FOR AGENDA

EBS/84/147

CONFIDENTIAL

July 10, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zaïre - Staff Report for the Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the second review under the stand-by arrangement for Zaïre. A draft decision appears on pages 24 and 25.

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)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the Review Under the Stand-By Arrangement

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

July 9, 1984

I. Introduction

On April 30, 1984 the Executive Board completed the first review under the 15-month stand-by arrangement for Zaire (EBS/84/72, 4/2/84), which became effective on December 27, 1983 for an amount equivalent to SDR 228 million, or 78.4 percent of quota (EBS/83/257, 11/30/83). The completion of the first review permitted Zaire to make the second purchase, of SDR 42 million, under the arrangement; the third and fourth purchases, of SDR 40 million each, are subject to the observance of the March performance criteria and completion of the second review, and the observance of the June performance criteria and 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 are proposed in the present review (Table 1). As of June 30, 1984, the Fund's holdings of Zaire's currency, subject to repurchase, amounted to SDR 538.2 million, or 185 percent of quota; excluding holdings of SDR 221.4 million under the compensatory financing facility, they were equivalent to 108.8 per cent of quota.

Discussions with the Zairian authorities that provided the basis for the second program review were held in Kinshasa during the period May 22-June 3, 1984. 1/ A letter from the President of the Republic of Zaire dated July 4, 1984, proposing economic policies for 1984, as well as performance criteria for September and December, is 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 provided in Attachment IV.

1/ Staff members on the mission were Mr. Louis M. Goreux (head-AFR), Mr. Ishan Kapur (AFR), Mr. Jacques Baldet (FAD), Mr. Bruno de Schaetzen (ETR), and Mrs. Aline Groen (secretary-ADM). Mr. Alfidja, Executive Director, and Mr. Obame, Advisor, participated in the policy discussions.

Table 1. Zaire: Fund Position During Period of Arrangement

	Outstanding at beginning of arrangement 1/ Nov. 30, 1983	1983 Dec.	1984 Jan.-March	1984 April-June	1984 July-Sept.	1984 Oct.-Dec.	1985 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.

II. Recent Performance and the Program for 1984

1. Exchange rate and prices

Since the unification of the free market and official exchange rates on February 24, 1984, there was a further depreciation of about 5 percent through the end of March, when the rate reached Z 35.0 per U.S. dollar, bringing the cumulative depreciation during the first quarter of the year to about 12 percent against the dollar. Subsequently, the zaire stabilized as a result of the measures taken by the authorities in the context of the first review of the program. On June 29, the rate was Z 36.4 per U.S. dollar, bringing the cumulative depreciation since the beginning of 1984 to just over 15 percent. Simultaneously, the scope of transactions conducted on the parallel market has declined substantially while the exchange rate premium on that market has been reduced to about 10 percent, which does not greatly exceed the taxes and commissions paid in official transactions. In brief, the parallel market has ceased to be a serious problem and importers can purchase foreign exchange through the banking system without difficulties, provided they have the domestic currency counterpart.

The process of exchange rate determination has considerably improved over the past six months as the interbank foreign exchange market has become more sophisticated. The commercial banks are now active participants and willing to quote buying and selling rates, instead of mid-point quotes or purchases and sales at the most favorable fixing rate, as they were inclined to do in February. The fact that the banking system as a whole has become familiar with the modalities and objectives of the interbank foreign exchange market has led to a greater volume of transactions, both at the weekly fixing sessions as well as among banks during the week. Concomitantly, the exchange rate resulting from the fixing closely reflects market forces, and the demand/supply pressures on the banks for foreign exchange. The Bank of Zaire does not intervene in a systematic way to purchase or sell foreign exchange at the fixing sessions, except when it needs foreign exchange to make payments or to smooth out erratic movements in the weekly rate.

Inflation has declined sharply since January 1984. The consumer price index for Kinshasa, which had increased by 76 percent in 1983, rose by only 5 percent from December 1983 through May 1984. During this period, the cost of housing (including electricity, water, and cooking fuel) continued to increase rapidly (21 percent), but this was largely offset by an absolute decline in the prices of many consumer goods. The decline in inflation together with the stabilization of the exchange rate since March reflected the contraction of liquidity associated with the rising cost of money and, consequently, of holding stocks. Future price developments will obviously be affected by the monetary and credit situation. An upward pressure on prices can be expected in the coming months as a result of the recent wage increase (17 percent in the public

sector and 20 percent in the private sector) as well as by the planned increases in the prices of petroleum products and tariffs on utilities. Nevertheless, it seems that the original program target of containing inflation within 40 percent in 1984 is now well within reach. The real effective exchange rate, which depreciated by 75 percent from August to October 1983, has somewhat fluctuated during the following eight months but was at the October level in June 1984, the last month for which data are available.

2. External sector

Since copper accounted for nearly half of export earnings in 1983, the economy is very sensitive to changes in the world copper market. Realized export prices which averaged US$1 per pound in 1980 fell to US$0.73 in 1983 and US$0.64 in the first four months of 1984. Perhaps under the influence of recent proposals for establishing copper import quotas in the United States, prices fell further in June just under US$0.60, their lowest nominal level for more than a decade. In view of this disappointing performance during the course of a world economic recovery, the projected price for 1984, which had already been revised downward from US$0.79 to US$0.72 in February, has been further revised downward to US$0.64. The export earnings shortfall on copper is, however, expected to be more than offset by higher revenues from diamonds, coffee, cobalt, and petroleum so that total export earnings are now expected to exceed the original program projections by nearly 6 percent (Table 2).

Preliminary data suggest a favorable development of the external sector during the first four months of 1984. The volume of exports shipped through Matadi was 30 percent higher than during the first four months of 1983, while the volume of imports remained almost unchanged. Export earnings from diamonds were considerably higher and commercial banks' records show a significant increase in the repatriation of export earnings and invisibles from the corresponding period of 1983. Taking into account the rescheduling of external debt, it would seem that the net international reserves position would have substantially improved during the first four months of 1984.

Even allowing for somewhat higher imports than indicated in EBS/84/72, the trade surplus in 1984 would be improved (Table 3). This gain would, however, be partly offset by higher outflows under investment income and private unrequited transfers, so that the deficit on the external current account would be reduced by only SDR 19 million from the one shown in EBS/84/72. With a downward revision in capital disbursements, the overall balance of payments deficit would now be reduced by SDR 10 million to SDR 427 million. Taking into account the exceptional balance of payments assistance, including net use of Fund resources, this would allow for a greater reserve buildup than had been projected in February, which would facilitate the smooth floating of the currency.

Table 2. Zaire: Merchandise Exports, f.o.b., by Major Commodity, 1983-84

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

	1983	1984 Original program	1984 First review February 1984	1984 Second review May 1984
GECAMINES exports				
Copper				
Value (US$)	748.7	801.2	730.2	652.6
Value (SDRs)	700.1	741.9	676.1	615.6
Volume (tons)	479,761	460,000	460,000	462,493
Unit price (US$/lb.)	0.708	0.790	0.720	0.64
Cobalt				
Value (US$)	121.4	148.3	158.8	220.5
Value (SDRs)	113.5	137.3	147.0	208.0
Volume (tons)	9,466	10,000 2/	10,314 2/	10,000 2/
Unit price (US$/lb.)	5.82	7.90	6.98	10.0
Zinc				
Value (US$)	49.5	54.5	59.4	57.3
Value (SDRs)	46.3	50.5	55.0	54.0
Volume (tons)	66,554	65,000	74,800	65,000
Unit price (US$/lb.)	0.34	0.38	0.36	0.40
Silver				
Value (US$)	13.3	19.8	18.9	8.4
Value (SDRs)	12.4	18.3	17.5	7.9
Volume (kgs) 3/	33,141	45,000	46,400	32,913
Unit price (US$/t.oz.)	11.34	12.50	11.50	9.0
Cadmium				
Value (US$)	0.5	0.4	0.5	0.6
Value (SDRs)	0.5	0.4	0.5	0.5
Volume (tons)	275	260	275	300
Unit price (US$/lb.)	0.82	0.70	0.85	0.87
Gold				
Value (US$)	1.2	1.2	1.5	0.7
Value (SDRs)	1.1	1.1	1.4	0.7
Volume (kgs) 4/	79.5	95.0	95.0	67.0
Unit price (US$/t.oz.)	426.7	350.0	460.0	390.0
F.M.M. 5/				
US$	-114.6	-110.3	-95.8	-99.1
SDRs	-107.2	-102.3	-88.7	-93.5
Subtotal				
US$	820.9 6/	915.1	873.5	841.0
SDRs	767.5 6/	847.3	808.8	793.2
Non-GECAMINES exports				
Copper (SODIMIZA)				
Value (US$)	32.5	47.4	47.6	42.3
Value (SDRs)	30.4	43.9	44.1	39.9
Volume (tons)	...	29,200	30,000	30,000
Unit price (US$/lb.)	...	0.730	0.720	0.64
Gold 7/				
Value (US$)	62.7	68.7	70.6	47.1
Value (SDRs)	58.6	63.6	65.4	44.4
Volume (kgs)	5,200.0 8/	6,945.7 9/	5,431.0 9/	4,273.5 9/
Unit price (US$/t.oz.)	426.7	350.0	460.0	390.0

Table 2 (concluded). Zaire: Merchandise Exports, f.o.b., by Major Commodity, 1983-84

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

	1983	1984 Original program	First review February 1984	Second review May 1984
Diamonds 10/				
Value (US$)	138.9	118.3	146.6	185.4
Value (SDRs)	129.9	109.5	135.7	174.9
Volume ('000 carats)	11,713	9,700	12,750	14,600
Unit price (US$/carat)	11.86	12.20	11.50	12.7
Coffee				
Value (US$)	116.5	123.8	120.6	163.2
Value (SDRs)	108.9	114.6	111.7	153.9
Volume (tons)	69,500	72,000	72,000	74,000
Unit price (US$/lb.)	0.76	0.78	0.76	1.05
Rubber				
Value (US$)	14.7	18.5	17.7	17.7
Value (SDRs)	13.7	17.1	16.4	16.7
Volume (tons)	15,890	17,500	17,500	17,500
Unit price (US$/lb.)	0.42	0.48	0.46	0.46
Crude oil				
Value (US$)	236.5	243.0	257.6	303.8
Value (SDRs)	221.2	225.0	238.5	286.7
Volume ('000 barrels)	8,460	8,100	9,200	10,850
Unit price (US$/barrel)	27.96	30.00	28.00	28.00
Other exports				
Value (US$)	100.4	111.6	107.4	107.4
Value (SDRs)	94.0	103.4	99.4	99.4
Total				
Value (US$)	1,523.1	1,646.6	1,646.6	1,707.9
Value (SDRs)	1,424.2	1,524.0	1,520.0	1,611.2
Rate of change				
In SDRs (percent)	8.1	6.7	6.7	13.0

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; SDR 1 = US$1.08 for 1984 in the original program and in the revised February projections and SDR 1 = US$1.06 for the May projections. 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 Service 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 artisanal diamonds.

Table 3. Zaire: Balance of Payments, 1983-84

(In millions of SDRs)

	1983	1984 Original program	First review February 1984	Second review May 1984
Trade balance	383	419	430	481
Exports, f.o.b.	1,424	1,524	1,520	1,611
Imports, f.o.b.	-1,041	-1,105	-1,090	-1,130
Oil	(-156)	(-180)	(-160)	(-160)
Non-oil	(-885)	(-925)	(-930)	(-970)
Services	-821	-834	-899	-921
Receipts	94	100	104	101
Expenditure	-915	-934	-1,003	-1,022
Freight and insurance	(-236)	(-245)	(-244)	(-252)
Other transport	(-15)	(-35)	(-20)	(-20)
Travel	(-34)	(-18)	(-35)	(-35)
IMF charges	(-42)	(-55)	(-50)	(-47)
Interest on public debt 2/	(-263)	(-296)	(-334)	(-334)
Other investment income	(-23)	(-40)	(-25)	(-35)
Government, n.i.e.	(-72)	(-50)	(-70)	(-70)
Other services	(-230)	(-195)	(-225)	(-229)
Unrequited transfers	138	185	155	145
Private	-20	-15	-25	-30
Public	158	200	180	175
Current account balance	-300	-230	-314	-295
(Excluding interest rescheduled)	(-190)	(-116)	(-198)	(-179)
Public capital	-211	-170	-123	-132
Disbursements	132	180	230	221
Amortization 1/	-343	-350	-353	-353
Private capital and errors and omissions	78	—	—	—
SDR allocation	—	—	—	—
Overall deficit (-)	-433	-400	-437	-427
(Excluding interest and principal rescheduled)	(-97)	(-16)	(-33)	(-23)
Financing items	433	400	437	427
Arrears (reduction -)	-480 3/	...	-40	-40
Of which: cash payments 2/	(-12)	(-40)	(-40)	(-40)
Debt rescheduling and other assistance	861	...	404	404
Net Fund credit	104	129	95	95
Purchases	(114)	(198)	(158)	(158)
Repurchases	(-10)	(-69)	(-63)	(-63)
Other reserve movements (increase -)	-52	-42	-22	-32
Gap	—	353	--	--
Memorandum item:				
Average export unit value of copper in U.S. cents per pound	71	79	72	64

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

1/ Contractual amounts falling due in each year.
2/ On commercial and invisible arrears only.
3/ 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.

External debt service payments are estimated at SDR 687 million for 1984. Taking into account debt relief estimated at SDR 362 million for Paris Club creditors and SDR 42 million for other creditors, actual debt payments are projected to total SDR 283 million in 1984, of which SDR 256 million in payments through the Treasury. Pursuant to its agreement with Paris Club creditors, Zaire has made regular monthly payments of SDR 14.25 million in an account with the U.S. Federal Reserve Bank, which was set up under the Agreed Minute of the Paris Club meeting of December 1983. At the end of May 1984, bilateral agreements had already been signed with Austria, Belgium, Canada, France, the Netherlands, Switzerland, and the United States; agreements remain to be signed with five other countries.

In the first five months of 1984, US$10 million had been paid to commercial banks at the London Club and a tentative repayment schedule has been agreed upon until March 1985; monthly repayments would amount to US$2 million in the first half of 1984, US$5 million in the third quarter, US$7 million in the fourth quarter of 1984, and US$4 million in the first quarter of 1985. The authorities have also sent requests for debt relief, on terms comparable to those of the Paris Club rescheduling, to creditors outside the Paris and London Clubs.

Arrears on commercial and invisible payments registered with the Bank of Zaire which amounted to SDR 183 million at the end of 1983 had been reduced by SDR 13.9 million by the end of March 1984, of which SDR 11 million through cash payments in foreign exchange, SDR 2.4 million through payments in convertible zaires, and SDR 0.6 million through rebates; these arrears will continue to be reduced through cash payments in foreign exchange by at least SDR 9 million by end-June 1984, by a further SDR 10 million by end-September 1984, and a further SDR 10 million by end-December 1984.

Despite the recent decline in copper prices, a revision in the medium-term balance of payments outlook, as contained in EBS/84/72 at the time of the first review, does not appear warranted. Therefore the major conclusion of the previous projections, that a viable balance of payments position could be achieved by the turn of the decade provided that firm adjustment policies are pursued, remains valid.

3. Fiscal policies

Following the completion of the first program review in March 1984, the authorities, confronted with a continued critical financial situation aggravated by the pronounced depreciation of the exchange rate in the early months of the year and a lower-than-anticipated copper price, undertook a drastic revision of the 1984 budget. On the expenditure side, to compensate for an estimated Z 2.0 billion increase in interest payments on external debt, appropriations for nonwage outlays were cut by Z 1.2 billion, including reductions of Z 840 million in other current

expenditure and Z 340 million in appropriations for nonpriority investment projects. On the revenue side, supplementary measures expected to yield an additional Z 1.8 billion were introduced to offset an anticipated Z 1.4 billion shortfall in budgetary receipts, especially losses in import tax revenue resulting from a lowering of duty rates on luxury items and widespread evasion. As a result, the overall deficit was to be limited to Z 413 million compared with a surplus of Z 250 million in the original budget. With amortization payments estimated at Z 2.4 billion, net bank borrowing by the Government would still remain within the Z 2.6 billion limit set at the beginning of the program, after taking account of Z 200 million net sales of Treasury bills to the nonbanking sector.

The subceiling on net bank credit to Government at the end of March 1984 reflected the projected fiscal performance prior to the tightening introduced with the 1984 budget revision. Consequently, this subceiling was equivalent to about 60 percent of the total annual increase permitted in net bank borrowing by the Government, leaving a very small credit expansion for the last three quarters of 1984. However, the outcome for the first quarter of the year shows a better-than-expected performance despite higher debt service payments. The Government used only two thirds of the credit expansion originally set for that period, leaving nearly a 60 percent margin for the remaining nine months of 1984.

At the end of March 1984, the overall deficit, including Z 95 million deficit on extrabudgetary Treasury operations, totaled only Z 138 million compared to the target of Z 906 million (Table 4). As net external financing was negative, reflecting external public debt amortization payments of Z 928 million, net financing by the banking system was Z 1,066 million, or one third less than the permitted expansion of bank credit to the Government. The smaller deficit was due essentially to a stronger-than-anticipated revenue performance, but expenditure was also below the program level. Total revenue collections, at Z 5,331 million, were 12.4 percent higher than originally forecast for the first quarter of 1984. Virtually all revenue categories contributed to the increase but most of the revenue gain stemmed from taxes on goods and services (62 percent) and taxes on income and profits (20 percent). Aside from genuine efforts made to improve tax administration, the main contributory factors were: (1) higher oil production in January combined with an oil price increase in Zaire due to the exchange rate depreciation; (2) an upward adjustment in the rate of the excise tax on tobacco and increased tobacco production in February; (3) the introduction of a revaluation tax on corporate fixed assets; (4) higher profits reported by some major companies; and (5) higher collections on coffee, diamonds, and gold resulting from the rise in export of these commodities. Furthermore, tax payments by GECAMINES effected in conformity with the new fiscal regime adopted in September 1983, slightly exceeded the target of Z 1,150 million, as a lower-than-anticipated realized price for copper was more than offset by more favorable prices for cobalt and zinc.

Table 4. Zaire: Budgetary Operations, 1983-84 1/

	1983 Actual	1984 Program 1st review	End of 1st quarter 1984 2/ Program 1st review	End of 1st quarter 1984 2/ Actual	End of 2nd quarter 1984 2/ Program 1st review	End of 3rd quarter 1984 2/ Program 2nd review	End of 4th quarter 1984 2/ Program 2nd review
	(In millions of zaires)						
Total revenue	10,998	20,768	4,743	5,331	10,212	15,645	21,068
Income and profits taxes	2,812	4,407	1,210	1,326	2,346	3,352	4,457
Taxes on goods and services	3,004	4,691	1,111	1,474	2,293	3,483	4,691
Import duties and taxes	1,731	3,117	700	741	1,450	2,250	3,117
Export duties and taxes	397	870	205	252	423	770	1,120
Other taxes and nontax revenue	1,019	3,083	367	382	1,400	2,340	3,083
GECAMINES	2,036	4,600	1,150	1,156	2,300	3,450	4,600
Total expenditure	12,106	21,181	5,649	5,468	10,751	16,526	22,081
Current expenditure	11,459	20,124	5,335	5,276	10,122	15,583	20,824
Wages and salaries	(3,264)	(4,586)	(1,017)	(1,009)	(2,207)	(3,396)	(4,586)
Interest on foreign debt	(1,511)	(7,273)	(2,070)	(2,164)	(3,492)	(5,582)	(7,273)
Interest on domestic debt 3/	(243)	(683)	(145)	(103)	(284)	(798)	(1,383)
Transfers and subsidies	(941)	(862)	(215)	(214)	(431)	(646)	(862)
Arrears	(776)	(880)	(250)	(215)	(500)	(690)	(880)
Other 4/	(4,724)	(5,840)	(1,638)	(1,570)	(3,209)	(4,471)	(5,840)
Capital expenditure	647	1,057	314	193	629	943	1,257
Overall budget deficit	-1,108	-413	-906	-138	-539	-881	-1,013
Financing	1,108	413	906	138	539	881	1,013
Domestic	2,364	2,800	1,585	1,066	1,685	2,713	3,400
Banking system (net)	2,364	2,600	1,585	1,066	1,685	2,613	3,200
Other 5/	--	200	--	--	--	100	200
Foreign (net)	-1,256	-2,387	-679	-928	-1,146	-1,832	-2,387
Borrowing	--	--	--	--	--	--	--
Amortization	1,256	-2,387	-679	-928	-1,146	-1,832	-2,387
Memorandum items:	(In percent of GDP)						
Total budgetary revenue	11.8	11.5	--	--	--	--	11.7
Total budgetary expenditure	13.0	11.8	--	--	--	--	12.3
Overall budgetary surplus or deficit (-)	-1.2	-0.2	--	--	--	--	-0.6
Domestic bank financing	2.5	1.6	--	--	--	--	1.9

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

1/ Cash basis; excluding government outlays financed directly through foreign loans and grants.
2/ Cumulative.
3/ Includes the equivalent of Z 700 million of Fund charges.
4/ Includes expenditures on extrabudgetary accounts and suspense accounts.
5/ Includes net sales of Treasury bills to the nonbanking sector.

Expenditure was contained within the program limits. At the end of March 1984, total expenditure amounted to Z 5,468 million, or Z 181 million below the indicated program target, despite a 4.5 percent unanticipated increase in interest payments on foreign debt resulting from the depreciation of the zaire. Most key expenditure targets were met: total personnel outlays at Z 1,009 million was Z 8 million less than budgeted; salary payments to primary and secondary schoolteachers totaled Z 340 million, as against Z 350 million in the program; and recorded outlays of the Presidency and the Political Institutions were Z 3.2 million below the agreed-upon target. While payments on domestic arrears exceeded original provisions by Z 50 million, payments on external arrears reached only Z 90 million instead of Z 175 million; the latter difference is explained by delays in transmitting Treasury payment orders to the central bank.

Information based on revenue collections and expenditure commitments through May 1984 indicates that trends observed during the first quarter should not be significantly altered for the second quarter. With the margins accumulated at the end of March, the expected budgetary deficit for the first semester of 1984 and its domestic financing should remain within the program limits.

On the revenue side, notwithstanding a Z 370 million expected shortfall in nontax receipts mainly due to delays in implementing revenue measures associated with issuing identification cards to foreigners and to Zairian nationals, total budgetary revenue is projected to reach some Z 11 billion by the end of June 1984, a level 7.7 percent higher than the program forecast. Although the rate of increase of tax revenue is expected to decelerate sharply from 14 percent in the first quarter to 4 percent in the second quarter, the cumulative gain over the original forecast would still be more than Z 1 billion; most of the impetus would stem from taxes collected from the oil companies, excise taxes, and the turnover tax on domestic transactions. Some gains are also expected from import taxes resulting from higher prices and stepped-up import declarations, following the introduction of the revised customs tariff in April 1984. The loss in revenue resulting from the application of lower duties, mainly on luxury items, is not expected to be felt before the second part of the year. Other tax measures, recommended by a Fund/World Bank technical assistance mission and recently introduced, included an increase in the rate of the tax on real property, a harmonization of individual income taxes, and an extension of the presumptive income tax assessment to some liberal professions. These measures should not lead to any substantial revenue increase in the short run.

As for expenditure, continued efforts to reinforce existing budgetary controls through a centralization of all budgetary commitments at the Ministry of Finance are beginning to bear fruit. Invoices that are not accompanied by proper references to regular budget commitments and procedures are systematically rejected. In the area of personnel

expenditure, preparation of the comprehensive list of government employees is nearing completion. Each minister has been made personally responsible for the management of his department's staff reporting system. At the end of May, some 20,000 names had been eliminated from the government payroll. This is not expected to result in budgetary savings, because the gain thus realized will be used to pay other remuneration items which have fallen in arrears. Nevertheless, despite a 17 percent salary increase as of April 1, 1984, total personnel outlays should remain within the program limits set for the first semester of the year.

Until recently, an important source of government spending continued to escape budgetary controls, despite several attempts to bring it within the Ministry of Finance's centralized system. These were the so-called subaccounts of the Treasury through which a sizable amount of budgetary and other transactions (including the budget pour ordre) are being carried out by ministries and government agencies. Under the existing system, ministries and various public entities are allowed to carry over, through these subaccounts, budgetary allocations which have not been fully utilized in previous years, as well as to utilize earmarked receipts that are directly credited to these accounts by the Bank of Zaire. These outlays may have, at any given point in time, a negative impact on the Treasury's liquidity position. This was the case at the end of May 1984, when these subaccounts showed a deficit that was larger than the budget deficit proper. If continued unchecked, this situation could cause a breach in the subceiling on credit to the Government. To prevent this, the authorities have decided that as of June 1, 1984 any drawdown from the subaccounts will be subject to prior approval of the Minister of Finance, and each ministry will be required to submit a schedule of monthly disbursements from the subaccounts, accompanied by the corresponding financing. Furthermore, for 1985, all Treasury subaccounts of a budgetary nature will be consolidated with the budget; and outstanding credit balances at the end of 1984 will be incorporated with regular budget allocations for each department concerned.

On the basis of present trends and foreseeable developments, and in spite of an expected further shortfall in nontax receipts and some losses in import tax revenue due to lowered customs duty rates, the original revenue objective for the remainder of 1984 is likely to be exceeded. As mentioned in the previous report, the Government is actively seeking technical assistance from the European Communities to strengthen the customs administration and reinforce compliance and enforcement. An EC expert visited Zaire in May to assess the situation. It is expected that technical experts from EC member countries will be made available towards the end of the year. In the meantime the assistance currently provided by Belgium has been extended through 1984, and several new customs offices have been opened.

During the May mission it appeared advisable to raise the overall level of government expenditure on two accounts. First, it became clear that the cut in capital expenditure decided upon last March would not permit the mobilization of the local zaire counterpart required for the implementation of projects financed to a large extent with external assistance. On the basis of a World Bank review of the investment program, it was decided to raise the investment budget by Z 200 million, to Z 1,257 million, to avoid disruption in ongoing projects financed with external assistance. Second, despite the fivefold increase in the zaire value of Fund charges resulting mainly from the currency depreciation, interest paid by the Treasury on central bank advances had not been adjusted adequately. Therefore, it was decided to raise the interest rate on net credit to Government to an annual rate of 15 percent starting July 1, 1984, from 3 percent on the net credit to Government outstanding as of September 30, 1983, and 7 percent on the increment from that date. 1/ This will have the effect of raising government expenditures by Z 700 million in the second half of 1984. Taking into account the Z 200 million increase in investment expenditures, total expenditure has been revised upward by Z 900 million, but this will be partly offset by an upward revision of Z 300 million in tax revenue from existing taxes on the export sector other than GECAMINES. As a result, the programmed budget deficit would increase by Z 600 million to Z 1,013 million (or 0.6 percent of GDP), compared with a deficit Z 413 million previously targeted (0.2 percent of GDP). Consequently, after allowing for Z 2,387 million in amortization payments, and net sales of Z 200 million of Treasury bills, the limit on new credit to Government for December 1984 needs to be raised by Z 600 million to Z 3,200 million.

Although no comprehensive and reliable data are available, there are indications that the financial performance of public enterprises has further deteriorated in the early part of 1984, as their tariff structure has not always been adjusted in time to fully reflect sharply increased operating costs--particularly of utilities, fuel, and transportation--and payments arrears have continued to accumulate. However, a number of ad hoc measures have been taken, including the curtailment of part of the activity of certain companies such as the Compagnie Maritime Zairoise, and Air Zaire. In the case of the latter, 80 percent of its staff has been withdrawn from active duty since last January. The financial position of ONATRA and SNCZ (river and rail transportation) has improved as a result of recent tariff increases, but further upward adjustments are still needed to balance their operating budget. The authorities have stated clearly that in 1984 they do not intend to grant any direct budget subsidies to the public enterprises of an in-

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1/ If the 15 percent had been applied from January 1, 1984, and if net credit to the Government were at the level of the proposed ceiling for the remainder of the year, interest charges paid by the Treasury to the Bank of Zaire would have amounted to over Z 1.8 billion in 1984, approximately equivalent to the zaire counterpart of Fund charges which are estimated at SDR 46 million.

dustrial or commercial nature. Each of the above-mentioned transport companies is now subject to external audits on the basis of which restructuring measures will be decided in the coming months. Phase I of the World Bank study requested by the Zairian Government on the general performance of the parastatal sector began in June. The World Bank mission will focus on ways to design suitable standards of performance, and will establish a performance contract by which the management of each enterprise would commit itself to achieve specified targets. This is a follow-up of one of the recommendations made at the January 1984 meeting of the heads of public enterprises. The Bank mission will also prepare an assessment of the impact on the central government budget of the public enterprise sector, and its capacity to self-finance a significant share of its investment expenditure.

With regard to the performance of public enterprises in the oil sector, the April increase in the price of petroleum products did not prove sufficient to restore the financial equilibrium of PETROZAIRE. Furthermore, the liquidity position of the oil importing and distributing companies has been aggravated by problems relating to the security of the Matadi-Kinshasa pipeline. The authorities have therefore decided to adjust, once again, the petroleum price structure by raising retail prices of products other than gasoline by 8 percent to 20 percent, with effect from August 1, 1984.

In order to reduce the cost of commercialization of mining products and improve the transparency in accounting, the authorities took some drastic measures beginning June 4, 1984 which culminated in the liquidation of SOZACOM that was announced by the President on June 29, 1984.

4. Monetary and credit policies

The basic objective of monetary and credit policies in the program for 1984 has been a reduction in the rate of inflation through the containment of overall credit expansion. Furthermore, a series of measures were undertaken during March-April 1984 to absorb the excess liquidity that existed in the banking system earlier in the year with a view to improving the functioning of the interbank foreign exchange market and stabilizing the exchange rate. The key element, in this connection, was the need to provide a better balance between the incentives to hold foreign exchange vis-à-vis domestic currency, as was explained in the staff report for the first review of the program. Overall, the objectives of the program are being met and credit and monetary expansion were well within the ceilings and targets set for the first quarter of 1984.

During the first quarter of 1984, net domestic assets increased by Z 1,692 million, compared with a program ceiling of Z 2,325 million, with net claims on the Government rising by Z 1,066 million as against Z 1,585 million contained in the program (Table 5); this outcome repre-

Table 5. Zaire: Monetary Survey, 1982-84

(In millions of zaires; end of period)

	1982	1983				1984				Change
	Dec. 1/	March	June	Sept.	Dec.	March 2/	June 3/	Sept. 3/	Dec. 3/	Dec. 83-Dec. 84
Net foreign assets (broad)	-4,590	-4,722	-4,956	-20,365	-21,738	-22,496	-26,704	-29,357	-29,726	-7,988
Net foreign assets (narrow)	-3,427	-3,570	-3,577	-16,855	-18,811	-18,806	-23,084	-25,557	-25,776	-6,966
Foreign assets	(1,596)	(1,558)	(1,497)	(6,591)	(9,317)	(10,420)	(11,070)	(11,610)	(12,600)	(+3,283)
Foreign liabilities	(-5,023)	(-5,128)	(-5,074)	(-23,446)	(-28,127)	(-29,226)	(-34,154)	(-37,167)	(-38,376)	(+10,249)
Provision for external arrears other than on public debt service	(-1,314)	(-1,302)	(-1,282)	(-5,500)	(-5,753)	(-6,443)	(-6,312)	(-6,065)	(-5,796)	(+43)
Foreign currency deposits	-1,163	-1,152	-1,379	-3,509	-2,927	-3,690	-3,620	-3,800	-3,950	+1,023
Net domestic assets	10,554	11,602	11,960	12,632	14,184	15,896	17,189	18,747	19,834	+5,650
Net claims on Government	7,888	7,761	7,926	8,889	10,252	11,318	11,937	12,865	13,452	+3,200
Credit to enterprises and households	1,931	2,139	2,431	2,724	2,882	3,544	3,932	4,432	4,832	+1,950
Other net domestic assets	735	1,702	1,603	1,019	1,050	1,034	1,320	1,450	1,550	+500
Money and quasi-money	8,057	8,448	9,173	11,301	14,002	15,799	17,210	18,161	18,692	+4,690
Revaluation gains and losses and other adjustments	-2,641	-2,117	-2,717	-21,470	-23,992	-24,836	-30,201	-32,339	-32,244	+8,252
SDR allocation counterpart	548	548	548	2,437	2,437	2,437	3,476	3,568	3,660	+1,227

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/ Actual.
3/ Program ceilings.

sents a 12 percent increase in net domestic assets compared with an increase of over 16 percent that had been allowed for under the March ceiling. While the bank financing of the government budget was significantly below the ceiling, credit to households and enterprises (both public and private) increased by Z 663 million, or by 23 percent, as compared with a target of Z 590 million or 20 percent under the program. Other net domestic assets were within the target set for end-March.

The disaggregation of the increase in credit to the economy, other than documentary trade credits, shows that three sectors were together responsible for over 95 percent of the total increase of Z 578 million: agriculture (mainly coffee), Z 144 million or 25 percent of the increase; manufacturing industry, Z 172 million or 30 percent of the increase; and commerce, Z 237 million or 41 percent of the total increase; there was, on the other hand, no increase in credit for construction and public works.

As a consequence of the lower-than-programmed increase in overall credit, and despite a substantial improvement in the balance of payments compared with the program projections, money and quasi-money increased by Z 1,797 million, or by less than 13 percent, as against a projection of Z 2,803 million, representing a 20 percent increase through March 1984. The increase in net foreign liabilities was equivalent to Z 738 million, but this was solely due to the depreciation of the currency, since in U.S. dollar terms there was a significant reduction in foreign liabilities in the first quarter.

In addition to the regulation of credit through ceilings, the authorities undertook a series of monetary measures in March and April to absorb the excess liquidity in the banking system, discourage the hoarding of bank notes, and provide greater incentives for holding zaires vis-à-vis foreign exchange; these measures were explained in detail in the staff report for the first review. In brief, the beginnings of a domestic money market were established with the issuance, as of April 3, of short-term Treasury bills for periods of 28, 56, and 91 days in multiples of Z 50,000; the bills were sold at weekly auctions to the non-bank public at rates of remuneration ranging between 40-45 percent. The operation was a considerable success in a number of ways: first, as of June 26 about Z 255 million was outstanding at face value; second, the maturity structure of the sales has shifted from higher sales of bills of 28 days in the initial stages to a relatively greater proportion of the longer maturities; third, the high rates of remuneration offered acted as an incentive, as they were intended to do, for the commercial banks to adequately remunerate deposits. Term deposits, which had been actively discouraged by the banks, increased during March and April; certain banks, as of end-May, were offering rates of remuneration of 14 percent (annual rate) on seven-day deposits and 20 percent on three-month deposits, with a minimum amount of Z 20,000. The largest commercial bank in Zaire has recently been offering rates of remuneration of 39 percent for 30-day deposits to certain clients, in order to prevent a rundown of deposits for investment in Treasury bills.

In order to broaden further the base for sales of Treasury bills, the authorities have decided on two modifications to the system, which will come into effect during August-September. First, while so far the bills have been simply accounting entries in the books of the Bank of Zaire, it is now proposed to issue bearer paper which would permit the extension of sales outside Kinshasa; and second, the minimum denomination will be lowered to Z 10,000 to permit individuals to purchase the bills. As a result, it is expected that sales of Treasury bills will expand; this will also encourage realistic and broad-based deposit interest rates in the banking system, which is a prerequisite to the continued stabilization of the exchange rate and the creation of a forward exchange market. Under the program, the subceilings on net credit to the Government will be reduced pari passu if the outstanding stock of Treasury bills exceeds Z 350 million by end-September and Z 500 million by end-December 1984; the overall ceiling on net domestic assets, however, will only be adjusted if the stock exceeds Z 625 million by end-September and Z 750 million by end-December 1984.

The liquidity position of the commercial banks was tightened through an increase, as of March 1, 1984, in the effective minimum legal reserve requirement at the Bank of Zaire to 15 percent; the ratio was further increased to 18 percent as of April 30, 1984. On the other hand, the authorities have decided to raise the rediscount ceiling at the central bank from the present Z 150 million to Z 600 million, as of June 11, 1984. The rediscount ceiling had not been modified for several years and the largest commercial banks have fully utilized their individual ceilings since, overall, the existing ceiling represented less than 9 percent of total credit utilization projected during 1984. The rediscount rate will remain at 20 percent, although it will be kept under review in light of the evolution of domestic interest rates and bank liquidity. The authorities have also established a separate ceiling of Z 400 million for the placing of pledged paper by the commercial banks with the Bank of Zaire. These measures should permit the commercial banks to continue financing economic activity, despite their tight cash flow position, particularly in relation to the increase in credit ceilings proposed below.

Credit to households and enterprises has been very tight in the first five months of this year. The supply of credit, which is constrained by ceilings set by the Bank of Zaire, has not been adequate to finance certain types of seasonal economic activity such as food crops and cotton production; as a consequence, during April and May 1984, the amount of credit granted for food production, medium-term investments, and cotton production represented only 20 percent of the total value of loans demanded for these sectors through the banking system. In view of the need to augment the pace of economic activity, with an overall real growth target of at least 2 percent for the year, an increase in the availability of credit to the agricultural and industrial sectors appears necessary. The above factors warrant an increase of Z 200 million in the target for credit to enterprises and households for 1984; such credit had been programmed to increase by Z 1,750 million over the year.

As explained in the previous section, the Bank of Zaire has been providing credit to the Treasury at a subsidized rate since interest payments by the Treasury to the Bank of Zaire were insufficient to cover the cost of foreign borrowing by the central bank, principally the costs of drawings on the Fund. Furthermore, as a result of the devaluation, the Zaire counterpart of Fund charges increased fivefold, rising from Z 460 million for 1983 as a whole to about Z 1,900 million for 1984. These Fund charges had been lodged in a suspense account pending an agreement between the Treasury and the central bank as to the responsibility for paying them. It should be noted, however, that even without these charges being included, a small deficit of the operating budget of the Bank of Zaire has been recorded for the first quarter of 1984. The authorities have now decided to eliminate the operating deficit of the bank in the future by raising the interest rate paid by the Treasury and debiting the counterpart of Fund charges from the operating account of the Bank of Zaire. Because the latter will be done retroactively from January 1, 1984, while the former will take effect only from July 1, 1984, the Bank of Zaire will still incur a deficit estimated at Z 1 billion for 1984. This deficit is the excess of Fund charges (Z 1.9 billion for the full year) over the additional interest charges received from the Treasury (Z 0.7 billion for the second half of the year) and the additional savings by the Bank of Zaire (Z 0.2 billion also for the second half of the year), the latter resulting from cutbacks in expenditures and some additional receipts from rediscounting charges. Since the outcome of the operating budget of the Bank of Zaire is reflected in the monetary accounts as part of "other net domestic assets", and assuming half of the projected Z 1 billion deficit will be offset by a reduction in the other components of that item (in keeping with the developments in the previous year), all "other net domestic assets" would increase by Z 500 million in 1984.

The expansion of net credit to Government, which is one of the performance criteria of the program, can be effectively monitored, especially since the Minister of Finance has now been given control of drawdowns against Treasury subaccounts. With present accounting practices, the monitoring of net domestic assets, the other performance criterion on credit, could raise special difficulties. Apart from credit to Government referred to above, the Bank of Zaire can monitor and is monitoring credit to households and enterprises by allocating credit ceilings to each commercial bank; it can also monitor its own operating account, but it has only limited control on the other items of other domestic assets and liabilities. Following the two technical assistance missions conducted in February and May 1984 by the Fund's Bureau of Statistics, each component of other domestic assets and liabilities has been identified, and it should now be possible to analyse the various factors behind variations in those items. Nevertheless, in order to gain a better understanding and control of the monetary accounts, the Governor has decided to establish a permanent internal audit in the Bank of Zaire which will be reinforced by periodic external audits, the first such external audit being completed by the end of 1984. For setting up the internal permanent audit, the Governor has requested technical assistance from the Fund's Central Banking Department.

Altogether, in relation to the credit expansion targets given in EBS/84/72 for 1984, the above adjustments would result in increments of Z 100 million for "other net domestic assets", Z 200 million for net credit to households and enterprises, Z 600 million for net credit to Government, and, therefore, Z 900 million for the net domestic assets of the banking system. On the other hand, the demand for money has been revised downward by Z 300 million to reflect, inter alia, the effects of higher interest rates and lower expectations on the rate of inflation. In absolute terms, net domestic assets are now projected to increase by Z 5,650 million in 1984, and money and quasi-money by Z 4,690 million (Table 5). In relation to the 1984 indicative targets given in EBS/84/72, the overall balance of payments deficit would decline by SDR 10 million, while the expansion of money and quasi-money would be reduced from 35.6 percent to 33.5 percent; since revaluation losses had previously been overestimated by Z 1,640 million, the increase in total credit (Z 900 million) as well as the revised expansion in money demand are consistent with a decline in the overall balance of payments deficit to SDR 23 million (Table 3).

5. Performance criteria

The program for 1984 now includes the following performance criteria: (a) quarterly ceiling on net domestic assets of the banking system and on net credit of the banking system to the Government for end-June, end-September, and end-December 1984; (b) minimum net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange for end-June, end-September, and end-December 1984; (c) ceiling on new external borrowings (commitment basis) by the Government or against government guarantee for 1984 as a whole as has already been 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-June, end-September, and end-December 1984, are contained in Table 6. Furthermore, there will be another comprehensive review with the Fund, of progress under the program following the present one; the next review will take place no later than October 1984, and will constitute a performance criterion.

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

	1983	1984			
	Dec. 1/	March 1/	June 2/	Sept. 2/	Dec. 2/
		(In millions of zaires)			
Net domestic assets of the banking system at end of period	14,184	15,896	17,189 3/	18,747 3/	19,834 3/
Net credit of the banking system to the Government at end of period	10,252	11,318	11,937 3/	12,865 3/	13,452 3/
		(In millions of SDRs)			
Net minimum cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange by end of period	12	11	20	30	40
New external borrowing, on a commitment basis, by the Government or against government guarantee through end of period 4/					
a. 1-12 years' maturity	—	150	150	150	150
b. 1-5 years' maturity	—	40	40	40	40

1/ Actuals.
2/ Performance criteria.
3/ 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.
4/ These ceilings for 1984 were established under the stand-by arrangement in EBS/83/257, 11/30/83. They exclude concessional loans.

III. Staff Appraisal and Proposed Decision

Since the first review of the program, a number of favorable developments have occurred and all performance criteria have been satisfied for end-March. Inflation has been cut drastically, the foreign exchange market is now performing well, and, in spite of a further reduction in the projected export price for copper, the balance of payments objectives for 1984 appear well within reach. On June 29, the President announced the liquidation of SOZACOM. Also, effective July 1, 1984, measures have been taken to eliminate the operating deficit of the Bank of Zaire by, inter alia, raising the interest rate on net credit to Government to 15 percent on an annual basis.

For the first five months of the year, the official cost of living index for Kinshasa shows a cumulative increase of about 5 percent. The zaire is floating freely on the interbank market which is now well-balanced between buyers and sellers and its value has stabilized slightly above Z 35 per U.S. dollar for the last three months, while the parallel market has virtually disappeared. Export earnings repatriated through the banking system have increased and importers can buy foreign exchange from commercial banks without problem. From July 1, enterprises with foreign participation will be allowed to transfer their 1983 dividends abroad, which should contribute to restoring confidence since transfers of dividends has not been allowed for more than a decade.

These favorable results reflect a considerable reduction in liquidity which has induced commercial banks to sell more foreign exchange and raise the remuneration on deposits in zaires. An important factor in this development has been the issuance to the nonbank sector of Treasury bills at rates which are highly positive in real terms.

The tightening of fiscal policies played a critical role in reducing liquidity. Government revenue is expected to exceed the target set for end-June due to the efforts made to improve tax collection, while public wage expenditure has remained under control. With the measures taken on June 1 for controlling drawdowns against Treasury subaccounts, the staff believes that the end-June subceiling on net credit to Government will be respected, but considers that payments arrears need to be carefully watched.

The financial situation of many public enterprises remains a subject of serious concern to the authorities, as a consequence of which they have taken decisions to further increase tariffs for a number of public utilities as well as the price of petroleum products, to extend the practice of external audits, and not to grant subsidies to public enterprises. The staff supports these decisions and welcomes the initiation of the first phase of the World Bank parastatal study. It recognizes, however, that much time will be required to liquidate unprofitable enterprises, privatize others, and implement well thought-out rehabilitation programs for the remainder. In the meantime, a number of enterprises will continue to accumulate payments arrears, even if their level of activity is sharply curtailed.

The staff believes that the authorities were right in having taken steps to eliminate the hidden subsidy of the Bank of Zaire to the Treasury and debiting Fund charges from the operating account of the Bank of Zaire retroactively from the beginning of the year, instead of lodging them in a suspense account. The deficit on the operating account of the bank could have been eliminated in 1984 by raising the interest rate on outstanding credit to Government to 15 percent throughout the year. Raising it in the second half of the year will bring only Z 700 million additional revenue to the Bank of Zaire and will leave the Bank with a sizable deficit on its operating budget in 1984, even after taking expenditure cutbacks into account. Since a further deficit cannot be envisaged for 1985, the rate of interest on net credit to Government will have to be reviewed before the end of 1984 and any adjustment required will have to be implemented from the very beginning of next year.

The staff considers that it is reasonable to set the December 1984 subceiling on net credit to Government at Z 600 million above the indicative ceiling given in the original program for three reasons. First, payments to the Bank of Zaire will be raised by Z 700 million in the second half of 1984. Second, a study of the investment budget conducted by the World Bank has shown that it was necessary to restore some of the cuts made in March to the extent of Z 200 million in order to avoid disruptive effects on the implementation of ongoing projects mainly financed with external assistance. Third, it did not appear advisable to make further cuts in government expenditure or to raise revenues by more than Z 300 million.

The staff also considers that it is reasonable to set the December ceiling on net domestic assets of the banking system Z 900 million above the indicative ceiling given in EBS/84/72. Out of the additional Z 300 million margin between ceiling and subceiling, Z 200 million is needed to ease credit to households and enterprises, because the tightness of this type of credit in the first half of the year has created serious difficulties in the financing of food crops and cotton. The remainder, Z 100 million, accounts for the increase in "other net domestic assets" which will result from a higher than previously envisaged deficit in the operating budget of the Bank of Zaire, even after allowing for offsetting movements in other domestic assets and liabilities whose movements are not easily predictable.

The staff believes that the proposed Z 900 million increase in net domestic assets does not endanger the primary objectives of the program. In spite of this increase and a lower estimate for the demand for money, the projected overall balance of payments deficit is smaller than had been indicated in EBS/84/72 because revaluation losses had been previously overestimated. It should be stressed that the effective monitoring of the credit program requires a better understanding of the factors behind recorded changes in "other net domestic assets" and, more basically, further improvements in accounting practices. In this connection, the staff welcomes the establishment within the Bank of Zaire of a permanent internal audit to be backed by annual external audits.

As regards the rescheduling of the external debt and its servicing, the results achieved so far are encouraging. Bilateral agreements have been signed with seven countries and the monthly payment of SDR 14.25 million to the U.S. Federal Reserve Bank has been made regularly so far in conformity with the Agreed Minute of the December meeting of the Paris Club. A monthly payment schedule has also been tentatively agreed upon with the members of the London Club. In spite of a further reduction to US$0.64 per pound in the export price of copper projected for 1984, the projected trade surplus exceeds the original projection and the overall balance of payments deficit is SDR 10 million lower than had been indicated in EBS/84/72. Consequently, the staff considers that the program remains on track.

The staff recognizes that further progress needs to be made regarding transparency of the accounts, but considers that the decision to liquidate SOZACOM and to extend the requirements for external audits are steps in the right direction. It also believes that there is a clear commitment on the part of the authorities for the success of the program, as illustrated in the Presidential Address of May 17 to the Congress of the Party. Finally, the official request for a Fund resident representative is also a welcome development.

In view of the above, the following draft decision is proposed for adoption by the Executive Board:

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, 12/22/83), 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.

2. The letter of the President of Zaire dated July 4, 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, supplemented by the letter of March 26, 1984, with Table 1, shall be read as supplemented by the letter of July 4, 1984, and Table 1.

3. 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 percent of quota

(a) during any period in which

(i) the ceilings on net domestic assets of the banking system at end-September and end-December 1984; or

(ii) the ceilings on net credit of the banking system to the Government at end-September and end-December 1984; or

(iii) the net cumulative reductions of commercial and invisible arrears through cash payments in foreign exchange by end-September and end-December 1984; or

(iv) the limits on new external borrowing, on a commitment basis, by the Government or against government guarantee through end-September and end-December 1984

specified in Table 1 attached to the letter of July 4, 1984 are not observed; or

(b) if the review with the Fund relating to the fourth purchase under the stand-by arrangement, which is to be conducted not later than end-October 1984, has not taken place, or while the performance criteria adopted as a result of this review are not being observed.

4. Paragraph 4(c) of the stand-by arrangement for Zaire (EBS/83/257, Supplement 2, 12/22/83), shall be amended to read as follows:

"(c) during the entire period of the stand-by arrangement, while Zaire has any overdue financial obligation to the Fund, or if Zaire..."

ATTACHMENT I

Kinshasa, July 4, 1984

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

Dear Mr. de Larosière:

1. Despite great difficulties, the Executive Council has taken all steps necessary to attain the objectives of the stabilization program described in my letters of September 12, 1983 and March 26, 1984. As a result, all the performance criteria set for the end of March 1984 under the agreement with the International Monetary Fund have been fully met. As I pointed out in my speech of May 17 to the Second Extraordinary Congress of the Popular Movement of the Revolution, the three essential objectives of the program are: (i) gradually restore the fundamental economic equilibria, particularly with respect to the balance of payments and government finance; (ii) reduce inflationary pressures and reactivate the economy; and (iii) re-establish Zaire's internal and external creditworthiness through sound, transparent and rigorous financial management.

2. Last September we carried out a fundamental reform of the exchange system and a significant liberalization of trade and prices. In this regard, in my letter of March 26 I called your attention to certain problems we encountered during the first months of 1984 in determining the exchange rate in the interbank market. The measures taken to solve these problems have had the desired effects. The exchange rate, which had depreciated by about 12 percent with respect to the U.S. dollar during the first quarter, has remained stable at approximately Z 35 per US$1 since early April, while both the discount and the volume of transactions in the parallel market have substantially declined. Inflation has slowed down considerably, the Kinshasa cost of living index having risen by less than 5 percent in the first four months of 1984. As the volume of foreign exchange repatriated through the banking system has increased, especially as regards invisibles, enterprises will be allowed to freely transfer abroad their declared dividends for 1983 as from July 1, 1984. Importers no longer have difficulty in exchanging their zaires for the foreign currencies they require.

3. The recent firmness of the zaire in a virtually free exchange market is the result of tighter liquidity, which has led banks to increase the interest paid on deposits. We intend to pursue this tight liquidity policy by expanding the Treasury bill market. However, we must acknowledge that this policy has caused serious cash flow problems for a number of banks and private and public enterprises. Consequently, we have decided to provide a safety valve by raising the Bank of Zaire's rediscount ceiling to Z 600 million and to establish a separate ceiling of Z 400 million for Bank of Zaire credit backed by pledged paper. The annual rediscount rate will remain at 20 percent.

4. Another cause of the liquidity squeeze is the tightening of budgetary discipline, which was reflected during the first quarter of 1984 in a deficit, including external debt amortization, 33 percent lower than programmed. This decline is attributable basically to an increase in revenue, produced by an expanded tax base, improved collections, certain selective tax measures, and a sustained effort by the administration. Expenditure has been maintained within the program limits, due to a strict control over appropriations and implementation of a program to identify the number of government employees, which is only now beginning to show results. Taking into account a negative balance of Z 95 million in extrabudgetary operations of the Treasury, the government debt to the central bank was kept down to Z 1,066 million, or Z 520 million below the programmed level for the first quarter of 1984. This margin for maneuver should make it possible to weather the difficult periods of the following three quarters. On the revenue side, the gains obtained so far may offset the slowdown in receipts projected for the closing months of the year, when the impact of the tariff cuts introduced in April is fully felt and before the strengthening of the customs administration, undertaken with EC assistance, begins to bear fruit.

5. In order to prevent any slippage as regards expenditure, the Executive Council took a number of steps on June 1 to assure more effective control over operations effected through Treasury subaccounts. All expenditure commitments against subaccount appropriations will henceforth be subject to the prior approval of the Department of Finance. Furthermore, their users must submit a detailed cash flow plan for the months to be covered. At the end of 1984 the credit balance in budgetary subaccounts will be incorporated in the government budget in order to comply strictly with the annual nature of the budget.

6. Although the financial deterioration of some public enterprises does not have a direct impact on the Treasury, since they do not receive budgetary subsidies, their condition continues to merit the authorities' attention. For example, the Executive Council has ordered the most important enterprises to undergo external audits. Pending the results of these audits, certain enterprises have been required to make massive staff cutbacks and suspend some of their activities. Public enterprises deemed to be viable in the medium or long term have been granted substantial tariff adjustments. Thus, effective August 1, 1984 the prices of gasoline will go from Z 33.0 to Z 30.0 per liter, of diesel from Z 12.5 to Z 15.0 per liter, of fuel oil from Z 7.5 to Z 9.5 per liter, and of kerosene from Z 15.0 to Z 16.0 per liter. Transportation tariffs will be increased as a result. The Executive Council has also decided to place the marketing of mining products under the direct control of the producing enterprises and to liquidate SOZACOM effective June 29, 1984.

7. Despite declining copper prices (now projected to average $0.64 per pound for the year) export receipts are expected to exceed the projections made in February by nearly 5 percent, as a result of higher cobalt and coffee prices and increased diamond exports. This

should make it possible to limit the external current account deficit to approximately SDR 295 million and to reduce the overall deficit to about SDR 22 million after rescheduling of the debt.

8. Pursuant to our commitments to the Paris Club creditors, bilateral agreements have been signed with Austria, Belgium, Canada, France, the Netherlands, Switzerland, and the United States; agreements remain to be signed with five other countries. A tentative agreement has been reached with the commercial banks of the London Club regarding debt service payments to be made until March 1985. The authorities have also contacted creditors not belonging to either the Paris Club or the London Club to propose a rescheduling on the same terms as agreed with the Paris Club. For the period January 1-March 31, 1984 commercial and invisible arrears have been reduced by SDR 13.8 million, of which SDR 11 million through cash payments in foreign exchange, in accordance with the intentions expressed in my letter of March 26, 1984.

9. Although importers are now permitted to obtain foreign exchange freely, import demand remains severely limited by the level of their zaire holdings because of the limits imposed on the budgetary deficit and on expansion of credit to the private sector. In the program described in my letters of September 12, 1983 and March 26, 1984, these limits were expressed as quarterly ceilings on net domestic assets of the banking system and subceilings on net credit to the Government, with the difference between the ceilings and subceilings representing the available margin for expansion of credit to the private sector and for changes in other net domestic assets of the banking system.

10. The classification of the accounts of the Bank of Zaire has been revised with the technical assistance of a Fund expert who visited Kinshasa in February and May 1984. The Bank of Zaire intends to vigorously pursue the improvements made in its accounting by implementing a permanent internal audit system backed by periodic external audits; the first of such external audits will take place before the end of 1984. Following these revisions, it has been decided to debit Fund charges from the operating account of the Bank of Zaire (retroactively from January 1, 1984) instead of placing them in a suspense account, and to eliminate what was a hidden subsidy of the Bank of Zaire to the Treasury. Starting July 1, 1984, the interest rate applicable to outstanding net credit from the Bank of Zaire to the Government will be raised to 15 percent on an annual basis (compared with the present 3 percent on the amount outstanding as of September 30, 1983 and 7 percent on the increment from that date), which is expected to bring additional income of about Z 700 million to the Bank of Zaire. The Bank of Zaire will, on its part, reduce the deficit on its operating budget principally by cutting expenditures, the net outcome of which is reflected in other net domestic assets, by Z 200 million during the second part of 1984; with some expected offsetting movements in other domestic assets, the overall target for other net domestic assets of the banking system would

need to be raised by Z 100 million over the original indicative target through December 1984. Credit to households and enterprises (public and private) has been very tight; as a consequence, the financing of food crops and certain cash crops, such as cotton, has been severely cut back. In order to avoid a slowdown of activity in key sectors of the economy, such as agriculture, it is proposed to raise the indicative target for credit to this sector by Z 200 million over the original program.

11. As regards the government budget, the additional Z 700 million to be paid to the Bank of Zaire and the Z 200 million increase in the investment budget suggested by the World Bank will be partly offset by a Z 300 million increase in tax revenue. The subceiling on net credit to Government should therefore be set at Z 600 million above the indicative ceiling indicated in my letter of March 20, 1984 and the ceiling on net domestic assets at Z 900 million above the indicative ceiling given in the same letter. In this manner, the increase in the interest rate on net credit to Government to 15 percent per year, from July 1, 1984, would cover the cost of Fund charges in the second half of 1984 and the rate to be applied from January 1, 1985, will be reviewed before the end of 1984. The expansion of money supply will be contained at under 34 percent as compared with the original target of 36 percent for 1984. Since the deficit of the balance of payments is likely to be reduced by US$11 million from the projections made in February, the primary objectives of the program will be fully preserved, notwithstanding the increases in domestic credit.

12. During the program period steps will be taken to relax the existing restrictions on international payments and transfers. In this context, external arrears on commercial and invisible payments registered with the Bank of Zaire, which amounted to SDR 169 million at the end of March 1984, will be further reduced through cash payments in foreign exchange by SDR 20 million by the end of June 1984, by SDR 30 million by the end of September 1984, and by SDR 40 million by the end of December 1984.

13. In order to assure the success of the program, the Executive Council will exercise the greatest vigilance to ensure that the policies and measures in this letter will be implemented. Furthermore, 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 attain the basic objectives of the program.

14. The intermediate performance criteria under the program for the second half of 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 excluding concessional loans; 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 12 above; and (d) a performance review with the Fund which relates to the fourth purchase under 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. 1/	March 1/	June 2/	Sept. 2/	Dec. 2/
		(In millions of zaires)			
Net domestic assets of the banking system at end of period	14,184	15,896	17,189 3/	18,747 3/	19,834 3/
Net credit of the banking system to the Government at end of period	10,252	11,318	11,937 3/	12,865 3/	13,452 3/
		(In millions of SDRs)			
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange by end of period	12	11	20	30	40
New external borrowing, on a commitment basis, by the Government or against government guarantee through end of period					
a. 1-12 years' maturity	--	--	150	150	150
b. 1-5 years' maturity	--	--	40	40	40

1/ Actuals.
2/ Performance criteria.
3/ These amounts are based on the assumptions that: (a) external debt service payments by the Treasury will amount to the equivalent of US$140 million during the period January-June 1984, the equivalent of US$217 million through the end of September, and the equivalent of US$276 million through the end of December 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$10 million by end-June 1984, by US$15 million by end-September, and by US$20 million by end-December 1984; (c) arrears in domestic payments, which amounted to Z 506 million at the end of 1983, will be reduced by Z 150 million through end-June, by Z 165 million through end-September, and by Z 180 million through end-December 1984; (d) in the event that the outstanding stock of Treasury bills exceeds Z 200 million before end-June, Z 350 million by the end of September, and Z 500 million by the end of December 1984, the excess amount will be used to reduce the advances of the Bank of Zaire to the Treasury; however, the ceiling on net domestic assets for end-September and end-December 1984 will not be reduced unless the outstanding stock of Treasury bills exceeds Z 625 million and Z 750 million, respectively. In the event that actual payments fall short of the amounts indicated in (a) or (b), the corresponding credit ceilings and subceilings will be reduced by equivalent amounts in zaires; should the actual payments fall short of the amounts indicated in (c), only the subceilings on net bank credit to the Government will be reduced by equivalent amounts.

Zaire - Relations with the Fund

(As of June 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 829 million, 285 percent of quota

(c) Fund credit: SDR 538.2 million, 185 percent of quota
Of which: credit tranches: SDR 316.8 million, 108.9 percent of quota
special facilities: SDR 221.4 million, 108.8 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 78 million
(iv) Undrawn balance: SDR 150 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 0.6 million, equivalent to 0.71 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 0.02869. On June 29, the exchange rate was Z 1 = SDR 0.0285.

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. Overall IBRD/IDA operations (as of December 31, 1983)	Disbursed IBRD	Disbursed IDA	Undisbursed IBRD	Undisbursed 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. IFC investments 1/ (as of December 31, 1983)	Disbursed	Undisbursed
Total	5.1	--
Of which: repaid	(3.7)	--
Total outstanding	1.4	--

Memorandum items:

Annual IBRD/IDA operations	Commitments 2/	Disbursements 3/	Repayments
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, 1981-84

	1981	1982	1983		1984		
			Program	Actual	Original program	First review	Revised projections
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	2.4	-2.2	1.0	1.2	2.0	1.5	2.0
GDP deflator	34.0	37.2	68.0	91.4	47.0	49.0	90.0
Consumer prices	35.4	37.2	68.0	76.0	47.0	49.0	35.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	-18.8	3.5	4.4	8.1	10.8	6.7	13.1
Copper exports, f.o.b.	-20.1	14.0	2.5	4.4	7.5	-3.4	-12.1
Imports, c.i.f.	0.4	-6.2	1.8	2.1	6.3	4.5	8.2
Non-oil imports, f.o.b.	-9.0	-3.4	2.7	3.7	5.6	5.1	8.5
Export volume	-14.4	13.3	2.7	7.9	4.5	5.6	6.2
Import volume	-5.7	-7.8	-0.3	0.5	1.6	1.6	4.1
Terms of trade (deterioration -)	-7.5	-8.9	-0.5	-1.2	1.7	-1.6	-2.8
Nominal effective exchange rate (depreciation -) 1/	-23.3	-13.0	...	-51.3	...	...	...
Real effective exchange rate (depreciation -) 1/	-5.6	10.1	...	-22.9	...	...	...
Government budget							
Total revenue	30.0	28.8	76.8	75.7	84.4	88.8	91.6
Total expenditure (excluding amortization)	68.8	44.6	33.9	34.0	66.5	75.0	82.4
Money and credit							
Net domestic assets (end of period)	54.4	77.3	51.9	34.4	34.6	33.5	39.8
Government	62.4	86.5	34.0	30.0	27.5	25.4	31.2
Private sector	32.3	46.9	65.9	49.2	58.1	60.7	67.7
Money and quasi-money (end of period)	37.9	72.6	50.5	73.8	35.1	35.6	33.5
Interest rates (end of period)							
Bank of Zaire basic rediscount rate	15.0	15.0	20.0	20.0	...	20.0	20.0
Commercial banks							
Rediscountable short-term loan rate for noncoffee agricultural production	11.0	11.0	15.0	15.0	...	15.0	15.0
Rediscountable short-term loan rate for other productive activities	11.0	11.0	freely negotiable				
6-12 months' time deposit rate	20.0	20.0	20.0	20.0	...	...	...
12-24 months' time deposit rate	30.0	30.0	30.0	30.0	...	...	...

Zaire: Selected Economic and Financial Indicators, 1981-84 (concluded)

	1981	1982	1983		1984		
			Program	Actual	Original program	First review	Revised projections
			(In percent of GDP)				
Government budget surplus or deficit (-)	-3.9	-5.8	-1.1	-1.2	-0.2	-0.6	-0.6
Domestic bank financing (net)	4.1	6.8	2.6	2.5	1.6	1.9	1.8
Foreign financing (net)	-0.2	-1.0	-1.5	-1.4	-1.3	-1.3	-1.3
External current account deficit (-)							
Before rescheduling							
Including official transfers 2/	-5.2	-5.2	-3.6	-4.4	-5.1	-7.0	-6.6
Excluding official transfers 2/	-8.2	-7.1	-6.3	-6.8	-9.6	-11.1	-10.5
After rescheduling							
Including official transfers 2/	-3.4	-4.6	-1.8	-2.8	-2.6	-4.4	-4.0
Excluding official transfers 2/	-6.5	-6.5	-4.5	-5.1	-7.1	-8.5	-7.9
External medium- and long-term debt inclusive of use of Fund credit	54.8	53.9	...	48.5 3/	...	...	...
Debt service ratio (in percent of exports of goods and services) 4/	24.9	17.9	18.4	18.4	28.1	26.9	25.4
	(In millions of SDRs, unless otherwise specified)						
External current account deficit (-)							
Before rescheduling	-360	-392	-240	-300	-230	-314	-295
After rescheduling	-239	-353	-122	-190	-116	-198	-179
Overall balance of payments deficit (-)							
Before rescheduling	-612	-598	-452	-433	-400	-437	-427
After rescheduling	-327	-480	-86	-97	-16	-33	-23
Gross official reserves 5/ (weeks of imports, c.i.f.)	5	1	2	2	3	3	3
External payments arrears, end of period	530	848	...	372 6/	...	...	...
Of which: commercial and invisible	(383)	(207)	(197)	(183)	(143)	(143)	(143)

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.