

EBS/84/271

CONFIDENTIAL

December 28, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Zaire - Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the third review under the stand-by arrangement for Zaire. A draft decision appears on pages 17 and 18.

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. 573801) or Mr. McCarthy (ext. 8734).

Att: (1)

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 A.D. Ouattara and W.A. Beveridge

December 28, 1984

I. Introduction

On November 9, 1984, the Executive Board completed the third review under the 15-month stand-by arrangement for Zaire (EBS/84/213, 10/12/84) which became effective on December 27, 1983, for an amount equivalent to SDR 228 million, or 62.7 percent of quota on an annual basis (EBS/83/257, 1/30/83). By November 15, 1984, Zaire had made four purchases under the arrangement totaling SDR 158 million; the fifth purchase, of SDR 40 million, is subject to observance of the September performance criteria and completion of the fourth review. The sixth, and final, purchase of SDR 30 million is subject only to observance of the December performance criteria (Table 1). As of December 15, 1984, the Fund's holdings of Zaire's currency, subject to repurchase, amounted to SDR 599.1 million, or 206 percent of quota; excluding holdings of SDR 199 million under the compensatory financing facility, they were equivalent to 137.5 percent of quota. If all purchases are made under the present program, the Fund's holdings of Zaire's currency subject to repurchase, excluding special facilities, would amount to SDR 418.7 million or 144 percent of quota as of end-March 1985.

The policy discussions with the Zairian authorities that formed the basis for the fourth program review were held in Kinshasa during the period November 20-December 2, 1984. ^{1/} A letter from the President of the Republic of Zaire, dated December 18, 1984, proposing policies and measures for the remainder of the program 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), Mr. Ian McCarthy (AFR), and Mrs. Marion Dowsett (secretary-AFR). The mission was assisted by Mr. Régis Blin, Fund Resident Representative in Kinshasa. Mr. Tshishimbi, Alternate Executive Director, participated in the discussions.

Table 1. Zaire: Fund Position During Period of Arrangement

	Outstanding at beginning of arrangement 1/ Nov. 30, 1983	1983 Dec.	1984				1985
			Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- March
<u>(In millions of SDRs)</u>							
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
<u>(As percent of quota)</u>							
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 Under the Program

The adjustment program continues to be implemented with a considerable degree of success. The annual inflation rate has further declined, the balance of payments position for 1984 has improved over previous projections despite the softness in copper prices, external debt service payments are being made on schedule, and the real growth rate of the economy is likely to be more than double that of the previous year. Overall liquidity in the economy continues to be very tight as the budget deficit is kept under control and private sector credit expansion is constrained. Some progress has been made in dealing with the problems of those public enterprises that are in dire financial straits, although a great deal still needs to be done in the near future towards restructuring several of these enterprises. For the remainder of the 1984 program, certain problems remain as discussed below, particularly in the areas of insufficient private sector credit, pricing of petroleum products, and the intervention policy of the Bank of Zaire on the interbank market. Furthermore, the authorities have requested technical modifications to the program as explained in Section 5 below.

1. Prices and exchange rate

As a result of the tight control over the budget deficit and restrictive credit policies to the private sector, the cost of living index in Kinshasa has remained virtually flat from August to October, bringing the annual rate of inflation to about 14 percent for the first ten months of 1984. Taking into account the seasonal increase in the cost of living at the end of the year and the likely impact of the recent wage increases in the private sector, inflation should remain under 20 percent for 1984 as a whole, which represents a sharp fall from the 100 percent rate recorded in the preceding year.

As the reduction in the rate of inflation has been associated since September with an acceleration in the depreciation of the zaire in relation to the U.S. dollar, the appreciation of the real effective exchange rate which had occurred from March to August has been sharply reversed in the three following months. In November 1984, the real effective exchange rate had returned to the levels previously recorded in April 1984 and October 1983 (Chart 1).

This reversal largely results from an increase in the foreign exchange purchases made by the Bank of Zaire on the interbank market. During the first twelve months of the float, the foreign exchange purchases of the Bank of Zaire had been approximately equal to its sales, but the Bank of Zaire had not been able to provide the Treasury with sufficient foreign exchange to reduce its external arrears in accordance with the program targets. At the end of September, the Bank of Zaire purchased US\$18 million on the interbank market without creating a perturbation, because foreign exchange receipts had been exceptionally large in that month. The more recent drive to acquire foreign exchange did not, however, go so smoothly. In mid-November, commercial banks

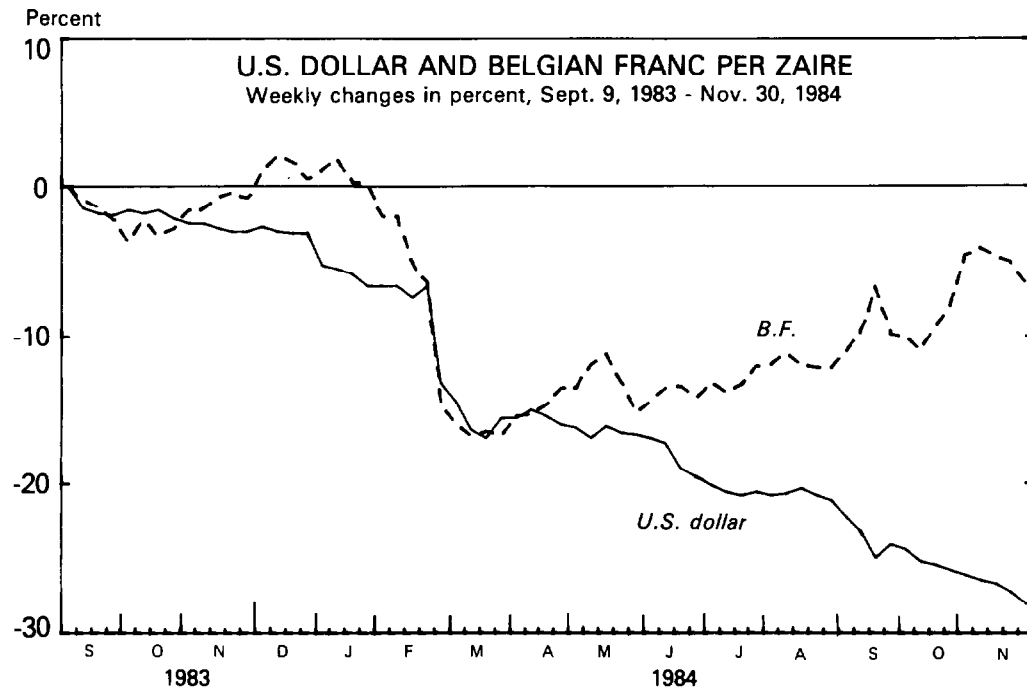
were informed that the Bank of Zaire had to purchase at least US\$25 million net before the end of the year in order to satisfy a performance criterion of the Fund program. As a precautionary measure, some banks decided to suspend sales of foreign exchange to their customers until they had provided the necessary amounts to the Bank of Zaire; this resulted in a disruption of the market for about two weeks, which shook the confidence of operators in the free convertibility of the zaire, although normal operations appear to have resumed in December. Furthermore, this disruption did not lead to a resurgence of parallel market transactions.

2. External sector

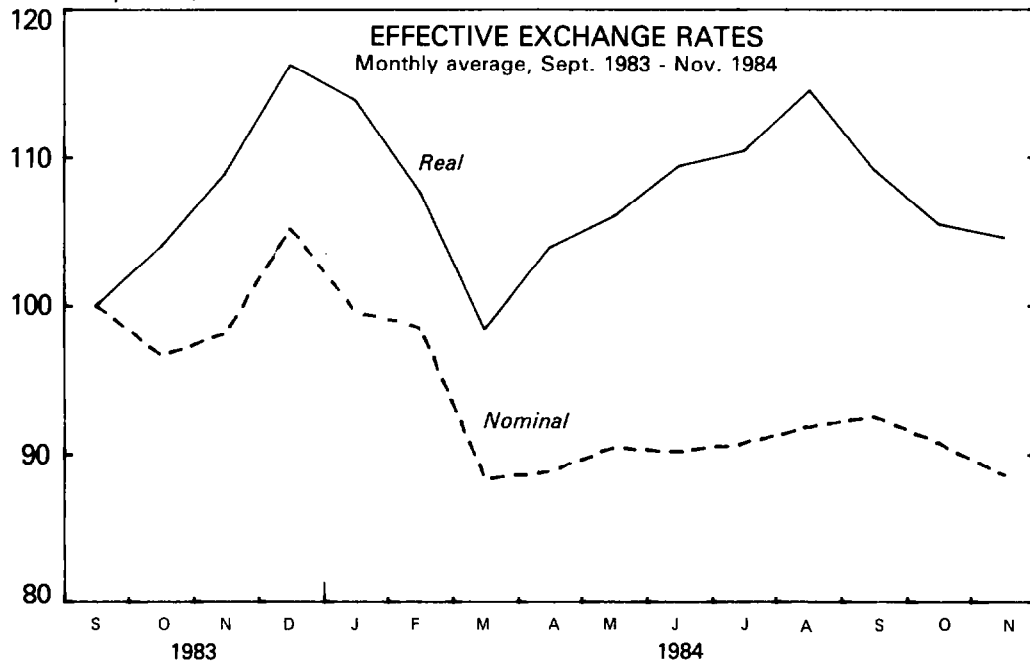
Overall developments in the external sector continue to be satisfactory, despite the weakness in copper prices. The average export unit value for copper is now projected to be about US\$0.62 per pound for 1984, compared with an original program target of US\$0.79 per pound, and an actual unit value of US\$0.71 per pound in 1983; this implies a decline of over 13 percent in average prices, or about US\$100 million in export earnings on account of the copper price alone. Substantially higher earnings from cobalt, diamonds, coffee, and petroleum have more than offset the shortfall from copper receipts (Appendix Table I). Overall export earnings in SDR terms are now projected to be 22 percent higher than in 1983, and 8 percent higher than estimated during the last program review. As the growth of imports continues to be moderated by the tight credit conditions prevailing in the economy, the current account deficit for 1984 is now expected to be close to the original program target of SDR 230 million, considerably below its 1983 level (Table 2).

External debt service payments to Paris Club and London Club creditors continue to be made on a regular basis. As of December 20, 1984, SDR 147 million (including SDR 4.5 million in accrued interest) had been deposited by the Bank of Zaire in a special account in the Federal Reserve Bank of New York, in conformity with the rescheduling agreement of the Paris Club of December 1983. Furthermore, the Bank of Zaire intends to deposit about SDR 9 million before the end of the year which would bring the total amount to SDR 156 million, and would more than cover the amounts due to all Paris Club creditors under the bilateral accords for 1984, which are now estimated at SDR 150.4 million. Bilateral agreements have been signed with all Paris Club creditors, with the exception of Japan and this last accord should be completed during the month of December. The Bank of Zaire intends to continue making monthly payments of SDR 14.25 million during the first quarter of 1985 until a rescheduling arrangement has been made with the Paris Club for 1985. Zaire has also been making the regular monthly payments to London Club creditors, which have increased from US\$5 million per month during the third quarter to US\$7 million per month in the last quarter of 1984, bringing total payments to commercial bank creditors in the London Club to US\$48 million for the year as a whole. Preliminary discussions have taken place between the Zairian authorities and the

CHART 1
ZAIRE
EXCHANGE RATE DEVELOPMENTS



Index: Sept. 9-30, 1983 = 100



Sources: Bank of Zaire; and IMF staff estimates.



Table 2. Zaire: Balance of Payments, 1983-85

(In millions of SDRs)

	1983	1984				1985 Projections
		Original program	First review	Second and third review	Fourth review	
Trade balance	383	419	430	481	581	677
Exports, f.o.b.	1,424	1,524	1,520	1,611	1,744	1,996
Imports, f.o.b.	-1,041	-1,105	-1,090	-1,130	-1,165	-1,319
Oil	(-156)	(-180)	(-160)	(-160)	(-180)	(-240)
Non-oil	(-885)	(-925)	(-930)	(-970)	(-985)	(-1,079)
Services	-821	-834	-899	-921	-944	-980
Receipts	94	100	104	101	110	114
Expenditure	-915	-934	-1,003	-1,022	-1,054	-1,094
Freight and insurance	(-236)	(-245)	(-244)	(-252)	(-210)	(-236)
Other transport	(-15)	(-35)	(-20)	(-20)	(-23)	(-29)
Travel	(-34)	(-18)	(-35)	(-35)	(-54)	(-59)
IMF charges	(-42)	(-55)	(-50)	(-47)	(-49)	(-58)
Interest on public debt	(-263)	(-296)	(-334)	(-334)	(-340)	(-331)
Other investment income	(-23)	(-40)	(-25)	(-35)	(-43)	(-56)
Government, n.i.e.	(-72)	(-50)	(-70)	(-70)	(-129)	(-100)
Other services	(-230)	(-195)	(-225)	(-229)	(-206)	(-225)
Unrequited transfers	138	185	155	145	127	130
Private	-20	-15	-25	-30	-43	-45
Public	158	200	180	175	170	175
Current account balance	-300	-230	-314	-295	-236	-173
(Excluding interest rescheduled)	(-190)	(-116)	(-198)	(-179)	(-106)	(...)
Public capital	-211	-170	-123	-132	-194	-263
Disbursements	132	180	230	221	165	169
Amortization 1/	-343	-350	-353	-353	-359	-432
Private capital and errors and omissions	78	=	=	=	=	=
SDR allocation	=	=	=	=	=	=
Overall deficit (-)	-433	-400	-437	-427	-430	-436
(Excluding interest and principal rescheduled)	(-97)	(-16)	(-33)	(-23)	(-32)	(...)
Financing items	433	400	437	427	430	436
Arrears (reduction -)	-480 3/	...	-40	-40	-40	-40
Of which: cash payments 2/	(-12)	(-40)	(-40)	(-40)	(-40)	(-40)
Debt rescheduling and other assistance	861	...	404	404	398	...
Net Fund credit	104	129	95	95	95	-34
Purchases	(114)	(198)	(158)	(158)	(158)	(70)
Repurchases	(-10)	(-69)	(-63)	(-63)	(-63)	(-104)
Other reserve movements (increase -)	-52	-42	-22	-32	-23	-20
Gap	--	353	--	--	--	530
Memorandum item:						
Average export unit value of copper in U.S. cents per pound	71	79	72	64	62	65

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.

Steering Committee of the London Club banks with a view to considering the nature and extent of rescheduling of obligations falling due in 1985; in the interim, it has been agreed that the Bank of Zaire will make monthly payments of US\$4 million during the first quarter of 1985.

Arrears on commercial and invisible payments registered with the Bank of Zaire, which amounted to SDR 183 million at end-December 1983 and SDR 139 million at end-June 1984, have been further reduced by SDR 7.7 million during the third quarter through cash payments in foreign exchange; these arrears will be further reduced by, at least, SDR 9.3 million during the fourth quarter of 1984. Payments to creditors are being made in chronological order with a view to maintaining equality of treatment. During the first quarter of 1985, the Bank of Zaire intends to further reduce commercial and invisible arrears through cash payments in foreign exchange by SDR 10 million.

In March 1984, the Bank of Zaire required from importers a minimum mandatory deposit of 50 percent in local currency to open uncovered letters of credit; in May 1984, the deposit was increased to 65 percent with retroactive effect. During the third review of the program, the Executive Board granted a waiver of the multiple currency practice arising from this mandatory deposit, until June 30, 1985. The Bank of Zaire has reduced the deposit amount to 50 percent as of November 1, 1984 and intends to reduce it further in the coming months with a view to eliminating it by June 30, 1985. The Bank of Zaire, which had allowed companies with foreign participation to transfer abroad their 1983 dividends on July 1 has extended its transfer authorization to preceding years as of November 1. The tight cash flow position of most enterprises has, however, limited actual transfers.

The balance of payments outlook for 1985 continues to be dependent upon the evolution of copper prices. Staff projections for the average copper price in 1985 have been revised downwards from US\$0.68 per pound to US\$0.65 per pound. However, virtually stagnant earnings from copper exports are expected to be more than offset by sizable increases in exports of petroleum, diamonds and coffee; total export earnings are projected to rise to SDR 2 billion in 1985, which would represent a 14 percent increase from 1984. With a 13 percent increase in imports, the current account deficit would be reduced by some SDR 65 million to SDR 173 million, equivalent to 3.4 percent of GDP.

Contractual debt service payments due to all creditors for 1985 are estimated at SDR 763 million, of which SDR 331 million is interest (Appendix Table II). Debt service to Paris Club creditors, principal and interest, is about SDR 526 million of which SDR 174 million is due under the last Paris Club rescheduling agreement of December 1983. In the absence of any debt rescheduling for 1985, the overall deficit would amount to SDR 436 million, roughly the same level as in 1984 and 1983 if the calculation is made on a comparable basis. Including obligations to the Fund on projected use of Fund resources as of end-March 1985, the debt service before rescheduling would amount to 50 percent of exports

in 1985. A financing gap of SDR 530 million is presently projected for 1985. To close this gap the authorities have indicated their intention to approach the Fund for a new program that could be supported by a stand-by arrangement; they also intend to seek debt rescheduling from Zaire's external creditors, including the Paris and London Clubs.

3. Fiscal developments

During the first nine months of the year, Treasury operations ^{1/} resulted in an overall surplus of Z 538 million. Amortization payments on external debt (Z 1,848 million) were financed by this surplus, by an increase in central bank advances (Z 843 million), and by net subscriptions to Treasury bills by the nonbank domestic private sector (Z 467 million, excluding imputed interest).

Total budget revenue, at end-September, reached Z 19.0 billion, exceeding the program estimate by 22 percent (Table 3). This favorable revenue performance stemmed largely from continued increases in customs receipts and higher-than-expected royalty and income tax payments from petroleum exports, a trend which is projected to continue through the rest of the year. There was, however, a shortfall in administrative revenue on account of the postponement of the implementation of a levy on the employment of expatriates, which appears in other revenue. Total expenditure (excluding amortization payments) amounted to Z 18.5 billion through September compared with a program target of Z 16.5 billion. The overrun was essentially due to net drawings out of the Treasury subaccounts by various decentralized departments. The problem of lack of control over spending from these subaccounts had been noted on the occasion of the second review and, as reported, measures were taken in June to introduce a more stringent oversight over disbursements. There was also a sizable overrun on expenditure for goods and services resulting mainly from increases in petroleum prices and in public utility tariffs. The latter was, however, offset to a large extent by savings on other domestic outlays. It should also be noted, though, that some of the overruns reflected expenditures authorized by the Executive Council for which there were no corresponding provisions in the original budget.

The Treasury reduced its stock of external nondebt arrears accumulated at end of December 1983 by Z 254 million (US\$8 million) through end-September, compared with a programmed reduction of Z 525 million (US\$15 million). However, since the Treasury could not meet all its current payments in foreign exchange for certain categories of expenditures (embassies, military attachés, technical assistance, and foreign suppliers) due to an insufficient allocation in the foreign exchange budget of the central bank, the stock of nondebt arrears as of end-September amounted to US\$70 million instead of US\$41 million as required in the program. Consequently, the subceiling on net credit to the Government, for end-September, was adjusted downwards by Z 1.1 billion which is the zaire counterpart of the shortfall in reducing outstanding arrears from the program target. However, in view of the purchases of

^{1/} Central government operations, excluding foreign-financed investment outlays and those expenditures of autonomous funds (such as the Road Fund and the Agricultural Fund) which are financed from earmarked taxes.

Table 3. Zaire: Fiscal Performance Under the 1984 Program ^{1/}

(In millions of zaires)

	1st nine months			1984			
	Program	Actual	Difference	1st review	2nd review	Latest estimates	Difference
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
							= (6)-(5)
Total revenue	15,645	19,027	3,382	20,768	21,068	25,300	4,232
Of which: GECAMINES	(3,450)	(3,677)	(227)	(4,600)	(4,600)	(5,000)	(400)
petroleum companies	(2,790)	(4,165)	(1,375)	(3,720)	(3,840)	(5,350)	(1,510)
Income and profits taxes	4,324	5,824	1,500	5,738	5,788	7,960	2,172
Taxes on goods and services	3,636	5,454	1,818	4,875	4,875	7,291	2,416
Import duties	3,231	3,751	520	4,310	4,310	5,057	747
Export duties	2,105	2,467	362	2,752	3,002	3,314	312
Other taxes and nontax revenue	2,349	1,531	-818	3,093	3,093	1,678	-1,415
Total expenditure	16,526	18,489	1,963	21,181	22,081	26,550	4,469
Wages and salaries	3,396	3,195	-201	4,586	4,586	4,586	--
Goods and services	2,895	3,435	540	3,797	3,797	5,624	1,827
Interest on public debt	6,380	6,477	97	7,956	8,656	8,560	-96
Domestic ^{2/}	(798)	(670)	(-128)	683	(1,383)	(1,034)	(-349)
External	(5,582)	(5,807)	(225)	(7,273)	(7,273)	(7,526)	(253)
Transfers and subsidies	646	679	33	862	862	860	-2
Capital expenditure ^{3/}	943	817	-126	1,057	1,257	1,100	-157
Repayment of arrears	1,430	1,184	-246	1,869	1,869	2,320	451
GECAMINES ^{4/}	(740)	(732)	(-8)	(989)	(989)	(1,350)	(361)
Other domestic	(165)	(198)	(33)	(180)	(180)	(200)	(20)
External	(525)	(254)	(-271)	(700)	(700)	(770)	(70)
Other ^{5/}	836	2,702	1,866	1,054	1,054	3,500	2,446
"Budget pour ordre" ^{6/}	(836)	(725)	(-111)	(1,054)	(1,054)	(800)	(-254)
Subaccounts	(--)	(1,977)	(1,977)	(--)	(--)	(2,700)	(2,700)
Overall surplus or deficit (-)	-881	538	1,419	-413	-1,013	-1,250	-237
Financing	881	-538	-1,419	413	1,013	1,250	237
Domestic	2,713	1,310	-1,403	2,800	3,400	3,700	300
Banking system	(2,613)	(843)	(-1,770)	(2,600)	(3,200)	(2,950)	(-250)
Treasury bills	(100)	467	(367)	(200)	(200)	(750)	(550)
External	-1,832	-1,848	-16	-2,387	-2,387	-2,450	-63
Borrowing	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Amortization	(-1,832)	(-1,848)	(-16)	(-2,387)	(-2,387)	(-2,450)	(-63)

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

^{1/} Central government operations, excluding foreign-financed investment outlays and those expenditures of autonomous funds (such as the Road Fund and the Agricultural Fund) which are financed from earmarked taxes.

^{2/} Including interest paid to the Bank of Zaire as a counterpart for Fund charges.

^{3/} Includes only the local counterpart of investment outlays financed with external assistance.

^{4/} Repayments for uncompensated sales made in earlier years.

^{5/} Including the accounts of autonomous funds to the extent that they are financed by the Treasury.

^{6/} Special funds and annexed budgets.

foreign exchange by the Bank of Zaire during the last quarter of 1984, the Treasury should be able to meet the original target for the reduction in its external arrears for 1984 as a whole. With regard to domestic arrears of the Treasury, a detailed inventory as of December 1983 has been completed. At this date, such arrears are estimated to amount to Z 1,084 million of which Z 198 million was repaid during the first nine months of 1984. Further verification is being done to update the inventory through end-September 1984.

All accounts that had been held with commercial banks by the Government, departments of the Executive Council, and certain government agencies, have been transferred to the Bank of Zaire as of September 30, 1984. As a result, the amount of Z 343 million was effectively added to the deposit position of the Treasury with the central bank; the authorities' policy has been to freeze this amount, except for the part required to cover the current administrative outlays of the departments and agencies concerned.

Budget projections for 1984 as a whole have been revised upwards on the basis of actual performance through the first ten months. Total revenues are now estimated at Z 25.3 billion, representing an increase of 10 percent over estimates made during the last review. Expenditures are estimated to reach Z 26.5 billion, also an increase of about 10 percent over estimates made during the last review, on the assumption that all external nondebt arrears are reduced as scheduled and capital expenditures reach Z 1.1 billion. The expenditure overrun is essentially due to the deficit of the Treasury subaccounts and to higher outlays for goods and services. The resulting deficit is expected to exceed the second review estimate by Z 237 million. The latter had itself been raised by Z 600 million above the first review estimate, on account of an increase in the interest rate on the Bank of Zaire's advances to the Treasury to cover Fund charges for the second semester. The additional deficit will, however, be largely offset by higher-than-programmed sales of Treasury bills. As a result, domestic bank financing is expected to exceed the target set in the first review by only Z 350 million and to remain Z 250 million below the second review target.

4. Public enterprises

In order to assess the financial position of public enterprises, external audits have been undertaken for the most important ones. This is to be followed by a series of measures, notably restructuring management, reducing employment, adjusting tariffs, and eliminating uneconomic activities.

External audits of the Zairian Shipping Company (CMZ) and ONATRA have already been completed, while that of Air Zaire should be completed in December. The audits of the KILOMOTO gold mining company, the post and telecommunications office (ONPTZ), and the national highways office (ONR) are expected to be completed in March 1985, and that of the national railway company (SNCZ), in June 1985.

Pending a detailed examination of the recommendations made by the auditors, the authorities have decided to take immediate action concerning the two transport companies which are in a critical financial situation. In the case of Air Zaire, about 2,400 employees presently on technical leave will definitely be laid-off, the reimbursement of indemnities and severance pay, estimated at about Z 100 million, being borne by the Treasury. In addition, the authorities have begun to examine the possibilities of renegotiating the external liabilities of Air Zaire, which are provisionally estimated at US\$27 million as of end-September 1984, in addition to domestic currency liabilities of Z 448 million. Finally, the international operations of the company have been severely cut back and are now limited to the profitable route Kinshasa-Brussels. Regarding CMZ, following the auditors' report a working group was established which made the recommendation that at least 150 employees be laid-off, the management be restructured, indirect benefits to some staff be cut back or eliminated, and three out of the eight ships be immediately sold; an agreement in principle has already been reached with foreign creditors on the sale of these ships. The operations of the company will be limited to the most profitable route between Europe and Zaire.

With regard to the two other major transport companies, ONATRA and SNCZ, their cost structures are being analyzed to assess the extent of needed tariff adjustments. The management of KILOMOTO has been changed and consideration is being given to new investments with foreign collaboration. The state-owned petroleum company, PETROZAIRE, is in a precarious cash flow situation; its working capital has been eroded and the company does not have sufficient liquidity to cover the domestic currency equivalent of US\$18 million per month needed for petroleum imports. This situation partly results from sizable arrears due by the petroleum distributing companies to PETROZAIRE and partly from delays in adjusting the retail prices for petroleum products to reflect the depreciation of the zaire in relation to the U.S. dollar. The authorities have decided to raise retail prices for most petroleum products, particularly diesel, and are in the process of examining proposals for a radical liberalization of the petroleum importation and distribution sector.

Following the initiation of the process of liquidation of SOZACOM, which is to be completed at end-December 1984, a major restructuring of GECAMINES was undertaken in mid-November. A holding company was established, with three subsidiaries responsible for mining production, marketing, and other activities. The production subsidiary will retain ownership of its output until the sales transaction is completed, while the marketing subsidiary will act solely as an agent remunerated for its services. Sales contracts for metal exports will be jointly signed by the production and the marketing subsidiaries, while the accounts of GECAMINES (Production) and GECAMINES (Exploitation) will be verified quarterly by an external auditor. The impact of the restructuring will be reviewed by the World Bank, as well as by the staff during the forthcoming mission in January.

5. Monetary and credit policies

The authorities have followed a policy of strictly restraining credit expansion via a sharp reduction in domestic bank financing of the Government and the application of quantitative limits upon credit to the private sector. Through June, however, the expansion in net domestic assets was greater than programmed and the authorities requested a waiver in net domestic assets in respect of an excess over the June net domestic assets ceiling of Z 176 million, which was granted on November 9, 1984. However, it now appears that the ceiling was in fact exceeded by Z 809 million, but because of an accounting error of Z 633 million, ^{1/} this was not known at the time. This error resulted from the erroneous classification of the counterpart of Fund charges paid during the first semester under "revaluation gains and losses and other adjustments" rather than under "other items net". Correcting this error does not result in an increase in broad money. Since a purchase ^{2/} of SDR 40 million was made on the basis of the waiver, the Zairian authorities have requested the Fund to confirm the waiver granted on November 9, 1984 in respect of the revised excess of Z 809 million.

Following the breach of the ceiling in June the authorities reacted by tightening credit and it now appears that there was some overshooting. The Bank of Zaire sharply curtailed credit to the private sector in September and thus managed to offset almost all of the increase in "other net domestic assets" resulting from correcting the misclassification referred to above. At the same time, the Government also managed to hold its bank financing to Z 534 million below the adjusted September subceiling and higher than expected sales of Treasury bills provided an additional margin of Z 135 million for nongovernment credit (Table 4 and Table 5). The final result was that net domestic assets were Z 658 million below their adjusted ceiling.

In contrast to September, credit to the Government is expected to be close to the subceiling in December because of higher than expected debt service payments. As a result the December ceiling on net domestic assets could have been observed only by cutting private sector credit even more sharply than in September, which would have been detrimental to the economy. The Zairian authorities have, therefore, requested an upward adjustment of the December ceiling on net domestic assets by

^{1/} The misclassification referred to above was identified by the Internal Auditor recently provided under the CBD program to deal with the monitoring problem concerning "other net domestic assets" which was mentioned in previous reports (see EBS/84/213, 10/12/84).

^{2/} The purchase took place on November 15, 1984. On November 16, 1984 the Fund adopted a decision on "Misreporting and Non-Complying Purchases Under Fund Arrangements - Guidelines on Corrective Action". These Guidelines apply "when such a case arises in the future" (introductory paragraph). Consequently, the Guidelines do not apply in respect of the purchase made by Zaire on November 15, 1984.

Table 4. Zaire: Monetary Survey, 1982-85

(In millions of zaires; end of period)

	1982		1983			1984				1985	
	Dec. 1/	March	June	Sept.	Dec.	March 2/	June 2/	Sept. 2/	Dec. 3/	March 4/	
Net foreign assets (broad)	-4,590	-4,722	-4,956	-20,365	-18,941	-22,495	-22,391	-23,766	-26,511	-27,820	
Net foreign assets (narrow)	-3,427	-3,570	-3,577	-16,855	-16,014	-18,806	-18,321	-20,933	-22,563	-23,710	
Foreign assets	(1,596)	(1,558)	(1,497)	(6,591)	(9,317)	(10,420)	(10,354)	(9,941)	(11,315)	(10,971)	
Foreign liabilities	(-5,023)	(-5,128)	(-5,074)	(-23,446)	(-25,331)	(-29,226)	(-28,675)	(-30,874)	(-33,878)	(-34,681)	
Provision for external arrears other than on public debt service	(-1,314)	(-1,302)	(-1,282)	(-5,500)	(-5,753)	(-6,443)	(-5,559)	(-5,087)	(-5,070)	(-4,775)	
Foreign currency deposits	-1,163	-1,152	-1,379	-3,509	-2,927	-3,690	-4,070	-2,832	-3,948	-4,110	
Net domestic assets	10,554	11,602	11,960	12,632	14,150	15,896	17,649	16,989	20,234	21,930	
Net claims on Government	7,888	7,761	7,926	8,889	10,252	11,318	11,345	11,096	13,452	14,210	
Credit to enterprises and households	1,931	2,139	2,431	2,724	2,882	3,544	4,160	3,846	4,832	5,570	
Other net domestic assets 5/	735	1,702	1,603	1,019	1,015	1,033	2,144	2,047	1,950	2,150	
Money and quasi-money	8,057	8,448	9,173	11,301	14,002	15,799	17,165	16,135	17,849	19,020	
Revaluation gains and losses and other adjustments	-2,641	-2,117	-2,717	-21,470	-21,231	-24,835	-25,134	-26,182	-27,578	-28,500	
SDR allocation counterpart	548	548	548	2,437	2,437	2,437	3,227	3,269	3,452	3,590	

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.

4/ Indicative targets.

5/ For end-June and end-September 1984, includes Z 633 million in the other net domestic assets of the Bank of Zaire as the counterpart of Fund charges, which had been misclassified due to an accounting error.

Table 5. Zaire: Ceilings Under the Program for 1984-85

	1983			1984			1985	
	Dec. 1/	March 1/	June 1/	September			Dec. 2/	March 3/
				Unadjusted 2/	Adjusted 2/	Actual 1/		
(In millions of zaires)								
Net domestic assets of the banking system at end of period	14,184	15,896	17,649	18,747	17,647 4/	16,989	20,234 5/	21,930
Net credit of the banking system to the Government at end of period	10,252	11,318	11,345	12,865	11,630 6/	11,096	13,452 5/	14,210
(In millions of U.S. dollars)								
Net purchase of foreign exchange by the Bank of Zaire from September 30, 1984	...	...	...	...	...	...	25	--
(In millions of SDRs)								
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange by end of period	12	11	23	30	30	31	40	50
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
b. 1-5 years' maturity	--	--	--	--	--	--	40	40

1/ Actuals.

2/ Performance criteria.

3/ Indicative targets.

4/ Adjusted by Z 1,100 million reflecting the difference between the actual and programmed reduction in the nondebt arrears of the Treasury.

5/ These amounts are based on the assumptions that: (a) external debt service payments by the Treasury will amount to 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\$56 million at the end of December 1983, will be reduced by US\$20 million by end-December 1984; (c) arrears in domestic payments, will be reduced from end-December 1983 to end-December 1984 by Z 180 million, and (d) the outstanding stock of Treasury bills will not exceed Z 500 million by the end of December 1984. Should 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 actual payments fall short of the amounts indicated in (c), only the subceiling on net bank credit to the Government will be reduced by an equivalent amount. Should the outstanding stock of Treasury bills exceed the amount in (d), 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-December 1984 will not be reduced unless the outstanding stock of Treasury bills exceeds Z 750 million.

6/ Adjusted by Z 1,100 million (see 4/ above) and by Z 135 million to take into account the excess in the outstanding stock of Treasury bills over the program target.

Z 400 million, the subceiling on credit to Government to remain unchanged. Such an increase would largely compensate for the accounting error referred to above and would also take into account the lower than programmed use of bank credit by Government, which is now expected for 1984.

The expansion of money and quasi-money was well within program targets for end-September, as broad money actually declined by 6 percent in the third quarter. The overall increase in the first nine months was Z 2,133 million or just over 15 percent. The decline in broad money, which is reflected in the inflation rate, was caused by a combination of factors: sharply lower credit, virtually no injection of liquidity into the economy from the budget or the balance of payments, and the transfer of government deposits from commercial banks to the Bank of Zaire as of end-September. On the basis of provisional data for end-October and the expected evolution of monetary aggregates through the end of the year, the overall target for broad money expansion for 1984 has been lowered from over 33 percent to about 27 percent.

Sales of Treasury bills increased substantially during the third quarter of 1984; the outstanding stock more than doubled from end-June through end-September reaching Z 535 million. The monthly rate of sales, which had been averaging Z 150 million from April through July, reached Z 380 million during the period August through October. Interest rates on Treasury bills were reduced, as of October 23, from an average of 39 percent to 36 percent, and the authorities intend to reduce them further in early 1985. During the course of the third quarter, certain modifications were introduced to the system of Treasury bill sales: the minimum face value was reduced from Z 50,000 to Z 10,000; sales in the interior of the country were begun through branches of the Bank of Zaire and of commercial banks; the bills began to be sold at a discount from face value, similar to zero-coupon notes; and physical bearer paper was issued instead of accounting entries in the books of the Bank of Zaire.

The present system of credit ceilings imposed by the Bank of Zaire on commercial banks will be simplified by the abolition of sectoral subceilings with effect from January 1985. The objective would be to place all credit under one global ceiling with no distinction among the end-use of credit, except a minimum proportion which would be preserved for noncoffee agricultural credit. Also with effect from January 1985, the preferential loan rate for food crop credit will be raised from 15 percent to 20 percent, in order to reduce the differential between interest rates for such credit and other interest rates which average 25-35 percent; the magnitude of the differential has encouraged diversion of crop credit to other purposes.

6. Performance criteria

The present stand-by arrangement expires on March 27, 1985. It includes the following performance criteria for end-December 1984:
(a) a ceiling and a subceiling on net domestic assets of the banking

system and on net credit of the banking system to the Government; (b) minimum net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange; (c) minimum net purchases of foreign exchange by the Bank of Zaire from end-September through end-December 1984; (d) ceilings on new external borrowings (commitment basis) by the Government or against government guarantee for 1984 as a whole as established under the stand-by arrangement in EBS/83/257; and (e) the standard clauses regarding the exchange, payments and trade system.

The quantitative performance criteria for end-December 1984 are specified in Table 5; the credit ceiling and subceiling may have to be adjusted downward in the manner described in footnote 5 of this table.

III. Staff Appraisal and Proposed Decision

For 1984 as a whole, it is expected that government revenue will exceed the estimate made at the time of the second review by more than Z 4 billion, but that government expenditure will have risen by slightly more. Even though the increase in expenditures to a large extent reflected the bringing into the budget of outlays which had not previously been included, the result is still an increase in the budget deficit, which is a matter of concern. Because of higher than expected sales of Treasury bills, domestic bank financing is likely to be slightly lower than had been anticipated at the time of the second review. Nevertheless, the Government is still projected to account for 62 percent of the absolute credit expansion in 1984, which will entail some crowding out of the private sector.

Despite the fact that government expenditure exceeded the original target, the program for 1984 remains basically on track. Real GDP should increase by 3 percent, which exceeds the original target and is more than double the rate of the previous year. The annual rate of price increase is expected to be reduced to less than 20 percent, which represents only half of the original target and one fifth of the rate recorded in 1984. The real effective exchange rate, which had appreciated by 14 percent from the beginning of the float until end-August, has depreciated by almost 8 percent in the last three months, and parallel market transactions have virtually disappeared. Payments on the external debt to Paris and London Club creditors, although higher than originally estimated, have remained current, and the original target for the reduction of Treasury arrears should be met at the end of December. In spite of lower than anticipated export prices for copper, total export earnings will exceed original projections and are expected to show a gain of 22 percent in SDR terms over 1983. The current account deficit, which had been revised upwards in previous reviews, is now projected to approximate the original target. The overall balance of payments deficit is, however, likely to exceed the original target because of larger than anticipated payments for debt amortization and some slowdown in drawings.

In spite of these generally favorable developments, the financial situation remains difficult. Several public enterprises remain in dire financial straits. Although progress has been made in assessing their situation by undertaking external audits and by reducing the number of employees, difficult restructuring decisions remain to be taken and strictly enforced.

Although the performance of the foreign exchange interbank market has on the whole been satisfactory, its fragility has been illustrated by the perturbations which occurred in the second half of November, when it became known that the Bank of Zaire had to purchase at least US\$25 million before the end of December. This points to the desirability of broadening this market by shifting additional transactions from the Bank of Zaire to commercial banks.

The credit ceilings for end-September have been met with some margin, but at the cost of a sharp reduction in the allocation of credit to the private sector. It has to be recognized that there is an economic cost in meeting the credit ceilings through a stop-and-go policy. Despite very high real rates of interest, the ceilings allotted by the Bank of Zaire to individual commercial banks remain the binding constraint on demand for credit. Since the staff considers that the program is essentially on track and that a further tightening of credit to the private sector would be detrimental to the economy, it supports the two requests made by the authorities: first, to confirm the waiver in respect of the June ceiling, which was exceeded by Z 809 million instead of Z 176 million; and second, to raise the December ceiling on net domestic assets of the banking system by Z 400 million without changing the subceiling on credit to the Government. While this would represent the third modification to the credit ceilings during the course of the present program, it should be noted that all three modifications relate to the same problem of a misclassification concerning "other net domestic assets" at the beginning of 1984; this accounting error had no effect on money supply, the expansion of which remains well within the original targets. By confirming the waiver granted on November 9, 1984, the Fund would be taking a decision similar to the one it could have taken if the Decision on Misreporting and Non-Complying Purchases had applied to the case at hand (see footnote 2 on page 11), namely to waive the nonobservance resulting from the accounting error.

In view of the above, the draft decision below 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, in order to reach understandings subject to which Zaire may make further purchases under the stand-by arrangement. Zaire has also requested the Fund

(a) to confirm the waiver of the observance of the performance criterion in paragraph 4(a)(iv) of the stand-by arrangement for end-June 1984, and

(b) to raise the ceiling on net domestic assets of the banking system for end-December 1984 by an amount of Z 400 million, without changing the subceiling on credit to the Government.

2. The letter of the President of Zaire dated December 18, 1984 shall be attached to the stand-by arrangement for Zaire, and the letter of September 12, 1983, supplemented by the letters of March 26, 1984 and October 5, 1984, shall be read as supplemented by the letter dated December 18, 1984.

3. The Fund confirms the waiver as 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

percent of quota during any period in which the ceiling on net domestic assets of the banking system at end-December 1984 in accordance with paragraph 13 of the letter of December 18, 1984 is not observed.

Table I. Zaire: Merchandise Exports, f.o.b.
by Major Commodity, 1982-85

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

	1982	1983	1984	1985
<u>GECAMINES</u>				
Copper				
Value (US\$)	740.6	748.7	632.9	648.2
Value (SDR)	670.8	700.1	617.4	648.2
Volume (tons)	508,211	479,761	463,000	452.3
Unit price (US\$/lb.)	0.66	0.71	0.62	0.65
Cobalt				
Value (US\$)	182.8	121.4	220.5	222.4
Value (SDR)	164.7	113.5	215.1	222.4
Volume (tons)	7,264	9,466	10,000	11,211
Unit price (US\$/lb.)	10.0	5.8	10.0	9.0
Zinc				
Value (US\$)	43.1	50.0	59.8	53.2
Value (SDR)	39.3	46.0	58.3	53.2
Volume (tons)	54,979	66,554	67,796	63,490
Unit price (US\$/lb.)	0.36	0.34	0.40	0.38
Silver				
Value (US\$)	18.0	13.3	7.4	15.6
Value (SDR)	16.2	12.4	7.3	15.6
Volume (kgs.)	71,774	33,141	32,914	50,800
Unit price (US\$/t. oz.)	7.1	11.34	8.0	10.9
Cadmium				
Value (US\$)	0.7	0.5	0.4	0.4
Value (SDR)	0.7	0.5	0.4	0.4
Volume (tons)	260	275	310	300
Unit price (US\$/lb.)	1.22	0.82	0.55	0.60
Gold				
Value (US\$)	1.2	1.2	0.7	0.9
Value (SDR)	1.2	1.1	0.7	0.9
Volume (kgs)	94.0	79.5	67.0	85.0
Unit price (US\$/t. oz.)	361.9	426.7	371.8	370.0
F.M.M. 2/				
US\$	-173.8	-114.6	-96.1	-83.7
SDR	-157.4	-107.2	-93.8	-83.7
Subtotal				
US\$	813	820.9	825.6	857.0
SDR	736	767.5	805.5	857.0

Table I (concluded). Zaire: Merchandise Exports, f.o.b.
by Major Commodity, 1982-85

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

	1982	1983	1984	1985
<u>Non-GE CAMINES</u>				
Copper (SODIMIZA)				
Value (US\$)	50.1	32.5	41.0	50.1
Value (SDR)	45.4	30.4	40.0	50.1
Volume (tons)	34,400	--	30,000	35,000
Unit price (US\$/lb.)	0.66	--	0.62	0.65
Gold				
Value (US\$)	21.9	62.7	34.7	43.9
Value (SDR)	19.8	58.6	33.8	43.9
Volume (kgs.)	1,866.0	5,200.0	3,300	4,200
Unit price (US\$/t. oz.)	332.7	426.7	371.8	370
Diamonds (MIBA, artisanal)				
Value (US\$)	76.2	138.9	226.7	257.1
Value (SDR)	69.0	129.9	221.2	257.1
Volume (1,000 carats)	6,725.0	11,713.0	18,851	20,736
Unit price (US\$/carats)	11.33	11.86	12.02	12.4
Coffee				
Value (US\$)	105.0	116.5	212.7	234.2
Value (SDR)	95.1	108.9	207.5	234.2
Volume (tons)	68,004.0	69,500.0	79,561	85,000
Unit price (US\$/lb.)	0.70	0.76	1.21	1.25
Rubber				
Value (US\$)	11.5	14.7	15.5	15.5
Value (SDR)	10.4	13.7	15.1	15.5
Volume (tons)	4,930.0	15,890.0	15,250	15,250
Unit price (US\$/lb.)	0.35	0.42	0.46	0.46
Crude oil				
Value (US\$)	274.3	236.5	323.8	413.2
Value (SDR)	248.3	221.2	315.9	413.2
Volume (1,000 bls.)	8,108.0	8,460.0	11,829	14,811
Unit price (US\$/barrel)	33.83	27.96	27.37	27.9
Other exports				
Value (US\$)	93.0	100.4	107.4	125.0
Value (SDR)	84.2	94.0	104.8	125.0
Adjustments				
Value (US\$)	10.2	--	--	--
Value (SDR)	9.2	--	--	--
Total				
Value (US\$)	1,454.1	1,523.1	1,787.4	1,996.0
Value (SDR)	1,317.1	1,424.2	1,743.8	1,996.0

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

1/ Exchange rates used: SDR 1 = US\$1.10401 for 1982, SDR = US\$1.06938 for 1983, SDR 1 = US\$1.025 for 1984 and SDR = US\$1 for 1985. Measure conversion rate used: metric tons = 2,204.7 pounds, troy ounce = 35.374 grams and carat = 200 milligrams.

2/ Marketing and financial costs.

Table II. Zaire: Medium- and Long-Term Debt Outstanding and Projected Debt Service, 1984-90

(In millions of U.S. dollars)

	Debt outstanding at end-Sept. 1984	Service on the debt outstanding end-September 1984 and projected new disbursements after end-September 1984						
		1984 1/	1985	1986	1987	1988	1989	1990
Paris Club	2,925.2	150.9	495.9	450.0	415.9	401.8	481.0	431.5
(interest)		(109.4)	(225.5)	(213.4)	(196.6)	(178.7)	(164.5)	(131.4)
Austria	25.3	1.8	4.1	4.0	4.0	3.8	4.5	4.6
(interest)		(1.3)	(2.1)	(2.2)	(1.9)	(1.8)	(1.6)	(1.4)
Belgium	307.5	26.5	48.5	46.3	42.6	42.0	47.5	40.5
(interest)		(18.9)	(23.1)	(23.0)	(21.0)	(18.5)	(16.3)	(12.8)
Canada	39.7	0.4	4.1	3.8	3.5	3.3	4.2	3.8
(interest)		(--)	(1.9)	(1.9)	(1.9)	(1.5)	(1.4)	(1.1)
France	534.5	26.5	98.2	84.2	82.1	82.0	92.5	84.1
(interest)		(21.2)	(44.2)	(41.4)	(39.0)	(35.0)	(30.8)	(28.6)
Germany	313.9	12.6	35.3	31.5	28.8	28.4	33.5	40.8
(interest)		(10.0)	(17.7)	(16.4)	(15.2)	(14.2)	(13.4)	(11.4)
Italy	250.9	22.0	62.1	52.0	47.0	40.5	50.2	47.9
(interest)		(18.0)	(31.0)	(24.0)	(22.0)	(19.2)	(17.7)	(14.5)
Japan	161.3	1.9	9.3	11.8	10.7	10.6	11.8	11.7
(interest)		(1.4)	(2.4)	(2.0)	(1.8)	(1.7)	(1.6)	(1.5)
Netherlands	99.8	7.9	17.9	16.9	15.8	16.0	19.4	17.1
(interest)		(6.0)	(9.0)	(9.0)	(8.3)	(7.4)	(6.7)	(5.4)
Sweden	72.4	7.4	14.8	13.9	12.6	15.5	14.6	14.3
(interest)		(5.6)	(8.3)	(7.7)	(6.8)	(6.4)	(5.7)	(4.7)
Switzerland	7.5	0.7	0.7	0.5	1.8	2.9	2.7	1.3
(interest)		(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.2)	(0.7)
United Arab Emirates	82.5	--	14.8	14.6	9.1	9.5	14.9	--
(interest)		(--)	(2.6)	(2.5)	(2.4)	(2.8)	(4.8)	(--)
United Kingdom	67.2	4.9	18.2	16.7	14.7	14.0	16.8	12.6
(interest)		(3.7)	(8.2)	(7.7)	(6.9)	(6.2)	(5.5)	(4.3)
United States	949.4	36.9	165.9	150.2	138.7	129.0	152.3	141.7
(interest)		(21.6)	(72.8)	(68.6)	(62.7)	(57.0)	(52.9)	(44.1)
Other official creditors	213.2	3.8	6.5	6.5	10.6	12.4	12.3	12.2
(interest)	(2.9)	(0.1)	(0.1)	(0.5)	(1.0)	(0.9)	(0.8)	
Of which:								
China	61.7	--	6.4	6.4	6.4	6.4	6.4	6.4
(interest)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	
Saudi Arabia	20.0	1.3	0.1	0.1	4.2	6.0	5.9	5.81
(interest)	(1.3)	(0.1)	(0.1)	(0.5)	(1.0)	(0.9)	(0.8)	
Multilateral institutions	606.9	23.4	35.3	45.0	46.8	44.7	41.4	31.8
(interest)		(7.1)	(8.3)	(10.1)	(11.5)	(11.2)	(11.6)	(10.7)
Of which: IDA	286.2	2.9	3.1	4.4	5.0	5.2	6.1	6.6
(interest)		(2.5)	(2.1)	(2.7)	(3.1)	(3.2)	(3.3)	(3.5)
Trust Fund	110.7	10.1	19.0	22.3	21.2	18.9	12.65	3.4
(interest)		(--)	(0.4)	(0.3)	(0.2)	(0.1)	(0.1)	(3.4)

Table II (concluded). Zaire: Medium- and Long-Term Debt Outstanding and Projected Debt Service, 1984-90

(In millions of U.S. dollars)

	Debt outstanding at end-Sept. 1984	Service on the debt outstanding end-September 1984 and projected new disbursements after end-September 1984						
		1984 ^{1/}	1985	1986	1987	1988	1989	1990
Special payment mechanisms (interest)	NA ^{2/}	58.2 (39.3)	60.3 (19.3)	72.5 (21.3)	75.3 (17.8)	63.2 (12.6)	54.5 (8.8)	15.9 (5.1)
Of which: GECAMINES Trust (interest)	NA ^{2/}	29.9 (11.0)	29.7 (9.4)	29.7 (7.7)	29.8 (6.0)	29.8 (3.9)	29.8 (1.7)	— —
London Club (interest)	349.1	48.0 (48.0)	124.7 (63.9)	112.5 (51.7)	100.9 (39.9)	88.2 (27.4)	76.0 (15.2)	33.5 (3.0)
Other bank creditors (interest)	225.1	9.3 (5.7)	16.3 (5.8)	16.6 (4.6)	14.3 (3.4)	11.1 (2.3)	10.2 (1.4)	8.9 (0.6)
Other creditors (interest)	82.9	15.9 (2.5)	19.6 (4.6)	21.2 (4.7)	21.7 (4.3)	5.7 (1.7)	5.4 (1.4)	5.2 (1.2)
Total disbursed debt as of end-Sept. 1984 (interest)	4,402.4	309.5 (214.9)	758.6 (327.6)	724.3 (306.0)	685.8 (274.2)	627.0 (234.9)	680.9 (203.9)	538.9 (150.0)
Service on projected new disbursements after Sept. 1984 (interest)		1.0 (0.9)	4.0 (3.5)	30.6 (18.6)	46.2 (30.2)	67.8 (43.4)	88.2 (58.6)	110.6 (74.4)
Total projected debt service on medium- and long-term debt (interest)		310.5 (215.8)	762.6 (331.2)	754.9 (324.6)	732.0 (304.4)	694.8 (278.3)	769.1 (262.5)	649.5 (224.4)
Payments to the Fund ^{3/} (charges)		110.0 (47.0)	168.5 (58.3)	155.8 (56.2)	180.2 (42.4)	204.6 (29.7)	101.8 (18.0)	62.5 (14.8)
Service on financing of the balance of payments gap (interest)		— —	— —	37.4 (37.4)	60.6 (60.6)	75.4 (75.4)	97.4 (83.4)	137.4 (122.0)
Total debt service (interest and charges)		420.5 (262.8)	931.1 (389.5)	948.1 (418.2)	972.8 (407.4)	974.8 (383.4)	968.3 (363.9)	849.4 (361.2)
Memorandum items:								
Debt service ratio								
Excluding IMF and financing of the gap		18	38	36	32	28	29	24
Including IMF and financing of the gap		24	47	45	42	40	37	31

Sources: Office de Gestion de la Dette Publique; and staff calculations.

^{1/} After the December 1983 rescheduling with Paris Club members and the rescheduling arrangement with London Club members.

^{2/} Included under official and bank creditors.

^{3/} Based on projected use of Fund resources as of end-March 1985.

Kinshasa, December 18, 1984

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

Dear Mr. de Larosière:

1. The Executive Council is continuing to vigorously implement the stabilization program which I described in my letters of September 12, 1983, and March 26, July 4, and September 5, 1984. Definite progress has been made in the fight against inflation while at the same time there has been some recovery of economic activity, particularly investment. Nevertheless, the situation is still delicate and we will need to exercise caution if there is to be a soundly based recovery.
2. The inflation rate during 1984 has been less than 20 percent, on an annual basis, as compared to around 100 percent in 1983, and the inflation differential between Zaire and the major industrial countries has been compensated for by the depreciation of the exchange rate by 30 percent against the U.S. dollar and 18 percent against the Belgian franc during the first eleven months of 1984. The depreciation was particularly marked in October and November, when the Bank of Zaire, as agreed in my letter of October 5, increased its net purchases of foreign exchange.
3. The free convertibility of the zaire, the virtual elimination of the parallel market, and the spectacular reduction in the rate of inflation have resulted from a strict control of the budget deficit and an extremely restrictive monetary and credit policy. Despite an increase of Z 633 million in other net domestic assets owing to an accounting adjustment, total net domestic assets were Z 658 million below the adjusted ceiling as of the end of September. This result was obtained at the cost of maintaining very high real interest rates and sharply reducing credit to the private sector; in consequence the money supply actually fell by 6 percent during the third quarter.
4. During the first nine months of 1984 the increase in budgetary receipts considerably outstripped that of expenditures and as a result the deficit was substantially less than had been foreseen under the program. The deficit was financed by net sales of Treasury bills, to the amount of Z 435 million, and by recourse to the domestic banking system to the amount of Z 834 million; the latter was Z 658 million less than the amount allowed under the program subceiling. The subceiling has had to be reduced by Z 1,235 million for the end of September in order to reflect the failure to reduce foreign exchange arrears of the Treasury by as much as had been programmed and sales of Treasury bills higher than the amount targeted.

5. During the last quarter of 1984 the Executive Council will take all necessary measures to implement the program. In particular, the external arrears of the Treasury will be liquidated to the extent foreseen in the program. With respect to 1985 the targets for the overall budget, the principal components and the maximum permissible monetary financing have already been established in consultation with the Fund staff, and the budget will be finalized at the beginning of January during the next staff visit.

6. In accordance with our undertakings, the Executive Council has followed a policy of restructuring the state enterprises. External audits have been completed for CMZ (la Compagnie Maritime Zairoise) and ONATRA (l'Office National des Transports), while audits are under way for Air Zaire, KILOMOTO (l'Office des Mines d'Or de Kilomoto), SNCZ (Société Nationale des Chemins de Fer au Zaire), ONPTZ (l'Office Nationale des Postes et Télécommunications), and the National Highways Office (l'Office des Routes). Reflecting the conclusions of the audit of CMZ, the authorities have already cut the labor force considerably and have placed three of the company's ships on sale, with the agreement of CMZ's creditors. At the same time the Government is trying to re-negotiate CMZ's convention with its foreign associates. In the case of Air Zaire the decision has been taken to cut its staff by more than 40 percent even though the audit has not yet been completed. As far as ONATRA and SNCZ are concerned, it is intended to try to increase productivity sufficiently to balance their respective operational budgets and obviate the need for excessive tariff increases. Furthermore, the Executive Council is also studying the feasibility of liberalizing the importation and distribution of petroleum products with a view to decreasing costs through increased competition. The price of diesel will be increased shortly in order to eliminate any subsidy for this product, which should help improve the cash flow position of PETROZAIRE which has reached a critical point. It is hoped that the combination of an increase in the price of diesel and the application of a regressive tariff structure for electricity will help to encourage the substitution of the latter for the former in those cases where such substitution is feasible.

7. In order to facilitate a reduction in costs and to ensure greater transparency in accounting for operations previously undertaken by GECAMINES and SOZACOM, the Executive Council has established a holding company with three subsidiaries: the first, GECAMINES (Production), will handle the mining activities which were formerly the responsibility of GECAMINES; the second, GECAMINES (Marketing) will take over the marketing activities which were carried out by SOZACOM; while the third, GECAMINES (Development), will be responsible for the other activities of the group. Under the new structure, GECAMINES (Production) will retain ownership of the metals up to the moment when the final sale is made to a foreign purchaser. Sales contracts will be jointly signed by GECAMINES (Production) and GECAMINES (Marketing). External audits of both companies will be carried out quarterly.

8. Despite the fact that the average export price of copper fell by 14 percent in 1984 in comparison with the preceding year, it is expected that export receipts for the year will be 20 percent higher than in 1983 in dollar terms. This favorable outcome results essentially from higher exports of diamonds, crude oil, cobalt, and coffee and should allow us to hold the current account deficit close to the program target of SDR 230 million. Nonetheless, the overall deficit is projected to be slightly higher than envisaged in the program because of larger than expected debt service payments and a slowing down in the pace of disbursement of new loans.

9. In conformity with the Paris Club agreement of December 1983, bilateral agreements have been signed with all the creditor countries, with the exception of Japan, with whom an accord is scheduled to be signed this month. Payments into the special account at the Federal Reserve Bank of New York by the end of December 1984 will cover at least the totality of payments due under the bilateral accords signed with this group of creditors. Furthermore, the Executive Council intends to continue to pay SDR 14.25 million monthly from January 1985 until such time as a new agreement is reached with the Paris Club concerning the rescheduling of the 1985 debt service.

10. As regards debt service payments to the banks of the London Club, the schedule established in June 1984 has been respected. The last payment of US\$7 million has been made and it will be followed by payments of US\$4 million per month during the first quarter of 1985 until the conclusion of a new agreement.

11. In the course of the first nine months of 1984 commercial and invisible arrears were reduced by SDR 49.3 million, with SDR 30 million paid in foreign exchange by the Bank of Zaire. The process of liquidation of arrears by payments in foreign exchange will continue to be followed. At least SDR 9.3 million will be paid during the last quarter of 1984 and SDR 10 million during the first quarter of 1985.

12. In accordance with the undertakings contained in my letter of October 5, the mandatory import deposit requirement for opening letters of credit has been reduced, as of November 1, from 65 percent to 50 percent and will be eliminated before June 30, 1985. Since July 1, 1984 enterprises with foreign participation have been allowed to remit abroad the dividends arising during the 1983 financial year. Permission has now also been extended to similarly remit dividends relating to previous years, which, it is hoped, will encourage additional foreign investment.

13. The basic objectives which the Executive Council had set for 1984 have all been attained and in some cases, notably the reduction in inflation, exceeded. Under the circumstances, we feel that the accounting error of Z 633 million which was discovered at the end of November should not be totally compensated for through intensified credit restrictions for the month of December since such a policy would exacerbate the problems of the private sector. Therefore the Executive Council re-

quests that the ceiling for net domestic assets for the end of December 1984 be raised by Z 400 million; the subceiling on credit to the Government would remain unchanged. We also request that the waiver of Z 176 million which the Board granted on November 9 regarding the June ceiling be retroactively raised to Z 809 million in order to take account of the accounting change of Z 633 million which will be applied from June 1984 onwards.

14. The Executive Council intends to vigorously pursue its policy of economic reconstruction in the context of a new adjustment program which could be supported by a stand-by agreement with the Fund. With a view to ensuring continuity with the targets set for the end of 1984 indicative targets have been agreed with the Fund staff for the end of March 1985. Under the new targets more leeway will be allowed to the commercial banks in their decisions on the allocation of credit since the sectoral subceilings on credit will be abolished in the near future.

15. The quantitative performance criteria for the end of December 1984, as well as the indicative targets for the end of March 1985 are specified in Table 1. They relate to (a) ceilings on net domestic assets of the banking system, on net credit from the banking system to the Government, and on the amount of new external borrowing by the Government or with the guarantee of the Government, with the exception of concessional loans; (b) the net purchase of foreign exchange by the Bank of Zaire through the end of December 1984; (c) the net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange. In addition, other performance criteria include the provisions regarding the exchange and trade system as set forth in paragraph 11 above. The Executive Council will not take any economic or financial policy decisions which might have a significant impact upon the execution of the program without prior consultation with the Fund staff.

Sincerely yours,

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. Proposed Ceilings Under the Program for 1984

	<u>1983</u> Dec. <u>1/</u>	<u>1984</u>				<u>1985</u> March <u>3/</u>
		March <u>1/</u>	June <u>1/</u>	Sept. <u>1/</u>	Dec. <u>2/</u>	
<u>(In millions of zaires)</u>						
Net domestic assets of the banking system at end of period	14,184	15,896	17,649	16,989	20,234 <u>4/</u>	21,930
Net credit of the banking system to the Government at end of period	10,252	11,318	11,345	11,096	13,452 <u>4/</u>	14,210
<u>(In millions of U.S. dollars)</u>						
Net purchase of foreign exchange by the Bank of Zaire from September 30, 1984	--	--	--	--	25	--
<u>(In millions of SDRs)</u>						
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange by end of period	12	11	23	33	40	50
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
b. 1-5 years' maturity	--	--	--	--	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\$276 million through the end of December 1984; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US\$56 million at the end of December 1983, will be reduced by US\$20 million by end-December 1984; (c) arrears in domestic payments will be reduced from end-December 1983 to end-December 1984 by Z 180 million; and (d) the outstanding stock of Treasury bills will not exceed Z 500 million by the end of December 1984. Should 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 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. Should the outstanding stock of Treasury bills exceed the amounts in (d), 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-December 1984 will not be reduced unless the outstanding stock of Treasury bills exceeds Z 750 million.

Zaire - Relations with the Fund

(As of December 15, 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 890.1 million,
306 percent of quota
- (c) Fund credit: SDR 599.1 million, 206 percent of quota
Of which: credit tranches: SDR 400.1 million, 137.5 per-
cent of quota
special facilities: SDR 199.0 million, 68 per-
cent 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 158 million
 - (iv) Undrawn balance: SDR 70 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 0.003 million, equivalent to 0.0 percent of net cumulative allocation

V. Administered Accounts

- (a) Trust Fund loans
 - (i) Disbursed: SDR 110.43 million
 - (ii) Outstanding: SDR 97.30 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 November 30, the exchange rate was Z 1 = SDR 0.0246.
- 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:

1. A resident representative has been posted in Kinshasa since October 20, 1984.
2. Five 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 June 30, 1984)	<u>Disbursed</u>		<u>Undisbursed</u>	
	IBRD	IDA	IBRD	IDA
Agriculture and livestock	--	53.5	--	49.6
Development finance	--	53.4	--	21.6
Education	--	8.6	--	--
GECAMINES	100.0	--	--	7.0
Water supply	--	26.7	--	12.8
Transportation	--	139.2	--	85.3
Energy	--	3.1	--	35.4
Total	100.0	284.6	--	211.6
Of which: repaid	(39.4)	(2.0)	--	--
Total outstanding	60.6	282.6	--	211.6
B. <u>IFC investments 1/</u> (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 2/</u>	<u>Disbursements 3/</u>	<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/	84.5	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	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	3.5
GDP deflator	34.0	37.2	68.0	91.4	47.0	89.0
Consumer prices (year-to-year average)	35.4	37.2	68.0	76.0	47.0	42.0 ^{1/}
External sector (on the basis of SDRs)						
Exports, f.o.b.	-18.8	3.5	4.4	8.1	10.8	22.5
Copper exports, f.o.b.	-20.1	14.0	2.5	4.4	7.5	-11.1
Imports, c.i.f.	0.4	-6.2	1.8	2.1	6.3	11.9
Non-oil imports, f.o.b.	-9.0	-3.4	2.7	3.7	5.6	11.3
Export volume	-14.4	13.3	2.7	7.9	4.5	9.8
Import volume	-5.7	-7.8	-0.3	0.5	1.6	5.0
Terms of trade (deterioration -)	-7.5	-8.9	-0.5	-1.2	1.7	4.6
Nominal effective exchange rate (depreciation -) ^{2/}	-23.3	-13.0	...	-51.3	...	...
Real effective exchange rate (depreciation -) ^{2/}	-5.6	10.1	...	-22.9	...	...
Government budget						
Total revenue	30.0	28.8	76.8	75.7	84.4	130.0
Total expenditure (excluding amortization)	68.8	44.6	33.9	34.0	66.5	119.3
Money and credit						
Net domestic assets (end of period)	54.4	77.3	51.9	34.4	34.6	43.0
Government	62.4	86.5	34.0	30.0	27.5	31.2
Private sector	32.3	46.9	65.9	49.2	58.1	67.7
Money and quasi-money (end of period)	37.9	72.6	50.5	73.8	35.1	27.5
Interest rates (end of period)						
Bank of Zaire basic rediscount rate	15.0	15.0	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
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	...	...
Treasury bills (average)	...	...	...	...	...	36.0
(In percent of GDP)						
Government budget surplus or deficit (-)	-3.9	-5.8	-1.1	-1.2	-0.2	-0.7
Domestic bank financing (net)	4.1	6.8	2.6	2.5	1.6	1.6
Foreign financing (net)	-0.2	-1.0	-1.5	-1.4	-1.3	-1.3
External current account deficit (-)						
Before rescheduling						
Including official transfers ^{3/}	-5.2	-5.2	-3.6	-4.4	-5.1	-4.7
Excluding official transfers ^{3/}	-8.2	-7.1	-6.3	-6.8	-9.6	-8.1
After rescheduling						
Including official transfers ^{3/}	-3.4	-4.6	-1.8	-2.8	-2.6	-2.1
Excluding official transfers ^{3/}	-6.5	-6.5	-4.5	-5.1	-7.1	-5.1
External medium- and long-term debt inclusive of use of Fund credit	54.8	53.9	...	48.5 ^{4/}	...	...
Debt service ratio (in percent of exports of goods and services) ^{5/}	24.9	17.9	18.4	18.4	28.1	25.8
(In millions of SDRs, unless otherwise specified)						
External current account deficit (-)						
Before rescheduling	-360	-392	-240	-300	-230	-236
After rescheduling	-239	-353	-122	-190	-116	-106
Overall balance of payments deficit (-)						
Before rescheduling	-612	-598	-452	-433	-400	-430
After rescheduling	-327	-480	-86	-97	-16	-32
Gross official reserves ^{6/} (weeks of imports, c.i.f.)	5	1	2	2	3	3
External payments arrears, end of period	530	848	...	372 ^{7/}	...	...
Of which: commercial and invisible	(383)	(207)	(197)	(183)	(143)	(143)

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

^{1/} From January through December 1984, consumer prices are projected to increase by around 18 percent.^{2/} Annual averages.^{3/} 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.^{4/} Including rescheduled and capitalized moratorium interest under the December 1983 Paris Club rescheduling.^{5/} Based on actual payments; includes reduction of commercial arrears by cash payments and Fund charges and repurchases.^{6/} Excluding gold, most of which is pledged.^{7/} After taking into account the effects of the December 1983 Paris Club rescheduling.