system. The quantitative performance criteria for end-March

and end-June 1984, as well as indicative targets for end-September and end-December 1984, are contained in Table 6. Furthermore, there will be two comprehensive reviews with the Fund of progress under the program in addition to the present one; the next review will take place no later than July 1984 and the final review no later than October 1984, and both reviews will constitute performance criteria. During the next review understandings will be reached on all quantitative performance criteria not already specified for 1984.

IV. Staff Appraisal and Proposed Decision

Considerable progress has been made in reducing Zaire's internal and external imbalances during 1983. The budget deficit, excluding foreign-financed outlays, fell to the equivalent of 2 percent of GDP from 8.7 percent in 1982; the expansion of domestic credit to the economy was cut by over one half; and deficits on the external current account and the overall balance of payments were each reduced by about one fourth from the previous year. These improvements reflect a marked strengthening of budgetary discipline and the exchange reform of September 12, 1983. The latter was the cornerstone of the 15-month program approved by the Fund on December 16, 1983, which allowed Zaire to obtain from creditors of the Paris Club a reduction of its debt service obligations to a level compatible with its financing possibilities in 1983 and 1984.

The measures described in the Executive Council's Memorandum of September 12, 1983 have been fully implemented. In particular, the dual exchange rates introduced in September, which constituted a multiple currency practice, have been unified as foreseen at the rate prevailing on the free interbank market by the end of February; the exchange and trade system has been liberalized, including the abolition of the 25 percent limit on payments for invisibles, and for the first time in years, importers are now able to purchase foreign exchange from commercial banks without undue delays and cumbersome formalities. The exchange rate, which had stabilized at about Z 30 per U.S. dollar on the interbank market during the last quarter of 1983, depreciated steadily during the first quarter of 1984, reaching Z 35.5 per U.S. dollar at the end of March.

The staff considers that the recent depreciation of the zaire and the resurgence of the parallel market reflect an excess of liquidity resulting, in part, from an acceleration of government expenditures towards the end of the year, the lack of adequate remuneration for deposits in domestic currency, and the weakening of customs control. Inflation must be brought under control during the course of this year to prevent a further large depreciation of the exchange rate which would in turn lead to pressures on prices and wages. The staff therefore believes that the authorities appropriately took a series of corrective

measures, namely: containing the budget deficit in order to limit bank financing to the original target of Z 2,600 million for 1984 in spite of several adverse developments, strengthening customs control with technical assistance from the European Communities, reducing the expansion of credit to the private sector from its original target, establishing a money market by issuing short-term Treasury bills with sufficiently remunerative interest rates, and improving the functioning of the interbank foreign exchange market. In order to keep an equilibrium between the demand for and the supply of foreign exchange, there must exist a remuneration for domestic currency holdings corresponding to a positive real interest rate.

The 1984 government budget is tight because any higher bank financing of the budget deficit than is programmed would have further exacerbated inflationary pressures and the depreciation of the zaire. The foreign exchange budget of the Bank of Zaire is also very tight and the cost of servicing the foreign debt remains high even after rescheduling, budgetary expenditures on the external debt being almost twice as large as the public wage bill. However, restoring Zaire's international credit standing through regular debt service payments is essential for its future development and the securing of additional financial assistance to finance the balance of payments gaps projected for the years ahead. In the meantime, the staff proposes that the Fund approve the restrictions on payments and transfers for current international transactions evidenced by the existence of payments arrears on external debt.

The staff believes that the adjustment policies and measures contained in the program for 1984 represent further major efforts at improving Zaire's economic and financial situation. However, the forthcoming months will be difficult ones and hence will demand maximum vigilance by the authorities to prevent slippages. The recent measures taken by the Executive Council are in the right direction, and deserve Fund support, but their implementation needs to be monitored very closely. The proposed additional review should therefore provide the possibility of an early detection of difficulties that may arise, and permit timely corrective action thereby enhancing the chances of success of the program. The staff also believes that the request for a waiver of the ceiling on net domestic assets of the banking system and of the subceiling on net credit to Government, for the end of December 1983, would be justified. The increase in these monetary aggregates during 1983 is consistent with the ceilings and subceilings of the program; the excess in the stock values of these aggregates is due to an upward revision of the base resulting from a reclassification of the items contained in the monetary survey.

In view of the above, the following draft decisions are proposed for adoption by the Executive Board:

A. Stand-By Arrangement

1. Zaire has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Zaire (EBS/83/257, Supplement 2, December 22, 1983), and the letter of the President of Zaire dated September 12, 1983 with annexed memorandum, attached to the stand-by arrangement, in order to reach understandings subject to which Zaire may make further purchases under the stand-by arrangement. Zaire has also requested the Fund to waive observance of the performance criteria in paragraph 4(a)(iv) and (v) of the stand-by arrangement for end-December 1983.

2. The letter of the President of Zaire dated March 26, 1984, together with Table 1, shall be attached to the stand-by arrangement for Zaire and the letter of September 12, 1983 with annexed memorandum shall be read as supplemented by the letter of March 26, 1984, and Table 1.

3. The Fund grants the waiver requested by Zaire.

4. Zaire will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Zaire's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12 1/2 per cent of quota

(a) during any period in which

(i) the ceilings on net domestic assets of the banking system to the Government at end-March and end-June 1984; or

- (ii) the ceilings on net credit of the banking system to the Government at end-March and end-June 1984; or
- (iii) the net cumulative reductions of commercial and invisible arrears through cash payments in foreign exchange by end-March and end-June 1984

specified in Table 1 attached to the letter of March 26, 1984 are not observed; or

- (b) if the reviews with the Fund relating to the third and fourth purchases under the stand-by arrangement, which are to be conducted not later than end-July and end-October 1984 respectively, have not taken place, or while the performance criteria adopted as a result of these reviews are not being observed.

B. Exchange Measures

1. Pending the completion of bilateral arrangements for the rescheduling or refinancing of Zaire's external debt, the Fund grants approval of the restriction on payments and transfers for current international transactions that is evidenced by payments arrears.

Table 1. Zaire: Fund Position During Period of Arrangement

	Outstanding at beginning of arrangement 1/ Nov. 30, 1983	1983	1984				1985
		Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- March
(In millions of SDRs)							
Transactions under tranche policies (net) 2/		-6.3	23.7	27.2	25.3	19.0	57.7
Purchases		--	36.0	42.0	40.0	40.0	70.0
Ordinary resources		(--)	(5.6)	(21.0)	(20.0)	(20.0)	(35.0)
Borrowed resources		(--)	(30.4)	(21.0)	(20.0)	(20.0)	(35.0)
Repurchases		-6.3	-12.3	-14.8	-14.7	-21.0	-12.3
Ordinary resources		(-6.3)	(-12.3)	(-14.8)	(-14.7)	(-12.2)	(-12.3)
Borrowed resources		(--)	(--)	(--)	(--)	(-8.8)	(--)
Transactions under special facilities (net) 3/		114.5	--	--	--	--	--
Purchases		(114.5)	(--)	(--)	(--)	(--)	(--)
Repurchases		(--)	(--)	(--)	(--)	(--)	(--)
Total Fund credit outstanding (end of period)	379.0	487.2	510.9	538.1	563.4	582.4	640.1
Under tranche policies 2/	272.1	265.8	289.5	316.7	342.0	361.0	418.7
Special facilities 3/	106.9	221.4	221.4	221.4	221.4	221.4	221.4
(As percent of new quota)							
Total Fund credit outstanding (end of period)	130.2	167.4	175.6	184.9	193.6	200.1	220.0
Under tranche policies 2/	93.5	91.3	99.5	108.8	117.5	124.0	143.9
Special facilities 3/	36.7	76.1	76.1	76.1	76.1	76.1	76.1

Source: Treasurer's Department, International Monetary Fund.

1/ End of calendar month in which staff paper is issued.

2/ Ordinary and borrowed resources.

3/ Compensatory financing facility and buffer stock facility.

Table 2. Zaire: Balance of Payments, 1982-84 ^{1/}

(In millions of SDRs)

	1982 ^{1/}	1983		1984	
		Program	Actual ^{1/}	Program	Revised projections
Trade balance	295	339	383	419	430
Exports, f.o.b.	1,317	1,375	1,424	1,524	1,520
Imports, f.o.b.	-1,022	-1,036	-1,041	-1,105	-1,090
Oil	(-169)	(-160)	(-156)	(-180)	(-160)
Non-oil	(-853)	(-876)	(-885)	(-925)	(-930)
Services	-825	-754	-821	-834	-899
Receipts	79	90	94	100	104
Expenditure	-904	-844	-915	-934	-1,003
Freight and insurance	(-229)	(-234)	(-236)	(-245)	(-244)
Other transport	(-29)	(-32)	(-15)	(-35)	(-20)
Travel	(-30)	(-16)	(-34)	(-18)	(-35)
IMF charges	(-24)	(-44)	(-42)	(-55)	(-50)
Interest on public debt ^{2/}	(-285)	(-228)	(-263)	(-296)	(-334)
Other investment income	(-45)	(-45)	(-23)	(-40)	(-25)
Government, n.i.e.	(-79)	(-55)	(-72)	(-50)	(-70)
Other services	(-183)	(-190)	(-230)	(-195)	(-225)
Unrequited transfers	138	175	138	185	155
Private	-8	-10	-20	-15	-25
Public	146	185	158	200	180
Current account balance (Excluding interest rescheduled)	-392	-240	-300	-230	-314
	(-353)	(-122)	(-190)	(-116)	(-198)
Public capital	-142	-212	-211	-170	-123
Disbursements	192	134	132	180	230
Amortization ^{2/}	-334	-346	-343	-350	-353
Private capital and errors and omissions	-64	--	78	--	--
SDR allocation	--	--	--	--	--
Overall deficit (-) (Excluding interest and principal rescheduled)	-598	-452	-433	-400	-437
	(-480)	(-86)	(-97)	(-16)	(-33)
Financing items	598	452	433	400	437
Arrears (reduction -)	345	...	-480 ^{4/}	...	-40
Of which: cash payments ^{3/}	(-22)	(10)	(-12)	(-40)	(-40)
Debt rescheduling and other assistance	136	...	861	...	404
Net Fund credit	85	104	104	129	95
Purchases	(107)	(114)	(114)	(198)	(158)
Repurchases	(-22)	(-10)	(-10)	(-69)	(-63)
Other reserve movements (increase -)	32	-10	-52	-42	-22
Gap	--	368	--	353	--
Memorandum item:					
Average export unit value of copper in U.S. cents per pound	66	73	71	79	72

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

^{1/} Preliminary.

^{2/} Contractual amounts falling due in each year.

^{3/} On commercial and invisible arrears only.

^{4/} Amount rescheduled under Paris Club agreement (SDR 525 million, including SDR 97 million of late moratorium interest) plus cash payments (SDR 12 million) on commercial and invisible arrears minus further accumulation of arrears (SDR 57 million) on medium- and long-term external debt.



3

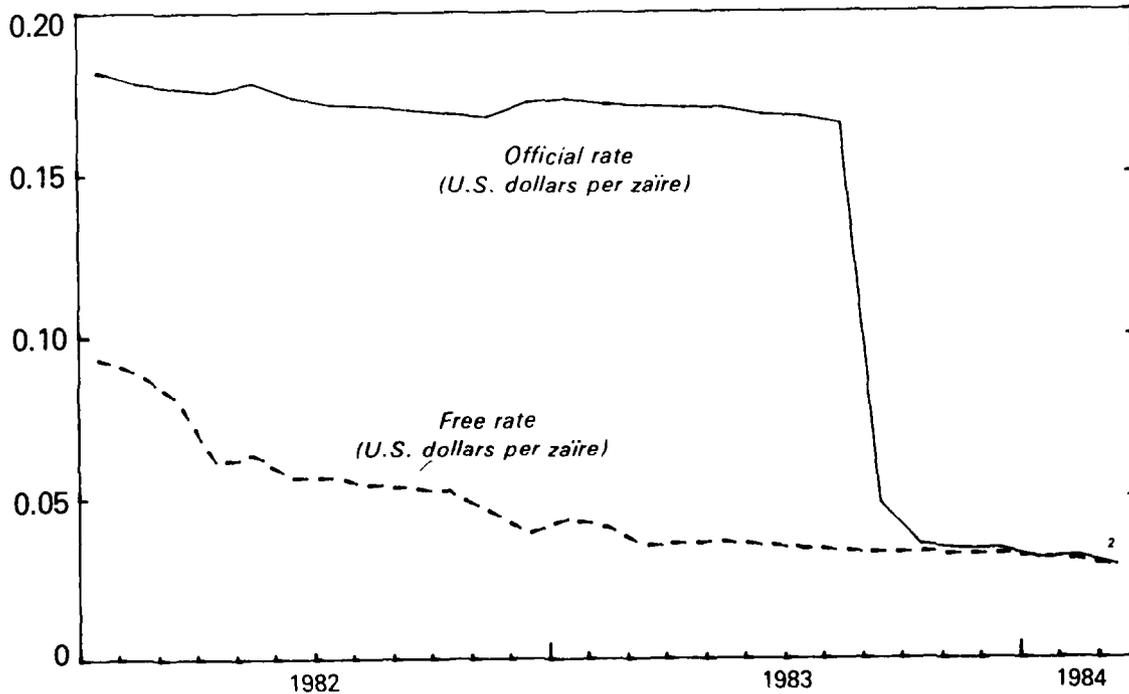
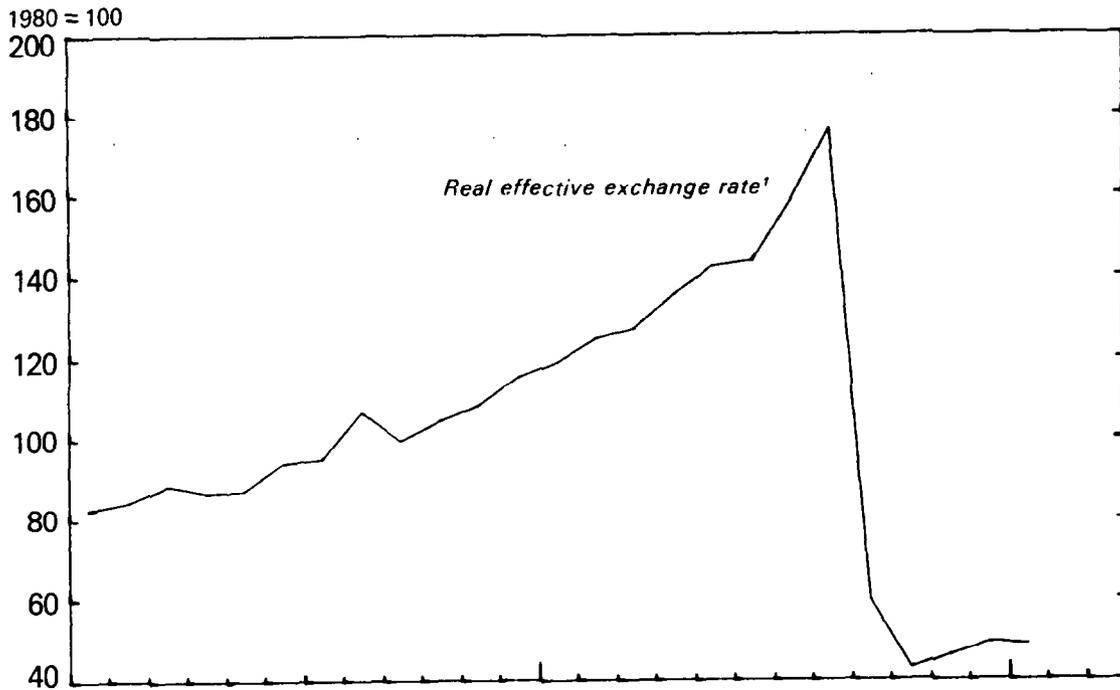
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CHART 1
ZAIRE
EXCHANGE RATE DEVELOPMENTS,
JANUARY 1982-MARCH 1984



Source: Staff calculations based on data provided by the Zaïrian authorities.

¹Based on the official rate for the zaïre.

²Official and free rates were unified on February 24, 1984.



Table 3. Zaire: Budgetary Operations, 1981-84 1/

	1981	1982	1983			1984	
			Budget	Program 2/	Actual 3/	Program 4/	Revised
(In millions of zaires)							
Total revenue	4,858.8	6,259.1	6,801.6	11,063.0	10,998.1	20,400.0	20,768.0
Income and profits taxes	1,469.0	1,914.1	1,869.0	2,997.0	2,811.0	4,516.0	4,407.0
Taxes on goods and services	944.6	1,521.2	1,613.1	2,322.0	3,004.0	4,078.0	4,690.8
Import duties and taxes	987.3	1,347.4	1,406.3	1,980.0	1,731.1	4,400.0	3,117.0
Export duties and taxes	147.0	190.4	158.8	336.0	396.7	886.0	870.0
Other taxes and nontax revenue	660.5	900.1	1,034.4	1,168.0	1,019.3	1,920.0	3,083.2
GECAMINES	650.4	385.9	720.0	2,260.0	2,036.0	4,600.0	4,600.0
Total expenditure 1/	6,251.0	9,037.3	9,028.6	12,101.0	12,106.1	20,150.0	21,181.0
Current expenditure	5,506.1	7,952.4	8,301.7	11,267.0	11,459.0	18,750.0	20,194.0
Wages and salaries	(2,336.5)	(2,779.9)	(2,947.7)	(3,240.9)	(3,264.3)	(4,586.0)	(4,586.0)
Interest on foreign debt	(556.0)	(495.3)	(847.0)	(1,857.0)	(1,511.0)	(5,250.0)	(7,273.0)
Interest on domestic debt	(228.9)	(190.7)	(221.2)	(440.0)	(242.7)	(606.0)	(682.7)
Transfers and subsidies	(674.4)	(987.5)	(917.8)	(814.0)	(940.6)	(1,295.0)	(861.7)
Other	(1,710.0)	(3,499.0)	(3,341.0)	(4,915.1)	(5,500.4)	(7,013.0)	(6,720.6)
Capital expenditure	744.9	1,084.9	726.9	834.0	647.1	1,400.0	1,057.0
Overall budgetary surplus or deficit (-)	-1,392.2	-2,778.2	-2,227.0	-1,038.0	-1,108.0	250.0	-413.0
Financing	1,392.2	2,778.2	2,227.0	1,038.0	1,108.0	-250.0	413.0
Domestic	1,454.2	3,273.9	2,400.0	2,400.0	2,364.0	2,600.0	2,800.0
Banking system (net)	1,454.2	3,273.9	2,400.0	2,400.0	2,364.0	2,600.0	2,600.0
Other	--	--	--	--	--	--	200.0
Foreign (net)	-62.0	-495.7	-173.0	-1,362.0	-1,256.0	-2,850.0	-2,387.0
Borrowing	264.0	--	--	--	--	--	--
Amortization	-326.0	-495.7	-173.0	-1,362.0	-1,256.0	-2,850.0	-2,387.0
Memorandum items:	(In percent of GDP)						
Total budgetary revenue	20.6	19.7	...	19.7	19.6	23.3	24.4
Total budgetary expenditure	26.5	28.4	...	21.6	21.6	23.0	24.9
Overall budgetary surplus or deficit (-)	-5.9	-8.7	...	-1.9	-2.0	0.3	-0.5
Overall consolidated deficit	-6.2	-11.7	...	-4.5	-4.7	-2.9	-3.1
Domestic bank financing	6.2	10.3	...	4.3	4.2	3.0	3.1
(In millions of zaires)							
Identified arrears (stock) 5/ 6/	...	4,565.2	...	...	7,857.7	...	1,366.0
Domestic counterpart of external arrears	(933.3)	(4,068.4)	(...)	(...)	(5,966.2)	(...)	(--)
Nondebt arrears (domestic and foreign)	(...)	(496.8)	(...)	(1,556.0)	(1,891.5)	(1,200.0)	(1,366.0)

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

1/ Cash basis; excluding government outlays financed directly through foreign loans and grants.

2/ Including the impact of the large devaluation of the zaire.

3/ Provisional.

4/ Indicative.

5/ End of period.

6/ Foreign arrears valued at end of period exchange rate.

Table 4. Zaire: Monetary Survey, 1981-84 ^{1/}

(In millions of zaires; end of period)

	1981	1982	1983				1984			
	Dec.	Dec. ^{1/}	March	June	Sept.	Dec.	March ^{2/}	June ^{2/}	Sept. ^{3/}	Dec. ^{3/}
Net foreign assets (broad)	-2,092.0	-4,589.6	-4,722.4	-4,956.1	-20,364.5	-21,737.7	-25,413.9	-29,262.8	-29,557.0	-30,166.0
Net foreign assets (narrow)	-1,912.0	-3,427.0	-3,569.9	-3,576.9	-16,855.1	-18,810.7	-22,348.9	-25,482.8	-25,857.0	-26,216.0
Foreign assets	(2,230.7)	(1,596.3)	(1,558.1)	(1,496.7)	(6,590.8)	(9,316.7)	(9,788.1)	(10,070.0)	(11,310.0)	(12,600.0)
Foreign liabilities	(-4,142.7)	(-5,023.3)	(-5,128.0)	(-5,073.6)	(-23,445.9)	(-28,127.4)	(-32,137.0)	(-35,552.8)	(-37,167.0)	(-38,816.0)
Provision for external arrears other than on public debt service	(-1,495.9)	(-1,314.3)	(-1,301.6)	(-1,282.5)	(-5,499.7)	(-5,753.2)	(-6,657.0)	(-6,741.2)	(-6,505.2)	(-6,248.0)
Foreign currency deposits	-180.0	-1,163.1	-1,152.5	-1,379.2	-3,509.4	-2,927.0	-3,065.0	-3,420.0	-3,700.0	-3,950.0
Net domestic assets	5,219.0	10,554.0	11,601.6	11,959.6	12,632.4	14,184.0	16,509.1	17,189.1	18,297.1	18,934.1
Net claims on Government	3,783.6	7,887.7	7,761.0	7,926.4	8,888.6	10,252.2	11,837.2	11,937.2	12,565.2	12,852.2
Credit to enterprises and households	1,342.4	1,931.1	2,139.1	2,430.5	2,724.5	2,881.8	3,471.9	3,931.9	4,331.9	4,631.9
Other net domestic assets	93.0	735.2	1,701.5	1,602.7	1,019.3	1,050.0	1,200.0	1,320.0	1,400.0	1,450.0
Money and quasi-money	4,644.9	8,057.4	8,448.4	9,172.9	11,300.9	14,001.9	16,805.3	17,210.3	18,311.0	18,991.0
Revaluation gains and losses and other adjustments	-2,065.9	-2,641.0	-2,116.8	-2,717.4	-21,469.7	-23,992.3	-28,781.1	-32,821.0	-33,138.9	-33,882.9
SDR allocation counterpart	548.0	548.0	548.0	548.0	2,436.7	2,436.7	3,071.0	3,537.0	3,568.0	3,660.0

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

^{1/} The data from December 1982 onward are not strictly comparable with those of the earlier period because of extensive revisions to the classification of monetary aggregates following technical assistance from the Fund's Bureau of Statistics.^{2/} Program ceilings.^{3/} Targets.

Table 5. Zaire: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
1. Measures taken before Executive Board consideration of the program	
a. Devaluation of the official rate for the zaire by 77.5 percent in SDR terms	Implemented September 12, 1983
b. Introduction of a temporary dual exchange rate arrangement; the spread between the official and free rates set at 10 percent	Implemented September 12, 1983
c. Initiation of the second phase of the exchange rate arrangement, with the free float of the zaire on an interbank exchange market; the spread between the official and free rates brought under to 5 percent	Implemented October 14, 1983
d. Rescheduling of official debt to the Paris Club	Implemented December 20, 1983
e. Elimination of the 30 percent foreign exchange surrender requirement of the commercial banks to the Bank of Zaire and of most resident foreign currency accounts	Implemented September 12, 1983
f. Liberalization of the foreign exchange allocation system applicable to commercial banks, with banks being free to allocate up to 75 percent of their export earnings	Implemented September 12, 1983
g. Rationalization and simplification of import licensing regulations	Implemented September 12, 1983
h. Simplification of rental income tax administration	Implemented February 23, 1983
i. Revaluation of fixed corporate assets	Implemented February 25, 1983

Table 5 (continued). Zaire: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
j. Increase in excise taxes on beer, cigarettes, and petroleum products by 200-400 percent	Implemented September 12, 1983
k. Adjustment in customs duties, e.g., decrease in rate on essential food and nonfood products from 10-20 percent to 3 percent; increase on luxury items from 50-130 percent to 100-200 percent	Implemented September 12, 1983
l. Adopting a new fiscal regime for GECAMINES	Implemented September 12, 1983
m. (i) Strengthening of budgetary controls primarily through a progressive centralization of all government operations at the Ministry of Finance. All expenditure commitments are to be made solely through the Ministry	
(ii) Reintegration of the Central Pay Directorate into the Ministry	Implemented July 1983
n. Increase in the wage bill of the government sector by 20 percent	Implemented October 1, 1983
o. Quarterly targets established for 1983 for key expenditure categories, as well as for total budgetary expenditure	Implemented
p. De jure liberalization of all domestic retail prices	Implemented September 12, 1983
q. Increases in petroleum retail prices	Implemented September 18, 1983
r. Public utility tariffs, including electricity and public transport, increase substantially	Implemented November-December 1983

Table 5 (continued). Zaire: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
s. Increase in Bank of Zaire's rediscount rate from 15 to 20 percent; interest rates charged on advances to the Treasury raised from 3 percent to 7 percent; remuneration on Treasury bills raised from 4.75 percent to 10 percent	Implemented September 12, 1983
t. Liberalization of lending rates of commercial banks	Implemented September 12, 1983
2. Measures taken which were subject to the first review of the program	
a. Reduction of arrears on commercial and invisible payments by SDR 10 million in 1983	Implemented
b. Abolition of the dual exchange rate arrangement and unification of the official and free market rates	Implemented February 24, 1984
c. Issuance of a list of a very limited number of nonessential imports subject to prior authorization of the Bank of Zaire	Implemented December 7, 1983
d. Elimination of the foreign exchange allocation system applicable to commercial banks	Implemented March 1, 1984
3. Measures originally envisaged in the program to be implemented in 1984	
a. External commercial and invisible arrears reduced by SDR 40 million	Being implemented
b. Increase in tax rates on real property, revision and harmonization of individual income taxes, and extension of presumptive income taxation to liberal professions and services sector	Being implemented

Table 5 (continued). Zaire: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
c. Increase in the wage bill of the government sector by 17 percent effective April 1, 1984	Being implemented
d. Finalization of the comprehensive list of government employees	Being implemented
e. Establishment of a blocked account of the Bank of Zaire for external debt servicing	Implemented January 1984
4. Measures not originally envisaged in the program	
a. Limit placed on the global net foreign exchange position of commercial banks	Being implemented
b. Substantial downward revision of customs tariffs	Being implemented
c. Reinforcement of customs controls	Being implemented
d. Establishment of a number of fees and taxes, e.g., taxes on foreign residents, fees on drivers' licenses, taxes on hotels, restaurants, etc.	Being implemented
e. Current expenditure: cutback in nonwage expenditure of Z 840 million	Being implemented
f. Capital expenditure: cutback in non-priority projects of Z 340 million	Being implemented
g. Integration of Ministry of Portfolio into Ministry of Finance and Budget	Implemented January 1984
h. Placing the <u>budget pour ordre</u> under the direct control of the Ministry of Finance and Budget	Being implemented

Table 5 (concluded). Zaire: Implementation Status of the 1983/84 Adjustment Program

Policies and measures	Status of implementation
i. Increase in retail prices of diesel fuel and kerosene	Implemented March 26, 1984
j. Increase in effective minimum reserve requirement of commercial banks with the Bank of Zaire to 15 percent on March 30 and to 18 percent on April 30	Being implemented
k. Auction of Treasury bills and creation of domestic money market	Being implemented

Table 6. Zaire: Proposed Ceilings Under the Program for 1984

	1983	1984			
	Dec. <u>1/</u>	March <u>2/</u>	June <u>2/</u>	Sept. <u>3/</u>	Dec. <u>3/</u>
Net domestic assets of the banking system at end of period	14,184	16,509 <u>4/</u>	17,189 <u>4/</u>	18,297	18,934
Net credit of the banking system to the Government at end of period	10,252	11,837 <u>4/</u>	11,937 <u>4/</u>	12,565	12,852
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange by end of period	12	8	20	30	40
New external borrowing, on a commitment basis, by the Government or against government guarantee through end of period <u>5/</u>					
a. 1-12 years' maturity	--	150	150	150	150
b. 1-5 years' maturity	--	40	40	40	40

1/ Actuals.

2/ Performance criteria.

3/ Targets.

4/ These amounts are based on the assumptions that (a) external debt service payments by the Treasury will amount to the equivalent of US\$86 million during the period January-March 1984 and the equivalent of US\$140 million through the end of June 1984; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US\$46 million at the end of December 1983, will be reduced by US\$5 million by end-March 1984 and by US\$10 million by end-June 1984; (c) arrears in domestic payments, which amounted to Z 506 million at the end of 1983, will be reduced by Z 75 million in each of the first two quarters; (d) in the event that the outstanding stock of Treasury bills exceeds Z 200 million before end-June 1984, the excess amount will first be used to reduce domestic arrears over and above the amount indicated in (c) above and then the remainder will be used to reduce the advances of the Bank of Zaire to the Treasury. In the event that actual payments fall short of the amounts indicated in (a) or (b), all the credit targets and performance criteria will be reduced by equivalent amounts; should the actual payments fall short of the amounts indicated in (c), only the targets and performance criterion relating to net bank credit to the Government will be reduced by equivalent amounts.

5/ These ceilings for 1984 were approved under the stand-by arrangement in EBS/83/257, 11/30/83. They exclude concessional loans.

Table 7. Zaire: Medium-Term Balance of Payments Outlook, 1983-90

(In millions of SDRs)

	1983 <u>1/</u>	1984	1985	1986	1987	1988	1989	1990
Trade	383	430	530	640	730	840	900	920
Exports (f.o.b.)	1,424	1,520	1,670	1,840	2,020	2,220	2,370	2,510
Imports (f.o.b.)	-1,041	-1,090	-1,140	-1,200	-1,290	-1,380	-1,470	-1,590
Services	-821	-904	-900	-955	-985	-1,010	-1,005	-1,025
Receipts	94	104	120	135	150	170	190	205
Expenditure	-915	-1,003	-1,020	-1,090	-1,135	-1,180	-1,195	-1,230
Of which:								
freight and insurance	(-236)	(-244)	(-250)	(-265)	(-285)	(-300)	(-320)	(-350)
IMF charges <u>2/</u>	(-42)	(-50)	(-55)	(-53)	(-40)	(-28)	(-17)	(-14)
interest on public debt	(-263) <u>3/</u>	(-334) <u>4/</u>	(-353) <u>5/</u>	(-387) <u>5/</u>	(-410) <u>5/</u>	(-432) <u>5/</u>	(-411) <u>5/</u>	(-376) <u>5/</u>
Unrequited transfers	138	155	170	185	195	205	215	220
Current account balance	-300	-314	-200	-130	-60	35	110	115
Public capital	-211	-123	-165	-108	-71	-59	-68	74
Disbursements	132	230	270	320	370	430	490	500
Amortization <u>3/</u>	-343 <u>3/</u>	-353 <u>4/</u>	-435 <u>5/</u>	-428 <u>5/</u>	-441 <u>5/</u>	-489 <u>5/</u>	-558 <u>5/</u>	-426 <u>5/</u>
Private capital	78 <u>6/</u>	--	10	15	20	25	40	40
Overall balance (deficit -)	-433	-437	-355	-238	-111	1	82	229
Financing items	433	437	355	238	111	-1	-82	-229
Arrears (reduction -)	-480	-40	...	...	...	...	...	...
Reserves (increase -)	-52	-22	...	...	...	...	-3	-184
Net Fund credit	104	95	-34	-94	-130	-165	-79	-45
Purchases	114	158	70	...	...	...	...	...
Of which: CFF	(114)	(--)	(--)	(...)	(...)	(...)	(...)	(...)
Repurchases <u>2/</u>	-10	-63	-104	-94	-130	-165	-79	-45
Of which: CFF <u>2/</u>	(--)	(--)	(-40)	(-53)	(-71)	(-57)	(--)	(--)
Gap	--	--	439	332	241	164	--	--
Rescheduling	861 <u>7/</u>	404 <u>8/</u>	...	...	...	...	--	--
Memorandum item:								
Average export unit value of copper in U.S. cents per pound	71	72	80	88	95	100	105	110

Sources: Program for 1983-84; and staff projections for 1985-90.

1/ Preliminary.2/ Based on use of Fund resources as of end-March 1985.3/ Contractual amount due before rescheduling.4/ Contractual amount due before rescheduling but including the effects of the 1983 Paris Club rescheduling of debt service payments due as of end-December 1983.5/ Contractual amounts falling due in each year after taking into account the effects of the 1983 Paris Club and the 1984 non-Paris Club reschedulings and including the debt service payments associated with additional financing required to close the overall balance of payments gap each year.6/ Includes errors and omissions.7/ 1983 Paris Club rescheduling of debt service payments due as of end-December 1983.8/ 1983 Paris Club and 1984 non-Paris Club reschedulings of debt service payments falling due in 1984.

Table 8. Zaire: Merchandise Exports, f.o.b., by Major Commodity, 1981-84

(Value in millions of U.S. dollars and in SDRs;
volume and unit price as indicated) 1/

	1981	1982	1983 Prel. actual	1984 Revised projections
GECAMINES exports				
Copper				
Value (US\$)	694.8	740.6	748.7	730.2
Value (SDRs)	588.6	670.8	700.1	676.1
Volume (tons)	404,575	508,211	479,761	460,000
Unit price (US\$/lb.)	0.779	0.661	0.708	0.720
Cobalt				
Value (US\$)	158.3	182.8	121.4	158.8
Value (SDRs)	134.6	164.7	113.5	147.0
Volume (tons)	3,394	7,264	9,466	10,314 2/
Unit price (US\$/lb.)	18.56	9.96	5.82	6.98
Zinc				
Value (US\$)	71.2	43.1	49.5	59.4
Value (SDRs)	61.2	39.3	46.3	55.0
Volume (tons)	87,778	54,979	66,554	74,800
Unit price (US\$/lb.)	0.363	0.356	0.34	0.36
Silver				
Value (US\$)	19.9	18.0	13.3	18.9
Value (SDRs)	16.9	16.2	12.4	17.5
Volume (Kgs) 3/	57,490	71,774	33,141	46,400
Unit price (US\$/t.oz.)	9.82	7.11	11.34	11.50
Cadmium				
Value (US\$)	0.5	0.7	0.5	0.5
Value (SDRs)	0.5	0.7	0.5	0.5
Volume (tons)	129	260	275	275
Unit price (US\$/lb.)	1.76	1.22	0.82	0.85
Gold				
Value (US\$)	1.4	1.2	1.2	1.5
Value (SDRs)	1.2	1.2	1.1	1.4
Volume (kgs) 4/	84.0	94.0	79.5	95.0
Unit price (US\$/t.oz.)	472.49	361.91	426.7	460.0
F.M.M. 5/				
US\$	-203.4	-173.8	-114.6	-95.8
SDRs	-172.5	-157.4	-107.2	-88.7
Subtotal				
US\$	742.7	812.7	820.9 6/	873.5
SDRs	630.5	735.5	767.5 6/	808.8
Non-GECAMINES exports				
Copper (SODIMIZA)				
Value (US\$)	61.8	50.1	32.5	47.6
Value (SDRs)	52.4	45.4	30.4	44.1
Volume (tons)	35,989	34,400	...	30,000
Unit price (US\$/lb.)	0.779	0.661	...	0.720

Table 8 (concluded). Zaire: Merchandise Exports, f.o.b.,
by Major Commodity, 1981-84

(Value in millions of U.S. dollars and in SDRs;
volume and unit price as indicated) ^{1/}

	1981	1982	1983 Prel. actual	1984 Revised projections
Gold ^{7/}				
Value (US\$)	23.2	21.9	62.7	70.6
Value (SDRs)	19.7	19.8	58.6	65.4
Volume (kgs)	1,401.0	1,866.0	5,449.7 ^{8/}	5,700.0 ^{9/}
Unit price (US\$/t.oz.)	468.6	332.7	325.2	350.0
Diamonds ^{10/}				
Value (US\$)	77.2	76.2	138.9	146.6
Value (SDRs)	65.5	69.0	129.9	135.7
Volume ('000 carats)	6,586	6,725	11,713	12,750
Unit price (US\$/carat)	11.72	11.33	11.86	11.50
Coffee				
Value (US\$)	111.8	105.0	116.5	120.6
Value (SDRs)	94.8	95.1	108.9	111.7
Volume (tons)	67,645	68,004	69,500	72,000
Unit price (US\$/lb.)	0.75	0.70	0.76	0.76
Rubber				
Value (US\$)	18.8	11.5	14.7	17.7
Value (SDRs)	15.9	10.4	13.7	16.4
Volume (tons)	18,509	14,930	15,890	17,500
Unit price (US\$/lb.)	0.46	0.35	0.42	0.46
Crude oil				
Value (US\$)	273.5	274.3	236.5	257.6
Value (SDRs)	231.9	248.5	221.2	238.5
Volume ('000 barrels)	7,668	8,108	8,460	9,200
Unit price (US\$/barrel)	35.67	33.83	27.96	28.00
Other exports				
Value (US\$)	93.6	93.0	100.4	107.4
Value (SDRs)	79.4	84.2	94.0	99.4
Adjustments				
Value (US\$)	97.2	10.2	--	--
Value (SDRs)	81.8	9.2	--	--
Total				
Value (US\$)	1,499.8	1,454.1	1,523.1	1,641.6
Value (SDRs)	1,271.9	1,317.1	1,424.2	1,520.0
Rate of change				
In SDRs (percent)	-18.8	3.6	8.1	6.7

Sources: Data provided by the Zairian authorities; and staff projections.

^{1/} Exchange rates used: SDR 1 = US\$1.17916 for 1981; SDR 1 = US\$1.10401 for 1982; SDR 1 = US\$1.06938 for 1983; and SDR 1 = US\$1.08 for 1984. Measure conversion rates used: metric ton = 2,204.7 pounds; troy ounce = 35.374 grams; and carat = 200 milligrams.

^{2/} Including a sale of 1,814 tons at US\$5.5 per pound to the U.S. General Services Administration.

^{3/} 96.8 percent pure.

^{4/} 99.0 percent pure.

^{5/} Marketing and financing costs (frais de mise sur marché).

^{6/} Including a small amount of germanium exports (US\$0.9 million, or SDR 0.8 million).

^{7/} KILOMOTO, SOMINKI, and authorized purchasing units.

^{8/} Including 850 kg. exported by KILOMOTO and SOMINKI.

^{9/} Including 950 kg. exported by KILOMOTO and SOMINKI.

^{10/} MIBA, SOZACOM, and diamonds.

Table 9. Zaire: External Debt Service Projections, 1983-90

(In millions of SDRs)

	1983 ^{1/}	1984	1985	1986	1987	1988	1989	1990
Financial flows								
A. Exports of goods and services	1,518.0	1,624.0	1,790.0	1,975.0	2,170.0	2,390.0	2,560.0	2,720.0
B. Official capital disbursements	132.0	230.0	270.0	320.0	370.0	430.0	490.0	500.0
Of which: on new borrowings	(14.0)	(85.0)	(160.0)	(250.0)	(320.0)	(400.0)	(480.0)	(500.0)
C. Debt relief, total	335.5	404.0	...	...	...	...	--	--
Interest, Paris Club	(110.0)	(107.0)	(...)	(...)	(...)	(...)	(--)	(--)
Principal, Paris Club	(225.5)	(254.6)	(...)	(...)	(...)	(...)	(--)	(--)
Interest, non-Paris Club	(--)	(9.0)	(...)	(...)	(...)	(...)	(--)	(--)
Principal, non-Paris Club	(--)	(33.4)	(...)	(...)	(...)	(...)	(--)	(--)
D. Fund purchases	114.5	158.0	70.0	...	...	...	--	--
Service on								
A. Debt outstanding								
as of end-1983 ^{2/}	604.5 ^{3/}	560.1	578.6	551.0	485.4	444.1	398.0	196.8
Interest	(262.0)	(226.5)	(175.5)	(151.8)	(118.8)	(90.1)	(63.2)	(33.2)
Amortization	(342.5)	(333.6)	(403.1)	(399.2)	(366.6)	(354.0)	(334.8)	(153.6)
B. Effects of 1983 Paris Club reschedulings	--	120.4	164.7	136.6	157.9	175.5	249.5	287.0
Interest	(--)	(101.6)	(136.6)	(136.6)	(136.6)	(132.9)	(128.2)	(108.5)
Amortization	(--)	(18.8)	(28.1)	(--)	(21.3)	(42.6)	(121.3)	(178.5)
C. Effects of 1984 non-Paris Club reschedulings	--	--	27.6	27.6	27.6	40.1	51.7	51.7
Interest	(--)	(--)	(27.6)	(27.6)	(27.6)	(27.6)	(27.7)	(23.5)
Amortization	(--)	(--)	(--)	(--)	(--)	(12.5)	(25.0)	(28.2)
D. Projected disbursements from new borrowings after 1983 ^{4/}								
Interest	1.0	6.3	17.3	34.9	55.9	80.6	103.3	134.1
Amortization	(0.9)	(6.1)	(13.8)	(23.8)	(37.9)	(54.2)	(70.5)	(93.0)
Amortization	(0.1)	(0.2)	(3.5)	(11.1)	(18.0)	(26.4)	(32.8)	(41.1)
E. Subtotal (A + B + C + D)	605.5	686.8	788.2	750.1	726.6	740.2	802.6	669.7
Interest	(262.9)	(334.2)	(353.4)	(339.8)	(320.8)	(304.7)	(288.6)	(258.2)
Amortization	(342.6)	(352.6)	(434.8)	(410.3)	(405.8)	(435.5)	(514.0)	(411.5)
F. Payments to IMF	51.8	112.4	159.0 ^{5/}	147.0 ^{5/}	169.9 ^{5/}	193.3 ^{5/}	95.9 ^{5/}	58.5 ^{5/}
Charges	(41.8)	(49.6)	(55.2)	(53.0)	(39.6)	(28.0)	(17.1)	(13.8)
Repurchases	(10.0)	(62.8)	(103.8)	(94.0)	(130.0)	(165.3)	(78.8)	(44.7)
G. Total (E + F)	657.3	799.2	947.2 ^{6/}	897.1 ^{6/}	896.2 ^{6/}	933.5 ^{6/}	898.5 ^{6/}	728.2 ^{6/}
Interest	(304.7)	(383.8)	(408.6)	(392.8)	(360.4)	(332.7)	(305.7)	(272.0)
Amortization	(352.6)	(415.4)	(538.6)	(504.3)	(535.8)	(600.8)	(592.8)	(456.2)
Memorandum item:								
Debt service ratio ^{7/}								
Excluding IMF	39.9	42.3	44.0	38.0	33.5	31.0	31.3	24.6
Including IMF	43.3	49.2	52.9	45.4	41.3	39.1	35.1	26.8

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

^{1/} Preliminary.^{2/} Contractual amounts due before rescheduling.^{3/} Based on debt outstanding as of end-1982 and including actual payments on account of arrears as of end-1982.^{4/} Assumes new borrowings after 1983 with the proportion of concessional loans projected at 80-85 percent of the total. The terms for concessional loans are assumed to be 3 percent interest and a grace period exceeding 8 years; for nonconcessional loans, the terms assumed are 13 percent interest, 2 years' grace period, and 8 years' maturity.^{5/} Based on net Fund credit projected for end-March 1985.^{6/} Excluding the effects of any additional financing which would be required to close the overall balance of payments financing gaps.^{7/} Total debt service payments due as a percentage of exports of goods and services.

Zaire - Relations with the Fund

(As of March 30, 1984)

I. Membership Status

- (a) Date of membership: September 28, 1963
- (b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 291 million
- (b) Total Fund holdings of Zaire's currency: SDR 806.9 million,
277.26 percent of quota
- (c) Fund credit: SDR 510.9 million, 175.6 percent of quota
Of which: credit tranches: SDR 289.5 million, 99.5 per-
cent of quota
special facilities: SDR 221.4 million, 76.1
percent of quota

III. Current Stand-By or Extended Arrangement and Special Facilities

- (a) Current stand-by arrangement:
 - (i) Duration: December 1983-March 1985
 - (ii) Amount: SDR 228 million
 - (iii) Utilization: SDR 36 million
 - (iv) Undrawn balance: SDR 192 million
- (b) Previous stand-by and extended arrangements:
 - (i) EFF; June 22, 1981-June 21, 1984; SDR 912 million;
Amount drawn: SDR 175 million; canceled June 21, 1982.
 - (ii) SBA; August 27, 1979-February 26, 1981; SDR 118 million;
Amount drawn: SDR 118 million.
 - (iii) SBA; April 25, 1977-April 24, 1978; SDR 45 million;
Amount drawn: SDR 5 million.
 - (iv) SBA; March 22, 1976-March 21, 1977; SDR 40.96 million;
Amount drawn: SDR 40.96 million.
- (c) Special facilities:
 - (i) CFF; December 16, 1983; SDR 114.5 million.
 - (ii) CFF; March 19, 1982; SDR 106.9 million.
 - (iii) CFF; April 25, 1977; SDR 28.25 million.
 - (iv) CFF; March 22, 1976; SDR 56.5 million.

Zaire - Relations with the Fund (continued)

IV. SDR Department

- (a) Net cumulative allocation: SDR 86.3 million
- (b) Holdings: SDR 1.5 million, equivalent to 1.7 percent of net cumulative allocation

V. Administered Accounts

- (a) Trust Fund Loans
 - (i) Disbursed: SDR 110.43 million
 - (ii) Outstanding: SDR 101.98 million

B. Nonfinancial Relations

VI. Exchange rate arrangement: The zaire was pegged to the SDR until September 9, 1983, when the rate was Z 1 = SDR 0.15750. Effective September 12, 1983 a dual floating exchange rate system was introduced, and the first weekly official rate was set at the equivalent of Z 1 = SDR 0.03542. As of February 24, 1984, the official rate was unified with the free market rate at Z 1 = SDR 0.028686.

VII. Last Article IV consultation: Discussions were initiated in Kinshasa during May 9-21, 1983. Subsequently, in connection with negotiations on an adjustment program, discussions were continued in Kinshasa during the period July 5-20, 1983, and they were concluded in Washington during August 2-9, 1983. The Executive Board discussed the staff report for the 1983 Article IV consultation and request for stand-by arrangement, along with a request for a purchase under the compensatory financing facility, on December 16, 1983 (EBS/83/257). The Executive Board adopted the following decisions:

(i) 1983 Consultation

1. The Fund takes this decision relating to Zaire's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Zaire, in the light of the 1983 Article IV consultation with Zaire conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zaire maintains restrictions on payments and transfers for current international transactions, including external payments arrears, and a multiple currency practice resulting from the introduction of a dual exchange rate arrangement as described

Zaire - Relations with the Fund (concluded)

in EBS/83/257. The Fund welcomes the liberalization of the exchange and trade system effective September 12, 1983, and notes the intention of the authorities to unify the exchange rate system by February 29, 1984. The Fund urges the authorities to remove the remaining restrictions on payments and transfers for current international transactions as soon as possible. In the meantime, in light of Zaire's adoption of comprehensive policies for balance of payments adjustment supported by the stand-by arrangement contained in EBS/83/257, the Fund grants approval for the maintenance of the multiple currency practice resulting from the dual exchange rate arrangement until the completion of the first review under the stand-by arrangement; the Fund also grants approval for the retention of the existing exchange restrictions, including external payments arrears, until December 31, 1984, or the completion of the 1984 Article IV consultation with Zaire, whichever is earlier. The Fund urges Zaire to terminate the bilateral payments agreements with Fund members as soon as possible.

(ii) Stand-by Arrangement

1. The Government of Zaire has requested a stand-by arrangement in an amount equivalent to SDR 228 million for a period of 15 months.

2. The Fund approves the stand-by arrangement attached to EBS/83/257, subject to 3 below, and waives the limitation in Article V, Section 3(b)(iii).

3. The stand-by arrangement set forth in EBS/83/257 shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for the reduction of Zaire's debt service obligations for 1983 and 1984 to a level consistent with Zaire's program.

VIII. Technical Assistance: Six CBD experts, including a Principal Manager, are currently serving in the Bank of Zaire.

Zaire - Relations with the World Bank Group

(In millions of U.S. dollars)

A. <u>Overall IBRD/IDA operations</u> (as of December 31, 1983)	<u>Disbursed</u>		<u>Undisbursed</u>	
	IBRD	IDA	IBRD	IDA
Agriculture and livestock	--	42.8	--	60.3
Development finance	--	48.7	--	26.9
Education	--	8.6	--	--
GECAMINES	100.0	--	--	6.8
Water supply	--	25.4	--	14.1
Transportation	--	129.7	--	94.7
Energy	--	1.6	--	36.2
Total	100.0	256.8	--	239.0
Of which: repaid	(35.0)	(1.6)	--	--
Total outstanding	65.0	255.2	--	239.0
 B. <u>IFC investments</u> 1/ (as of December 31, 1983)	<u>Disbursed</u>		<u>Undisbursed</u>	
Total	5.1		--	
Of which: repaid	(3.7)		--	
Total outstanding	1.4		--	

Memorandum items:

<u>Annual IBRD/IDA</u> <u>operations</u>	<u>Commitments</u> 2/	<u>Disbursements</u> 3/	<u>Repayments</u>
1977	18.0	56.4	--
1978	9.0	44.7	--
1979	46.0	27.9	6.0
1980	35.9	43.0	6.5
1981	28.9	17.5	6.1
1982	118.3	38.4	8.0
1983 3/	64.5	42.0	8.4
1984 4/	98.0	37.5	8.9

Source: World Bank Group.

1/ Loans and equity.

2/ As of July 1, 1980 credits were denominated in SDRs calculated at the time of commitment.

3/ For credits after July 1, 1980 calculated in SDRs, the exchange rate utilized is December 31, 1983.

4/ Projected.

Zaire: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982	1983		1984	
				Program	Actual	Program	Revised projections
<u>(Annual percent changes, unless otherwise specified)</u>							
National income and prices							
GDP at constant prices	2.4	2.4	-1.0	1.0	0.5	2.0	1.5
GDP deflator	51.2	34.0	37.2	68.0	76.0	47.0	49.0
Consumer prices	46.7	35.4	37.2	68.0	76.0	47.0	49.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	10.3	-18.8	3.5	4.4	8.1	10.8	6.7
Copper exports, f.o.b.	40.1	-20.1	14.0	2.5	4.4	7.5	-3.4
Imports, c.i.f.	21.0	0.4	-6.2	1.8	2.1	6.3	4.5
Non-oil imports, f.o.b.	17.9	-9.0	-3.4	2.7	3.7	5.6	5.1
Export volume	-4.2	-14.4	13.3	2.7	7.9	4.5	5.6
Import volume	-7.6	-5.7	-7.8	-0.3	0.5	1.6	1.6
Terms of trade (deterioration -)	3.1	-7.5	-8.9	-0.5	-1.2	1.7	-1.6
Nominal effective exchange rate (depreciation -) <u>1/</u>	-38.5	-23.3	-13.0	...	-51.3	...	...
Real effective exchange rate (depreciation -) <u>1/</u>	-20.9	-5.6	10.1	...	-22.9	...	...
Government budget							
Total revenue	93.7	30.0	28.8	76.8	75.7	84.4	88.8
Total expenditure (excluding amortization)	61.0	68.8	44.6	33.9	34.0	66.5	75.0
Money and credit							
Net domestic assets (end of period)	45.1	54.4	77.3	51.9	34.4	34.6	33.5
Government	13.0	62.4	86.5	34.0	30.0	27.5	25.4
Private sector	15.4	32.3	46.9	65.9	49.2	58.1	60.7
Money and quasi-money (end of period)	61.5	37.9	72.6	50.5	73.8	35.1	35.6
Velocity (GDP relative to M ₂ average)	6.2	5.8	5.1	5.6	5.5	5.7	5.6
Interest rates (end of period)							
Bank of Zaire basic rediscount rate	12.0	15.0	15.0	20.0	20.0	...	20.0
Commercial banks							
Rediscountable short-term loan rate for noncoffee agricultural production	7.5	11.0	11.0	15.0	15.0	...	15.0
Rediscountable short-term loan rate for other productive activities	7.5	11.0	11.0	freely negotiable			
6-12 months' time deposit rate	15.0	20.0	20.0	20.0	20.0	...	...
12-24 months' time deposit rate	25.0	30.0	30.0	30.0	30.0	...	...

Zaire: Selected Economic and Financial Indicators, 1980-84 (concluded)

	1980	1981	1982	1983		1984	
				Program	Actual	Program	Revised projections
<u>(In percent of GDP)</u>							
Government budget surplus or deficit (-)	0.2	-5.9	-8.7	-1.9	-2.0	0.3	-0.5
Domestic bank financing (net)	1.6	6.2	10.2	4.4	4.2	3.2	3.1
Foreign financing (net)	-1.8	-0.3	-1.5	-2.5	-2.2	-3.5	-2.8
Overall government deficit (-)	-1.0	-6.2	-11.7	-4.5	-4.7	-2.9	-3.1
Gross domestic investment	19.9	19.8	17.6	21.7	17.8	...	...
Gross domestic savings	18.9	14.8	14.8	19.4	15.0	...	...
External current account deficit (-)							
Before rescheduling							
Including official transfers <u>2/</u>	-2.5	-7.9	-7.8	-5.4	-7.3	-8.6	-15.2
Excluding official transfers <u>2/</u>	-6.8	-12.4	-10.6	-9.6	-10.7	-16.1	-23.6
After rescheduling							
Including official transfers <u>2/</u>	...	-5.2	-7.0	-2.8	-4.7	-4.3	-9.6
Excluding official transfers <u>2/</u>	...	-9.8	-10.0	-6.9	-8.5	-11.8	-18.0
External medium- and long-term debt inclusive of use of Fund credit	73.0	82.9	81.5	...	110.8 <u>3/</u>	...	...
Debt service ratio (in percent of exports of goods and services) <u>4/</u>	21.6	24.9	17.9	18.4	18.4	28.1	26.9
<u>(In millions of SDRs, unless otherwise specified)</u>							
External current account deficit (-)							
Before rescheduling	-116	-360	-392	-240	-300	-230	-314
After rescheduling	...	-239	-353	-122	-190	-116	-198
Overall balance of payments deficit (-)							
Before rescheduling	-180	-612	-598	-452	-433	-400	-437
After rescheduling	...	-327	-480	-86	-97	-16	-33
Gross official reserves <u>5/</u> (weeks of imports, c.i.f.)	6	5	1	2	2	3	3
External payments arrears	450	530	848	...	372 <u>6/</u>	...	...
Of which: commercial and invisible	(417)	(383)	(207)	(197)	(183)	(157)	...

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

1/ Annual averages.

2/ The ratio of the current account deficit to GDP is substantially underestimated for the period prior to September 1983 due to the overvalued official exchange rate at which conversions into SDRs were made.

3/ Including rescheduled and capitalized moratorium interest under the December 1983 Paris Club rescheduling.

4/ Based on actual payments; includes reduction of commercial arrears by cash payments and Fund charges and repurchases.

5/ Excluding gold, most of which is pledged.

6/ After taking into account the effects of the December 1983 Paris Club rescheduling.

Kinshasa, March 26, 1984

Mr. Jacques de Larosière,
Managing Director
International Monetary Fund
Washington D.C., 20431

Dear Mr. de Larosière,

1. Under the stand-by arrangement approved by the International Monetary Fund on December 27, 1983, there were to be two comprehensive reviews of progress under the program. The first review, to assess economic and financial developments in 1983 and reach understandings on policies and performance criteria for 1984, was carried out with the Fund staff in February. In light of these discussions, the Executive Council decided to undertake a series of measures during the forthcoming months involving monetary and fiscal policies, the exchange rate system, and trade policies.

2. In 1983, the Executive Council implemented the policies and measures contained in its Memorandum of September 12, 1983, which formed the basis of the program of economic and financial adjustment for 1983 and 1984. Following the major exchange rate reform of September 12, 1983, an interbank foreign exchange market was established to freely determine the exchange rate for the zaire; during a transition period thereafter, the margin between the official and free market rates was kept within 10 percent until October 15, within 5 percent until December 30, and within 2.5 percent until unification of the two rates on February 24, 1984.

3. As a complement to the exchange reform, virtually all the measures to liberalize and simplify the exchange and trade system were implemented. A list of nonessential imports which require prior approval of the Bank of Zaire was issued on September 12, 1983. This list was reduced considerably on November 25, 1983, along with the list of prohibited imports. Simultaneously, the remaining quantitative restrictions on imports of cotton textiles and used vehicles were abolished. Also, as of March 1, 1984, the 25 percent limit on payments for invisibles, which was the remaining restrictive element of the foreign exchange allocation system was abolished. Finally, as of the end of February 1984, only travel agencies and shipping companies are allowed to maintain resident foreign currency accounts.

4. Regarding the balance of payments, exports in 1983 were higher than projected in the program, amounting to SDR 1,424 million. This performance was accounted for by higher export volumes of cobalt, zinc, diamonds, and crude oil. Imports and services, including interest due

on medium- and long-term external debt and relatively large actual payments on arrears, increased moderately, while net unrequited transfers were lower than projected in the program. Before rescheduling, at SDR 300 million the current account deficit was higher than expected. As a result of the December 20, 1983 Paris Club rescheduling, Zaire obtained debt relief of SDR 861 million from the Paris Club creditors including SDR 336 million on account of debt service payments due in 1983, SDR 428 million on account of outstanding arrears at end-1982, and SDR 97 million of capitalized moratorium interest for 1983. Although capital inflows continued to be very low, given the large amortization due on medium- and long-term debt, the overall balance of payments deficit is estimated to have amounted to SDR 433 million compared with SDR 452 million in the program. However, taking into account the impact of the Paris Club rescheduling, the current account deficit for 1983 is estimated at SDR 190 million and the overall deficit at SDR 97 million. This includes the reduction of commercial and invisible payments arrears by SDR 12 million through cash payments in foreign exchange, compared with a minimum reduction of SDR 10 million set as a performance criterion in the program.

5. The austerity fiscal program adopted by the Government in early 1983, and subsequently reinforced in support of the exchange reform of September 1983, achieved its targets for 1983. The overall budgetary deficit, excluding foreign-financed outlays, was reduced from 8.7 percent of GDP in 1982 to 2 percent in 1983; accordingly, net government borrowing from the banking system was cut from Z 3.3 billion in 1982 to Z 2.4 billion in 1983, notwithstanding sizable external debt amortization equivalent to US\$102 million compared with a programmed US\$82 million. In relation to the money stock at the beginning of each year, net government borrowing from the banking system declined sharply from 70 percent in 1982 to 29 percent in 1983. This positive fiscal outcome was due to the fact that budgetary revenue and expenditure were on target. Total budgetary revenue amounted to Z 11 billion, recording a net gain of Z 4.7 billion over the 1982 level, equivalent to 8.4 percent of GDP, which reflects essentially the large exchange rate adjustment and the adoption of the new fiscal regime for GECAMINES. Budgetary revenue would have been higher had it not been adversely affected by a shortage of liquidity of enterprises in late 1983, and the deterioration in customs compliance and enforcement attributable to the administrative difficulties which the Customs and Excise Office (OFIDA) experienced during the last few months of 1983. Total budgetary expenditure was on target, amounting to Z 12.1 billion despite the sharp acceleration in the last months of 1983. As a result most key expenditure targets were met, including that for salary payments to primary and secondary schoolteachers; however, overruns still occurred in certain areas, notably on expenditures of the Political Institutions which exceeded the program target by almost 1 percent.

6. During 1983, the flow of credit to the Government as well as to enterprises and households, and the increase in net domestic assets of the banking system was kept within the increases foreseen in the program. However, due to revisions of the base period monetary aggregates (as part of an overall revision of monetary statistics with technical assistance from the Fund) the stock of net domestic assets at end-1982 and end-1983, as well as the stock of net credit to the Government were adjusted upwards, causing a breach of the ceilings for December 1983. In view of the foregoing, the Executive Council requests the Fund to waive the observance of these performance criteria for end-December 1983. Overall credit expansion to the economy was about 34 percent during 1983, less than half the estimated inflation rate of 76 percent for the year as a whole. Money supply nevertheless expanded faster than had been expected, by 74 percent at the end of the year, in part due to a sharp acceleration of government payments in November and December, and also as a direct consequence of the abolition of resident foreign currency accounts.

7. The injection of liquidity into the economy in the closing months of 1983 led, in January and February, to a softening of the exchange rate for the zaire on the interbank market notwithstanding intervention by the Bank of Zaire. Furthermore, there was a consequent revival of the parallel market, to which the weakening of customs controls contributed. At the end of February the dollar was worth Z 33 on the interbank market, and an increasingly large imbalance between buying and selling bids had developed on the interbank market with most banks wishing only to buy foreign exchange. The Bank of Zaire's cash reserves, as defined by the daily foreign exchange position, had fallen to about US\$4 million. In order to contain the erosion of the exchange rate and inflation, the Executive Council decided to take a series of measures to contain the budgetary deficit, restrain the expansion of liquidity in the economy, strengthen customs controls, establish a domestic money market yielding remunerative rates for holdings of zaires, and improve the operation of the interbank foreign exchange market.

8. Notwithstanding a 9 percent reduction in the dollar price of copper over previous estimates, lower customs receipts, and the worsened financial situation of several public enterprises, recourse to the banking system for financing the government deficit will remain in 1984 within the Z 2.6 billion limit set at the beginning of the program; nevertheless, the issuance of Treasury bills to the nonbank public could contribute to the financing of a small part of the budget deficit. As it would seem inadvisable to cancel the nominal salary increases of 17 percent scheduled for April, the Executive Council has decided to freeze government employment and to strike from the civil service payroll those who may be unjustifiably included in it. In that connection the Department of Finance will complete the definitive list of the personnel covered by the government budget prior to the end of May 1984.

Pursuing the fiscal adjustment initiated in 1983, the Government had adopted an austerity budget for 1984 with additional revenue measures and continued efforts to control expenditure. These policies have become indispensable in order to compensate for an increased payment of Z 2.1 billion on account of interest payments on external debt and non-debt arrears in foreign exchange of the Treasury. In order to reduce the budgetary deficit from 2 percent of GDP in 1983 to less than 1 percent in 1984, the evolution of revenue and expenditure will be monitored monthly and reviewed with the Fund staff; if necessary, appropriate corrective measures will be taken to ensure the realization of the 1984 fiscal targets.

9. The Government will, before June 1984, implement a number of fiscal measures recommended by the Fund/World Bank technical assistance mission, notably an upward adjustment of tax rates on real property, a revision and harmonization of individual income taxes, and an extension of the presumptive income tax assessment to some liberal professions and services sector. These measures, combined with the effects of the devaluation, the strict application of the new fiscal regime for GECAMINES and the modest upturn in economic activity, should yield an additional Z 9.8 billion of revenues over the 1983 level, equivalent to some 11 percent of GDP. GECAMINES' contribution to this amount will be Z 2.6 billion to arrive at a total contribution of Z 4.6 billion in 1984. The Government will this year grant no more than Z 154 million of subsidies to other public enterprises. Since several such enterprises are in a difficult situation, the Government will undertake a study with the assistance of the World Bank so as to agree on the necessary measures to improve their financial situation.

10. In order to make controls more effective, quarterly targets have been established for key expenditure categories: (a) cumulative total outlays for salary payments will not exceed Z 1,017 million through the end of March, Z 2,207 million through the end of June, and Z 4,586 million until end-December; (b) total outlays to salary payments for primary and secondary schoolteachers will not exceed Z 350 million through the end of March, Z 760 million through the end of June, and Z 1,579 million until end-December; (c) outlays of the Presidency and the Political Institutions will not exceed Z 233 million through the end of March, Z 477 million through the end of June, and Z 965 million through end-December; (d) total budgetary expenditure, including all external debt service payments, will not exceed Z 6,330 million through the end of March, Z 11,900 million through the end of June, and Z 23,570 million until end-December. External debt service payments through the Treasury will amount to the counterpart of US\$86 million through the end of March, and US\$140 million through the end of June; these amounts will be transferred by the Government to the blocked account that was established in January 1984 at the Bank of Zaire and used exclusively for external debt servicing. Nondebt arrears in foreign exchange of the Treasury, which were estimated at US\$46 million at the end of 1983,

will be reduced by US\$5 million in each quarter of 1984. Furthermore, arrears in domestic payments which were estimated at Z 506 million at the end of 1983, will be reduced by Z 75 million through March and Z 150 million through June 1984. In the event that actual payments in respect of external debt service and the liquidation of external arrears fall short of the assumed amounts, the total expenditure targets will be reduced by an equivalent amount. Should these targets not be observed there will be consultations with the Fund staff to reach understandings on appropriate corrective measures.

11. As the 1984 budget is extremely tight, it is necessary to reinforce expenditure control by further centralizing all operations at the Ministry of Finance, including direct control over the budget pour ordre before April 30, 1984. Expenditure commitments will follow standard established procedures in order to avoid any accumulation of arrears and to prevent the commitment of any unbudgeted expenditure.

12. Urgent measures will be taken to strengthen customs controls with technical assistance from the European Communities. In addition, a revised customs tariff, containing substantial reductions in duty rates, will be implemented before the end of April in order to reduce the incentives for smuggling. To the same end, and to avoid an eventual net subsidy from the budget, the retail price per liter of diesel fuel and kerosene were raised to Z 12.5 per liter and Z 15.0 per liter, respectively, as of March 26, 1984.

13. Although inflation is expected to be around 50 percent in 1984, interest is rarely paid on deposits in zaires for three months or less, which encourages the hoarding of bank notes and obstructs the growth of private saving and the operation of the interbank foreign exchange market. In order to avoid an outflow of zaires, interest rates on domestic currency deposits should be higher than interest that could be earned on foreign exchange by an amount equal at least to the expected depreciation of the zaire, which in turn reflects inflation differentials. The Executive Council has decided as of April 3 to take the first step towards the creation of a money market through which holders of zaires will be offered a sufficiently remunerative rate. The main monetary instrument will initially be claims on the Government in the form of short-term Treasury bills in denominations of Z 50,000, or multiples thereof, payable in 28, 56, or 91 days. These bills will be registered with the Bank of Zaire and offered to the public, excluding banks, at weekly subscriptions or auctions. The amount sold at each subscription or auction will be deducted from the Bank of Zaire's advances to the Treasury, and each redemption will result in an increase in these advances. The issue of such Treasury bills up to an outstanding amount of Z 500 million in circulation will not lead to a corresponding reduction in the ceiling on the financing of the budget deficit through the banking system. An agreement between the Bank of Zaire and the Treasury was concluded on March 27, 1984, so that the first auction of Treasury bills will take place on April 3, following appropriate publicity and preparation.

14. The demand for foreign exchange on the interbank market greatly exceeds the supply because it is advantageous for banks to hold foreign exchange rather than zaires. The banks have thus accumulated outstanding amounts of foreign exchange greatly in excess of their own assets whereas the Bank of Zaire's foreign reserves have been virtually exhausted. In order to restore equilibrium to the market, the Bank of Zaire has decided effective March 1, 1984 to place a limit on the banks' net foreign exchange position as a proportion of their own assets at 100 percent by April 15 and 75 percent by May 15; nonobservance of this limit will be penalized at an interest rate of at least 6 percent per month. This should incite the banks to sell some US\$43 million to their customers or to the Bank of Zaire by April 15, and another US\$11 million between April 15 and May 15. The Bank of Zaire will take advantage of this opportunity to build up its own foreign reserves; the resultant injection of zaires into the economy will be partly soaked up by the issue of Treasury bills.

15. Although the banks' legally required minimum reserve ratio with the Bank of Zaire is 25 percent, the actual ratio averages only 12 percent, and penalties have been rarely enforced. Effective March 1, 1984, the Bank of Zaire has decided to adjust the ratio to 15 percent on March 30 and 18 percent on April 30, but to apply from those dates strict penalties in the form of monthly interest rates of 5 percent; this measure will reduce bank liquidity which has recently been excessive.

16. The fiscal and monetary measures described above will be reinforced by containing the increase in net domestic assets of the banking system to about 34 percent in 1984; in view of the likely evolution of the balance of payments and the exchange rate, this increase would be consistent with containing the growth in broad money to 36 percent in 1984, compared with 74 percent in 1983. During 1984, total credit expansion to enterprises and households will not exceed Z 1,750 million, the increase in net credit to the Government will not exceed Z 2,600 million, and net domestic assets of the banking system will not increase by more than Z 4,750 million; in terms of stock outstanding, the limits will be Z 4,632 million, Z 12,852 million, and Z 18,934 million, respectively. The ceilings on net domestic assets, as well as the subceilings on credit to Government for March and June 1984 are set forth in the attached Table 1; the above ceilings will be adjusted, if necessary, in accordance with the provisions indicated in footnote 4 of the same table. During the second review of the program, appropriate ceilings and subceilings will be established for September and December 1984.

17. The fiscal and monetary policies described above should permit the limiting of the external current account and the overall balance of payments deficits, after rescheduling, to SDR 198 million and SDR 33 million, respectively, or at 9.6 percent and 1.1 percent of estimated GDP. These targets are consistent with a growth of about 4 percent in imports in SDR terms and real economic growth of 1.5 percent in 1984.

These projections are based on the price of copper averaging US\$0.72 per pound, and that in addition to the debt relief already obtained from the Paris Club in December 1983, further debt relief will be obtained from other creditors; the projections also assume a considerable increase in gross public capital inflows.

18. In accordance with the undertakings in connection with the re-scheduling of debt to official creditors within the Paris Club, negotiations have already begun on bilateral agreements with these creditors. Discussions have also continued with the commercial banks of the London Club in order to reach an agreement on a maximum amount of actual payments to be made in 1984, consistent with the commitments vis-à-vis official creditors of the Paris Club and balance of payments financing prospects. In addition, all existing arrears to multilateral creditors have been repaid. Finally, steps have been taken to begin negotiating outstanding arrears and debt service with non-Paris Club official and non-London Club private creditors. Furthermore, as indicated in our Memorandum on Economic and Financial Policies of September 12, 1983, new borrowings in 1984 will be limited by the ceilings contained in Table 1.

19. During the program period steps will be taken to relax further existing restrictions on payments and transfers for current international transactions. In this context, arrears on commercial and invisible payments registered with the Bank of Zaire, which amounted to SDR 183 million at the end of 1983, will be reduced through cash payments in foreign exchange by SDR 8 million by the end of March, by SDR 12 million by the end of June, and by SDR 40 million by the end of December 1984. The Executive Council will not introduce any new multiple currency practice, or impose new or intensify existing restrictions on payments and transfers for current international transactions, or enter into any bilateral payments agreements with Fund members. Furthermore, the Council will not impose new or intensify existing restrictions on imports for balance of payments purposes.

20. The quarterly performance criteria under the program for 1984 are specified in Table 1 and relate to: (a) ceilings on net domestic assets of the banking system on net credit of the banking system to the Government, and on new external borrowing by the Government or against government guarantee; and (b) the net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange. In addition, performance criteria include (c) the provisions regarding the exchange and trade system set forth in paragraph 19; and (d) the two performance reviews with the Fund which relate to the third and fourth purchases under the program.

21. In order to ensure the success of the adjustment program the Executive Council will exercise increased vigilance that the policies and measures in this letter are implemented. It is considered necessary to schedule another performance review of the program with the Fund

before mid-1984 to see whether the measures taken have had the expected results, as well as to reach understandings on performance criteria for September and December 1984. While the Executive Council will not take any major economic or financial decisions which could have a bearing on the implementation of the program without consultation with the Fund staff, additional measures will be taken by the Council should this become necessary in order to obtain the basic objectives of the program.

Sincerely yours,

/s/

The President and Founder of the
Popular Movement of the Revolution,
President of the Republic

Mobutu Sese Seko Kuku Ngbendu Wa Za Banga
Marshal

Table 1. Zaire: Proposed Ceilings Under the Program for 1984

	1983	1984			
	Dec. <u>1/</u>	March <u>2/</u>	June <u>2/</u>	Sept. <u>3/</u>	Dec. <u>3/</u>
Net domestic assets of the banking system at end of period	14,184	16,509 <u>4/</u>	17,189 <u>4/</u>	18,297	18,934
Net credit of the banking system to the Government at end of period	10,252	11,837 <u>4/</u>	11,937 <u>4/</u>	12,565	12,852
Net cumulative reduction of commercial and in- visible arrears through cash payments in foreign exchange by end of period	12	8	20	30	40
New external borrowing by the Government or against government guarantee through end of period					
a. 1-12 years' maturity	--	150	150	150	150
b. 1-5 years' maturity	--	40	40	40	40

1/ Actuals.

2/ Performance criteria.

3/ Targets.

4/ These amounts are based on the assumptions that (a) external debt service payments by the Treasury will amount to the equivalent of US\$86 million during the period January-March 1984 and the equivalent of US\$140 million through the end of June 1984; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US\$46 million at the end of December 1983, will be reduced by US\$5 million by end-March 1984 and by US\$10 million by end-June 1984; (c) arrears in domestic payments, which amounted to Z 506 million at the end of 1983, will be reduced by Z 75 million in each of the first two quarters; (d) in the event that the outstanding stock of Treasury bills exceeds Z 200 million before end-June 1984, the excess amount will first be used to reduce domestic arrears over and above the amount indicated in (c) above and then the remainder will be used to reduce the advances of the Bank of Zaire to the Treasury. In the event that actual payments fall short of the amounts indicated in (a) or (b), all the credit targets and performance criteria will be reduced by equivalent amounts; should the actual payments fall short of the amounts indicated in (c), only the targets and performance criterion relating to net bank credit to the Government will be reduced by equivalent amounts.

