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November 30, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zaïre - Staff Report for the 1983 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Zaïre and its request for a stand-by arrangement equivalent to SDR 228 million. Draft decisions appear on pages 41 and 42.

This subject, together with Zaïre's request for a purchase under the compensatory financing facility (document to be issued), 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. Calamitsis (ext. 76107) or Mr. Kapur (ext. (5)8732).

Att: (1)

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INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the 1983 Article IV Consultation and Request for 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 J.B. Zulu and W. A. Beveridge

November 30, 1983

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I. Introduction

The 1983 Article IV consultation discussions with Zaire were initiated in Kinshasa during the period May 9-21, 1983. Subsequently, in connection with negotiations on an adjustment program, the discussions were continued in Kinshasa during July 5-20, 1983, and they were concluded in Washington during August 2-9, 1983. The Zairian representatives included Mr. Sambwa, Governor of the Bank of Zaire, Mr. N'Gole, then Commissioner of State for Finance and the Budget, Mr. Namwisi, then Commissioner of State for the Plan, and other senior officials concerned with economic and financial matters. 1/ Members of the staff missions also met with President Mobutu, as well as with First Commissioner of State Kengo. Another staff team visited Kinshasa during November 16-23, 1983 to assess the implementation of certain aspects of the program, notably the functioning of the new exchange rate regime. The staff representatives in the various stages of the discussions were Mr. Calamitsis (head-AFR), Mr. Kapur (AFR), Mr. Tavares (FAD), Mr. Thai (FAD), Mr. Maciejewski (ETR), and Mr. Rajcoomar (AFR), with Miss Casaromani (AFR) and Ms. Livsey-Coates (AFR) as secretaries. Mr. Goreux (AFR) participated in some of the initial and concluding policy discussions. Mr. Alfidja, Executive Director for Zaire, also attended the principal policy meetings.

In the attached letter dated September 12, 1983, the Executive Council of Zaire requests a 15-month stand-by arrangement, in support of an adjustment program for the period October 1983-December 1984, in an amount equivalent to SDR 228 million, representing 100 percent of Zaire's present quota; the letter and the accompanying Memorandum on the Economic and Financial Policies of the Executive Council of Zaire are set out in Appendix II. With the present quota and policies regarding the use of the Fund's ordinary and borrowed resources, SDR 87.1 million of the amount requested under the stand-by arrangement would be from ordinary resources and SDR 140.9 million from borrowed resources. Zaire is also requesting a purchase of SDR 114.5 million, or 50.2 percent of quota, under the compensatory financing facility (CFF) with respect to an export shortfall for the year ended March 1983. As of October 31, 1983, the Fund's holdings of Zaire's currency, the zaire, which are subject to repurchase, amounted to SDR 379.0 million, or 166.2 percent of quota; excluding holdings of SDR 106.9 million under the CFF, they were equivalent to 119.4 percent of quota.

As shown in Table 1 on the schedule of proposed purchases and repurchases during the period November 1983-March 1985, if the proposed stand-by arrangement is fully utilized and the CF purchase is effected, the Fund's holdings of zaires that are subject to repurchase would rise by the end of March 1985 to the equivalent of 280.7 percent of the present quota (or 220.0 percent of the proposed new quota of SDR 291 million under the Eighth General Review, to which Zaire has consented); excluding the CFF, such holdings would amount to 183.6 percent of the present quota (or 143.9 percent of the proposed new quota). A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

1/ Following a cabinet reshuffle on November 1, 1983, Mr. N'Gole and Mr. Namwisi switched portfolios.

Table 1. Zaire: Schedule of Proposed Purchases and Repurchases, November 1983-March 1985

	1983	1984				1985
	Nov.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-Mar.
			(In millions of SDRs)			
Purchases						
Stand-by arrangement	--	78.0 1/	40.0	40.0	40.0	30.0
Ordinary resources	(--)	(18.9)	(18.0)	(18.0)	(18.0)	(14.2)
Borrowed resources	(--)	(59.1)	(22.0)	(22.0)	(22.0)	(15.8)
Compensatory financing facility	114.5	--	--	--	--	--
Repurchases						
Credit tranches and enlarged access resources	6.3	12.3	14.8	14.8	21.0	12.2
Compensatory financing facility	--	--	--	--	--	--
Net purchases	108.2	65.7	25.2	25.2	19.0	17.8
Fund holdings of Zaire's currency, subject to repurchase, at end of period	487.2	552.9	578.1	603.3	622.3	640.1
			(In percent of present quota)			
Fund holdings of Zaire's currency, subject to repurchase, at end of period	213.7	242.5	253.6	264.6	272.9	280.7
Holdings, subject to repurchase, excluding the compensatory financing facility	116.6	145.4	156.4	167.5	175.8	183.6

Source: IMF, Treasurer's Department.

1/ Consisting of an initial purchase of SDR 36 million and a second purchase of SDR 42 million.

According to the proposed phasing of purchases under the stand-by arrangement, an initial purchase of SDR 36 million would be available after the arrangement enters into effect; a second purchase of SDR 42 million after February 28, 1984, upon observance of the end-December 1983 performance criteria and completion of the first review of the program; a third purchase of SDR 40 million after May 30, 1984, upon observance of the end-March 1984 performance criteria; a fourth purchase of SDR 40 million after August 30, 1984, upon observance of the end-June 1984 performance criteria and completion of the second review of the program; a fifth purchase of SDR 40 million after November 29, 1984, upon observance of the end-September 1984 performance criteria; and a final purchase of SDR 30 million after February 27, 1985, upon observance of the end-December 1984 performance criteria.

The last Article IV consultation discussions with Zaire were held during the periods August 24-September 5, 1981 and October 5-7, 1981. The staff report (SM/81/241 and Supplement 1) and the report on recent economic developments (SM/82/3), together with a request for a purchase under the CFF (EBS/82/27), were considered by the Executive Board on March 12, 1982. Following these discussions, staff teams visited Kinshasa in May-June 1982 and December 1982 to review economic and financial developments and prospects. Summary statements on Zaire's relations with the Fund and the World Bank Group are provided in Appendix III and Appendix IV, respectively.

Zaire continues to avail itself of the transitional arrangements of Article XIV.

II. Background to the Discussions

Zaire is one of the largest countries in Africa, in both area and population, and is richly endowed with natural resources, including substantial mineral reserves and a sizable agricultural and hydroelectric potential. Zaire is the world's sixth biggest producer of copper and the leading producer of cobalt and industrial diamonds; copper, the bulk of which is mined by GECAMINES (by far the most important state-owned company), accounts for about one half of the country's total export earnings. Despite its large and diverse resource base, however, Zaire has faced serious economic and financial difficulties for many years, especially since 1975. The economy has generally stagnated, the rate of inflation has been very high, the balance of payments has been under great pressure, and the servicing of the external public debt has been a major problem.

These difficulties have been due in part to factors beyond the control of the Zairian authorities. In particular, the sharp deterioration in Zaire's terms of trade in the mid-1970s, brought about mainly by the drop in world copper prices from an average (as recorded on the London Metal Exchange) equivalent to US$0.93 per pound in 1974 to US$0.56 per pound in 1975, dealt a heavy blow to the economy, government finances, and the external payments position. Although world copper prices subsequently recovered in nominal terms, averaging US$0.99 per pound in 1980, most of this improvement was offset by the steadily rising prices of imports. Furthermore, as indicated below, the upturn in copper prices was short lived, owing to the adverse impact of the recession in the major industrial countries. The Zairian economy also suffered greatly from the hostilities in the Shaba region in 1977 and 1978, as well as from recurring disruptions in internal and external transportation routes.

To a much greater extent, however, Zaire's large internal and external imbalances are the result of a long period of inappropriate economic and financial policies. In the early 1970s, when the terms of trade were generally favorable, the authorities paid inadequate attention to establishing a sound basis for sustained economic growth and a viable balance of payments position. Encouraged by the prevailing high prices of copper, they undertook increasingly expansionary fiscal and monetary policies, involving inter alia substantial outlays on public investment projects with small or uncertain economic returns. For a time, the resulting budgetary and external current account deficits were covered by recourse to foreign borrowing, but the terms and conditions of such borrowing were often inconsistent with the country's debt servicing capacity. Therefore, when copper prices plummeted and foreign loans began to dwindle, notably from international financial markets, there was a major economic and financial crisis. The Zairianization measures taken in 1973-74, though largely rescinded in later years, also contributed to the crisis by aggravating the structural distortions in the economy and, more generally, by adversely affecting confidence. In 1976 and 1977 the authorities took some measures to redress the situation, but these were not successful, and the supporting one-year stand-by arrangements with the Fund were only partly utilized. Thus, during the four-year period 1975-78 real gross domestic product (GDP) declined at an annual rate of 3.5 percent, the inflation rate (as measured by the consumer price index for Kinshasa) averaged 57 percent per annum, and the balance of payments showed cumulative overall deficits of SDR 1.4 billion, most of which could not be financed, entailing a large accumulation of arrears on commercial and external debt service payments. With the widening disparity between the domestic rate of inflation and that prevailing in Zaire's principal trading partners, coupled with the growing foreign exchange scarcity, the official exchange rate of the zaire became increasingly overvalued and sizable parallel markets for the currency developed.

In an effort to deal effectively with the deepening crisis, in the following three years the authorities adopted two programs of economic and financial adjustment, which were supported by further use of Fund resources, as well as by external commodity assistance and debt rescheduling. Under the first program, covering the period July 1979-December 1980, in support of which the Fund approved an 18-month stand-by arrangement in an amount of SDR 118 million (77.6 percent of the quota of

SDR 152 million), several important corrective measures were implemented by the authorities. The zaire was devalued by 25 percent against the SDR in August 1979 and by a further 30 percent in February 1980, bringing the cumulative devaluation to almost 74 percent since November 1978 (when the Bank of Zaire had temporarily initiated a flexible exchange rate policy); certain producer prices and interest rates were raised; demand management and incomes policies were tightened; and strict limits were applied on nonconcessional foreign borrowing. In addition, the authorities launched, with World Bank assistance, a public investment program for 1979-81 which was consistent with the country's economic priorities; they took steps to revive private investment; and they introduced a number of institutional reforms aimed essentially at improving economic management. The institutional reforms were supported by foreign technical assistance from various sources, including bilateral assistance for the establishment and management of a new Customs and Excise Office (OFIDA), Fund assistance to the Bank of Zaire, and UNDP assistance to the Ministry of Finance and the Budget.

After some initial difficulties, in 1980 performance under the program was satisfactory. For the first time in several years, real GDP grew by 2.4 percent, the rate of inflation was reduced to 47 percent, and the overall balance of payments deficit was limited to SDR 180 million (Table 2). Although the recovery in world copper prices, coupled with highly favorable prices of cobalt, contributed significantly to this outcome, the improvement was also due to a relatively effective implementation of the program. In particular, the fiscal program was largely adhered to, yielding a small budgetary surplus (on a cash basis) in 1980, compared with deficits equivalent to 3.3 percent of GDP in 1979 and 9.6 percent of GDP in 1978. Despite a marked increase in external debt amortization payments, net government borrowing from the banking system was reduced considerably, both in absolute terms and in relation to the broad money stock at the beginning of the year. The expansion of bank credit to the private sector was also reduced appreciably. At the same time, the authorities complied with the provisions of the debt rescheduling agreements concluded with official creditors within the Paris Club in December 1979 and with commercial banks of the London Club in April 1980, while starting a process of reducing commercial arrears through cash payments. In 1980 Zaire observed all the performance criteria of the program (except temporarily at the end of the third quarter) and was thus able to purchase the full amount available under the stand-by arrangement.

On the basis of this performance, the authorities undertook a second, more far-reaching program, covering the period 1981-83, in support of which the Fund approved a three-year extended arrangement in an amount of SDR 912 million (400 percent of the quota of SDR 228 million). Under this program, which aimed at alleviating the structural distortions in the economy and achieving a viable external payments position over the medium term, a number of strong actions were taken initially. To stimulate supply and contain demand pressures, in the first half of 1981 the

Table 2. Zaire: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982 Prov.	1983 Program	1984 Program
	(Annual percent changes, unless otherwise specified)				
National income and prices					
GDP at constant prices	2.4	2.4	-1.0	1.0	2.0
GDP deflator	51.2	34.0	37.2	68.0	47.0
Consumer prices	46.7	35.4	37.2	68.0	47.0
External sector (on the basis of SDRs)					
Exports, f.o.b.	10.3	-18.8	3.5	4.4	10.8
Copper exports, f.o.b.	40.1	-20.1	14.0	2.5	7.5
Imports, c.i.f.	21.0	0.4	-6.5	1.8	6.3
Non-oil imports, f.o.b.	17.9	-9.0	-3.4	2.7	5.6
Export volume	-4.2	-14.4	13.3	2.7	4.5
Import volume	-7.6	-5.7	-6.4	-0.3	1.6
Terms of trade (deterioration -)	3.1	-7.5	-8.4	-0.5	1.7
Nominal effective exchange rate (depreciation -) 1/	-38.5	-23.3	-13.0	...	...
Real effective exchange rate (depreciation -) 1/	-20.9	-5.6	10.0	...	...
Government budget					
Total revenue	93.7	30.0	28.8	76.8	84.4
Total expenditure (excluding amortization)	61.0	68.8	44.6	33.9	66.5
Money and credit					
Net domestic assets (end of period)	45.1	54.4	77.3	51.9	34.6
Government	13.0	62.4	86.5	34.0	27.5
Private sector	15.4	32.3	46.9	65.9	58.1
Money and quasi-money (end of period)	61.5	37.9	72.6	50.5	35.1
Velocity (GDP relative to M_2 average)	6.2	5.8	5.1	5.6	5.7
Interest rates (end of period)					
Bank of Zaire basic rediscount rate	12.0	15.0	15.0	20.0	...
Commercial banks					
Rediscountable short-term loan rate for noncoffee agricultural production	7.5	11.0	11.0	15.0	...
Rediscountable short-term loan rate for other productive activities	7.5	11.0	11.0	freely negotiable	
6-12 months' time deposit rate	15.0	20.0	20.0	20.0	...
12-24 months' time deposit rate	25.0	30.0	30.0	30.0	...

Table 2 (concluded). Zaire: Selected Economic and Financial Indicators, 1980-84

	1980	1981	1982 Prov.	1983 Program	1984 Program
			(In percent of GDP)		
Government budget surplus or deficit (-)	0.2	-5.9	-8.7	-1.9	0.3
Domestic bank financing (net)	1.6	6.2	10.2	4.4	3.2
Foreign financing (net)	-1.8	-0.3	-1.5	-2.5	-3.5
Overall government deficit (-)	-1.0	-6.2	-11.6	-4.5	-2.9
Gross domestic investment	19.9	19.8	17.6	21.7	...
Gross domestic savings	18.9	14.8	14.8	19.4	...
External current account deficit (-)					
Including official transfers	-2.5	-7.9	-6.7	-5.4 2/	-8.6 2/
Excluding official transfers	-6.8	-12.5	-10.1	-9.6 2/	-16.1 2/
External medium- and long-term debt inclusive of use of Fund credit	73.0	83.3	80.9	...	...
Debt service ratio (in percent of exports of goods and services) 3/	21.6	24.9	17.9	18.4	28.1
			(In millions of SDRs, unless otherwise specified)		
External current account deficit (-)	-116	-360	-340	-240	-230
Overall balance of payments deficit (-)	-180	-612	-598	-452	-400
Gross official reserves 4/ (weeks of imports, c.i.f.)	6	5	1	2	3
External payments arrears	450	530	848	1,055 5/	...

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

1/ Annual averages.
2/ The current account deficit relative to GDP drops only slightly in 1983 and increases in 1984 due to the fact that GDP declines markedly in terms of SDRs in 1983 and 1984 because of the large devaluation of the zaire.
3/ Based on actual payments; includes reduction of commercial arrears by cash payments and Fund charges and repurchases.
4/ Excluding gold, most of which is pledged.
5/ Provisional estimate for end-June 1983.

authorities effected a 40 percent devaluation of the zaire in terms of the SDR, bringing the official rate to Z 6.3 = SDR 1; lifted price controls on a wide range of goods and services; raised most administered prices substantially; increased or freed interest rates; and reoriented the foreign exchange allocation system applicable to commercial banks in favor of priority sectors. While taking further steps to promote private investment, especially in agriculture and manufacturing, they also launched an updated public investment program for 1981-83, aimed primarily at rehabilitating the productive capacity of key enterprises in the mining and transportation sectors. In addition, they introduced a number of revenue and expenditure measures designed to deal with re-emerging budgetary and balance of payments pressures.

However, these initial actions were not sustained, and, given a serious deterioration of the international economic environment, the program went off track before the close of the first year. Although a softening of world market prices of the country's principal exports had been foreseen, the decline turned out to be much larger than projected. In the case of copper, in 1981 realized export prices averaged US$0.78 per pound, whereas the program had assumed an average of US$0.93 per pound; export volume, which totaled about 440,600 tons, also fell short of the assumed amount. Furthermore, notwithstanding a downward adjustment of cobalt prices, sales of cobalt declined to under 3,400 tons, compared with 9,000 tons envisaged in the program, reflecting essentially the sharp drop in world demand. In 1981 Zaire's total export earnings fell to the equivalent of SDR 1,272 million, a level SDR 231 million lower than projected, while imports were SDR 52 million higher than programmed, largely because of excessive government spending. Thus, based on interest payments due on the public debt, the current account deficit (including official transfers) reached SDR 360 million, equivalent to 7.9 percent of GDP, as against a target of SDR 259 million. With external loan disbursements also registering a substantial shortfall, the overall balance of payments deficit rose to SDR 612 million, SDR 162 million more than programmed. Despite the debt relief obtained from the Paris Club in July 1981, and two purchases under the extended arrangement totaling SDR 175 million, part of the overall deficit could not be financed, and Zaire accumulated arrears on already rescheduled debt to official creditors.

The adverse external developments in 1981 led to a small shortfall (Z 258 million) in total government revenue, as lower-than-expected receipts from taxes on international trade were partly compensated by higher collections from other sources, particularly taxes on net income and profits. In the circumstances, if there had been appropriate adjustments in expenditure, the fiscal targets could have been achieved. By contrast, there were serious slippages in expenditure controls in a number of areas. In spite of the accumulation of arrears on external debt interest payments, total expenditure exceeded the target by a wide margin (Z 919 million, or 17 percent), owing mainly to overruns in the area of the Presidency and the Political Institutions, as well as in respect of salary payments for primary and secondary school teachers, transfers and subsidies, and certain capital projects. As a result, in 1981 the budgetary deficit amounted to Z 1.4 billion, or 5.9 percent of GDP, six times more than programmed. Although some unforeseen foreign borrowing practically offset the actual external debt amortization, net government borrowing from the banking system totaled Z 1.4 billion, compared with a limit of Z 850 million set in the program. In view of this, the programmed expansion in net domestic assets of the banking system was also exceeded substantially.

In 1981 the economy continued to show some momentum, with real GDP increasing by 2.4 percent, and the inflation rate slowed to 35 percent. However, part of the recorded economic growth was due to accelerated use of high-grade copper ores, and agricultural production began to weaken. As the budgetary situation deteriorated and the authorities took no remedial action, toward the end of the year pressures on prices and the balance of payments intensified. Therefore, as the international economic environment also worsened, it became clear that the initial objectives of the program were no longer attainable. At the request of the authorities, the extended arrangement was canceled in June 1982.

III. Economic Performance in 1982

In 1982 Zaire's overall economic and financial situation deteriorated markedly, to the point where the country faced a renewed, acute crisis. According to provisional estimates, real GDP declined by 1 percent, as the structural problems in the key sectors of the economy were exacerbated by a severe shortage of foreign exchange. Meanwhile, owing largely to inadequate budgetary controls, domestic demand continued to grow at a relatively rapid pace. Thus, the rate of inflation edged upward to 37 percent, the external payments position came under greater pressure, and parallel market activities expanded substantially.

The external payments position was seriously affected by a further weakening of world market prices for copper and cobalt at a time of very high debt servicing obligations. Realized export prices for copper, which had declined by about 22 percent in 1981, fell by an additional 15 percent in 1982 to an average of US$0.66 per pound; in real terms, copper prices in 1982 were lower than at any time in the previous 30 years. As Zaire aligned its cobalt prices close to those prevailing on the free market in an attempt to regain its market share, realized export prices for cobalt dropped even more sharply, from an average of US$18.56 per pound in 1981 to US$9.96 per pound in 1982. Despite a substantial improvement in sales, in 1982 total export earnings rose by less than 4 percent in SDR terms, with the increase being largely offset by a decline in receipts on the services account. This inevitably constrained the country's import capacity, and imports actually fell by some 7 percent in nominal terms. Nevertheless, the current account deficit, at SDR 340 million, was only slightly lower than the 1981 high, and so was the overall balance of payments deficit, provisionally estimated at SDR 598 million (Table 3). In view of the virtual exhaustion of the country's freely usable reserves, and in the absence of any sizable external support apart from a CF purchase of SDR 106.9 million, over half of the overall deficit could not be financed, involving a substantial accumulation of arrears on debt service payments to official creditors of the Paris Club, as well as to commercial bank creditors of the London Club. At the end of 1982 Zaire's external arrears totaled SDR 848 million, of which SDR 641 million were in respect of external debt service and SDR 207 million in respect of imports and invisibles; the total amount of arrears was equivalent to some seven months of projected 1983 exports of goods and services.

As in the past, a major source of the crisis was a further deterioration of budgetary performance. Although there was an appreciable slowdown in the growth of government spending, such spending was still excessive in light of the deceleration in revenue growth. Total budgetary expenditure (excluding debt amortization) rose by 45 percent, or by about 8 percent in real terms, while revenue increased by 29 percent. Except for wages and salaries, where some restraint was exercised, with general increases being kept to 20 percent, there was a substantial rise under most expenditure categories, notably the Presidency and the Political Institutions (other than on salaries), transfers and subsidies, materials and supplies, and travel. The deceleration in revenue growth was due not only to the decline in economic activity but also to a sharp drop in tax receipts from GECAMINES. The tax contribution of GECAMINES, which had dropped from Z 984 million in 1980 to Z 650 million in 1981, fell even further to Z 386 million in 1982, reflecting the deterioration in export prices of copper and cobalt and the consequent worsening of the company's financial position. Despite the continued accumulation of arrears on external debt interest payments (of the order of Z 1.4 billion), in 1982 the budgetary deficit reached a high of Z 2.8 billion, equivalent to 8.7 percent of GDP. In view of the debt amortization payments actually made, domestic bank financing of the budget more than doubled to Z 3.3 billion, representing 70 percent of the money stock at the beginning of the year. Credit to the private sector and other net domestic assets of the banking system also rose substantially, primarily due to increased financing of higher coffee stocks. Therefore, given the evolution of the external payments situation, money supply in 1982 expanded by 73 percent, whereas nominal GDP increased by some 36 percent. The sharp monetary expansion was mainly in the form of demand deposits held by large enterprises, which led to a decline in the average velocity of money, and hence to a relatively limited immediate impact on domestic demand and prices.

Table 3. Zaire: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982 Prov.	1983 Program	1984 Program
Trade balance	435	178	295	339	419
Exports, f.o.b.	1,566	1,272	1,317	1,375	1,524
Imports, f.o.b.	-1,131	-1,094	-1,022	-1,036	-1,105
Oil	(-161)	(-211)	(-169)	(-160)	(-180)
Non-oil	(-970)	(-883)	(-853)	(-876)	(-925)
Services	-695	-745	-791	-754	-834
Receipts	113	112	76	90	100
Expenditure	-808	-857	-867	-844	-934
Freight and insurance	(-198)	(-240)	(-225)	(-234)	(-245)
Other transport	(-52)	(-68)	(-31)	(-32)	(-35)
Travel	(-26)	(-29)	(-16)	(-16)	(-18)
IMF charges	(-11)	(-10)	(-24)	(-44)	(-55)
Interest on public debt 1/	(-218)	(-269)	(-285)	(-228)	(-296)
Other investment income	(-76)	(-59)	(-45)	(-45)	(-40)
Government, n.i.e.	(-70)	(-76)	(-55)	(-55)	(-50)
Other services	(-157)	(-106)	(-186)	(-190)	(-195)
Unrequited transfers	144	207	156	175	185
Private	-61	-3	-14	-10	-15
Public	205	210	170	185	200
Current account balance	-116	-360	-340	-240	-230
Public capital	-17	-143	-142	-212	-170
Disbursements	292	213	192	134	180
Amortization 1/	-309	-356	-334	-346	-350
Private capital and errors and omissions	-63	-125	-116	--	--
SDR allocation	16	16	--	--	--
Overall deficit (-)	-180	-612	-598	-452	-400
Financing items	180	612	598	452	400
Arrears (reduction -)	-1,035	110	345	...	...
Of which: cash payments	(-50)	(-35)	(-22)	(-10)	(-40)
Debt rescheduling and other assistance	1,239	315	136	...	...
Net Fund credit	13	91	85	104	129
Purchases	(78)	(195)	(107)	(114)	(198)
Repurchases	(-65)	(-104)	(-22)	(-10)	(-69)
Other reserve movements (increase -)	-37	96	32	-10	-42
Gap	--	--	--	368	353
Memorandum item:					
Average export unit value of copper in U.S. cents per pound	99	78	66	73	79

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

1/ Contractual amounts falling due in each year.

IV. Report on the Discussions

Against this background, in late 1982 and early 1983 the Zairian authorities introduced a number of measures aimed at arresting the deterioration of the overall economic and financial situation. At the same time, they began exploring various policy options to deal more effectively with the country's serious difficulties and, in particular, to reduce progressively the large internal and external imbalances. Thus, the consultation discussions, which were started in May, concentrated at the outset on a review of the measures taken, the results achieved, and the policy agenda for the period ahead. Subsequently, in connection with the negotiations regarding the use of Fund resources, the discussions focused on the key elements of a program of economic and financial adjustment for the remainder of 1983 and 1984, and on the need to place the program in a broader context of medium-term economic recovery and financial viability. Accordingly, the following three sections of this report deal in turn with the authorities' initial policy response and the progress made in the first half of 1983, the adjustment program in support of which they are requesting a 15-month stand-by arrangement from the Fund, and the medium-term economic outlook, especially for the balance of payments and the external debt.

1. Initial policy response and results

In view of the rapidly deteriorating situation, and especially the alarming growth in money supply brought about by a widening fiscal deficit, the authorities' initial policy response aimed primarily at bringing the budget under control. Following an extensive discussion of the existing difficulties at the highest political level in early December 1982, it was resolved to limit government outlays strictly, strengthen tax enforcement, and, more generally, improve financial management. Thus, the 1983 budget, which was approved by the Legislative Council after some delay in February, called for a reduction in appropriations relative to the 1982 outcome and for the introduction of a number of revenue measures.

On the expenditure side, major cutbacks were made in most nonwage categories, while no general increase in wages and salaries was granted. Concurrently, expenditure controls were tightened, inter alia through the imposition of quarterly ceilings on certain spending categories where considerable overruns had been recorded in recent years, notably outlays for salary payments for primary and secondary school teachers and outlays of the Presidency and the Political Institutions; quarterly ceilings were also set on total budgetary expenditure, excluding external debt service payments. On the revenue side, the following measures were taken, which were basically in line with the recommendations of a joint Fund/World

Bank technical assistance mission: 1/ the motor vehicle tax was doubled; the tax on rental income was restructured to simplify its administration; and provision was made for the revaluation of corporate assets (to take account of inflation) for profits tax purposes. On the basis of all of these measures, the 1983 budget envisaged a reduction in the deficit to Z 2.2 billion and in net government borrowing from the banking system to Z 2.4 billion (Table 4). In addition, the Bank of Zaire continued to set quarterly limits on the expansion of private sector credit and other net domestic assets of the banking system.

While attempting to contain the growth of domestic demand through tightened fiscal and credit policies, in late 1982 and early 1983 the authorities also took steps to improve the allocation of resources. To this effect, they continued the process of domestic price liberalization, initiated in 1981, by lifting controls on prices of natural rubber, palm oil, and sugar. Since prices of most other food and export crops had been liberalized earlier, this left retail prices of certain goods and services considered to be of strategic importance, namely cement, wheat flour, petroleum products, water, electricity, and domestic public transport, still subject to controls. In these cases, controls continued to be administered flexibly, with requests for price or tariff increases being regarded as automatically approved if the Ministry of National Economy, Industry, and Foreign Trade did not react within 30 days. Consistent with this policy, in December 1982 retail prices of petroleum products were raised substantially, with the price per liter of premium gasoline increasing from Z 5.50 to Z 12.50, diesel fuel from Z 2.80 to Z 3.10, and kerosene from Z 2.50 to Z 3.00. The structure of retail petroleum prices incorporates a compensation system under which certain products that are used by high-income groups (e.g., premium gasoline) are taxed in such a way that other products consumed by low-income groups (e.g., kerosene) or essential for the national transportation network (e.g., diesel fuel) can be subsidized; the taxes and subsidies involved are completely offsetting, and there is no subsidy to petroleum products from the government budget.

As part of the liberalization process, in early 1983 the trade of artisanal gold and diamonds was freed, with a number of marketing agencies being authorized to purchase these commodities from producers and to dispose of their repatriated proceeds through the commercial banks at a substantially depreciated exchange rate. This rate, called the relance minière rate, which had been used informally since September 1981, was

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1/ The reports of the joint Fund/World Bank technical assistance mission, which were presented to the authorities in April-May 1982, made recommendations regarding general tax reform, a new tax regime for GECAMINES, and control over budgetary expenditure.

Table 4. Zaire: Budgetary Operations, 1980-84 1/

	1980	1981	1982	1983 Budget	1983 Jan.-June 2/	1983 Program 3/	1984 Program 4/
	(In millions of zaires)						
Total revenue	3,738.6	4,858.8	6,259.1	6,801.6	3,532.4	11,063.0	20,400.0
Income and profits taxes	582.7	1,469.0	1,914.1	1,869.0	1,303.9	2,997.0	4,516.0
Taxes on goods and services	618.4	944.6	1,521.2	1,613.1	943.9	2,322.0	4,078.0
Import duties and taxes	651.9	987.3	1,347.4	1,406.3	639.2	1,980.0	4,400.0
Export duties and taxes	428.6	147.0	190.4	158.8	77.6	336.0	886.0
Other taxes and nontax revenue	473.3	660.5	900.1	1,034.4	426.6	1,168.0	1,920.0
GECAMINES	983.7	650.4	385.9	720.0	141.2	2,260.0	4,600.0
Total expenditure	3,702.8	6,251.0	9,037.3	9,028.6	3,471.0	12,101.0	20,150.0
Current expenditure	3,456.4	5,506.1	7,952.4	8,301.7	3,397.4	11,267.0	18,750.0
Wages and salaries	(1,608.0)	(2,336.5)	(2,779.9)	(2,974.7)	(1,485.6)	(3,240.9)	(4,586.0)
Interest on foreign debt	(336.4)	(556.0)	(495.3)	(847.0)	(311.0)	(1,857.0)	(5,250.0)
Interest on domestic debt	(77.0)	(228.9)	(190.7)	(221.2)	(109.6)	(440.0)	(606.0)
Transfers and subsidies	(237.0)	(674.4)	(987.5)	(917.8)	(362.2)	(814.0)	(1,295.0)
Other	(1,198.0)	(1,710.3)	(3,499.0)	(3,341.0)	(1,165.0)	(4,915.1)	(7,013.0)
Capital expenditure	246.4	744.9	1,084.9	726.9	73.6	834.0	1,400.0
Overall surplus or deficit (-)	35.8	-1,392.2	-2,778.2	-2,227.0	61.4	-1,038.0	250.0
Financing	-35.8	1,392.2	2,778.2	2,227.0	-61.4	1,038.0	-250.0
Domestic (net)	267.2	1,454.2	3,273.9	2,400.0	177.0	2,400.0	2,600.0
Banking system	267.2	1,454.2	3,273.9	2,400.0	177.0	2,400.0	2,600.0
Other	--	--	--	--	--	--	--
Foreign (net)	-303.0	-62.0	-495.7	-173.0	-238.4	-1,362.0	-2,850.0
Borrowing	189.1	264.0	--	--	--	--	--
Amortization	-492.1	-326.0	-495.7	-173.0	-238.4	-1,362.0	-2,850.0
Memorandum items:	(In percent of GDP)						
Total revenue	21.7	20.6	19.5	...	...	20.3	25.1
Total expenditure	21.5	26.5	28.2	...	...	22.2	24.8
Overall surplus or deficit (-)	0.2	-5.9	-8.7	...	...	-1.9	0.3
Domestic bank financing	1.6	6.2	10.2	...	...	4.4	3.2

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

1/ Cash basis; excluding government outlays financed directly through foreign loans and grants.
2/ Provisional.
3/ Including the impact of the large devaluation of the zaire.
4/ Indicative.

formalized in January 1983, being fixed weekly by the Customs and Excise Office on the basis of the rate already determined for the calculation of the cost price of imports financed without recourse to the foreign exchange resources of the banking system, known as SAD imports. As in the case of the system of SAD imports, the relance minière rate thus gave rise to a multiple currency practice subject to approval under Article VIII of the Articles of Agreement. In early 1983 marketing arrangements for the sale of Zaire's industrial diamonds through the De Beers Group were also re-established; since April 1981, when these arrangements had been terminated, exclusive rights for the sale of all of the country's diamonds had been given to SOZACOM (the state-owned mineral marketing company).

At the same time, development efforts in agriculture were intensified, mainly with World Bank technical and financial assistance. Within the framework of the Agricultural Action Plan, designed to stimulate economic recovery, the authorities implemented a number of institutional reforms recommended by the World Bank, and they carried forward the sectoral investment program focusing on ongoing projects. In addition, steps were taken to strengthen the management and productive capacity of GECAMINES, as well as to ensure full observance of a new marketing and financial agreement between GECAMINES and SOZACOM, which was concluded in August 1982, with a view to guaranteeing inter alia the transparency and full accountability of the marketing of GECAMINES' products by SOZACOM.

The Zairian representatives stated that the results of these initial policy measures were encouraging, especially in the area of the budget. On the basis of provisional data, in the first half of 1983 budgetary operations (excluding debt amortization) registered a small surplus (Table 4), as revenue collections were generally on target and expenditure was well below estimates. Only tax receipts from GECAMINES lagged substantially behind estimates, owing to the company's continuing financial difficulties because of the overvalued official exchange rate and the fact that the moderate revival in world market prices of copper had not yet been fully felt; but this shortfall was more than offset by higher-than-expected collections from taxes on net income and profits. As to expenditure, a large part of the improvement was attributed to genuine economies, particularly with respect to materials and supplies, travel, and a number of other spending categories, reflecting the tightening of expenditure controls. Nonetheless, there was also a perceptible slowdown in spending, notably during January-March 1983, because of the impact on commitments of the drive launched early in the year to investigate past abuses in the management of public funds, the late approval of the budget by the Legislative Council, and the subsequent cabinet reshuffle. Furthermore, there was some accumulation of arrears on nondebt service payments, due entirely to the lack of foreign exchange; such arrears increased by Z 136 million over the six-month period to an estimated Z 613 million at the end of June 1983. Even after accounting for these factors, however, there was a significant improvement in budgetary performance. In view of the debt amortization payments actually made, net government borrowing from the banking system amounted to less than Z 0.2 billion in the first half of 1983, compared with Z 1.6 billion in the corresponding period of 1982. As the growth of bank credit to the private sector also slowed, the increase in net domestic assets of the banking system was well within the limits set by the Bank of Zaire.

The other measures taken also showed some positive results. In particular, following the liberalization of the trade of artisanal gold and diamonds and the formal introduction of the relance minière rate, exports of these commodities rose sharply in the first half of 1983, and the prospects of a strong performance for the year as a whole improved markedly.

Despite the improvements recorded in the first half of 1983, the Zairian representatives recognized that the country still faced acute structural and financial difficulties. In view of slippages in the implementation of the public investment program, owing partly to a decline in external bilateral assistance, serious bottlenecks continued to hinder the development of the agricultural, mining, and transportation sectors. Moreover, inflation was strongly entrenched in the economy, the balance of payments remained under severe pressure, and the official exchange rate of the zaire, which had been kept unchanged in terms of the SDR since June 1981, had once again become highly unrealistic. In the two-year period ended June 1983 the real effective exchange rate appreciated by 27 per cent, reaching a level almost two and one-half times that of 1973 (Chart 1), when Zaire was last able to cover its external current account deficit without recourse to exceptional financing. In the circumstances, the exchange rate of the zaire on the SAD and the relance minière markets weakened sharply, dropping in June 1983 to a range equivalent to Z 29-31 = US$1, compared with the official rate of Z 5.9 = US$1 (Chart 2).

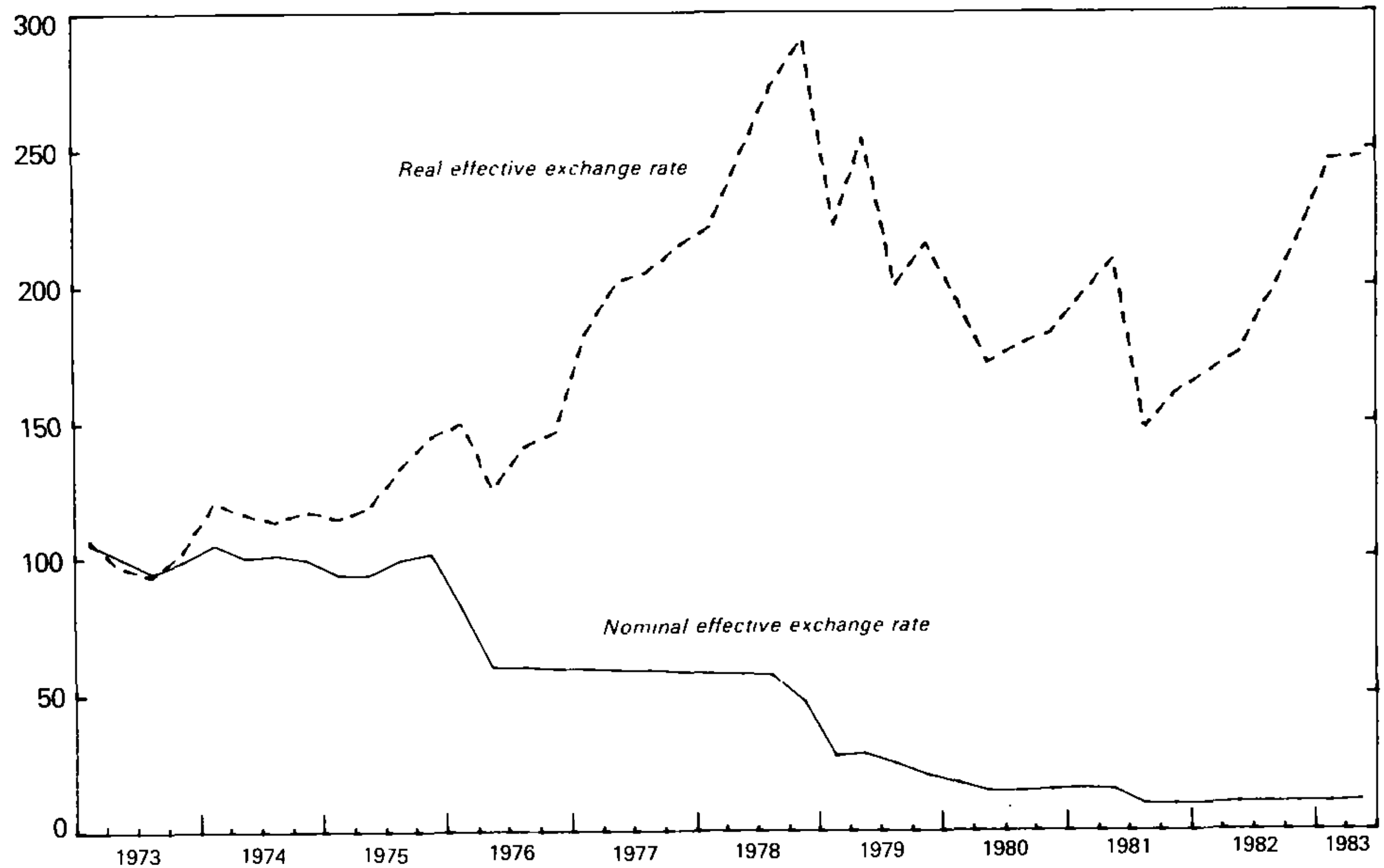
The external debt situation also remained extremely serious. As of the end of 1982, the latest date for which complete data are available, Zaire's outstanding external public and publicly guaranteed debt, including Fund credit of SDR 0.4 billion, totaled SDR 4.1 billion, equivalent to 81 percent of GDP. Of this total, about SDR 2.4 billion was owed to official creditors within the Paris Club and SDR 326 million to commercial banks of the London Club. In addition, as indicated earlier, Zaire had external arrears amounting to SDR 848 million, with SDR 641 million being in respect of external debt service; of the latter amount, about SDR 505 million was due to the Paris Club and some SDR 54 million to the London Club. Given the size and structure of the debt, the servicing burden is very high: excluding Fund repurchases and charges, the debt service due in 1983 is equivalent to 39 percent of projected exports of goods and services; including Fund repurchases and charges, it represents 43 percent of projected exports of goods and services. Thus, in view of the continuing balance of payments difficulties, the authorities have

CHART 1

ZAIRE

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1973-83[1]

(1973 = 100)



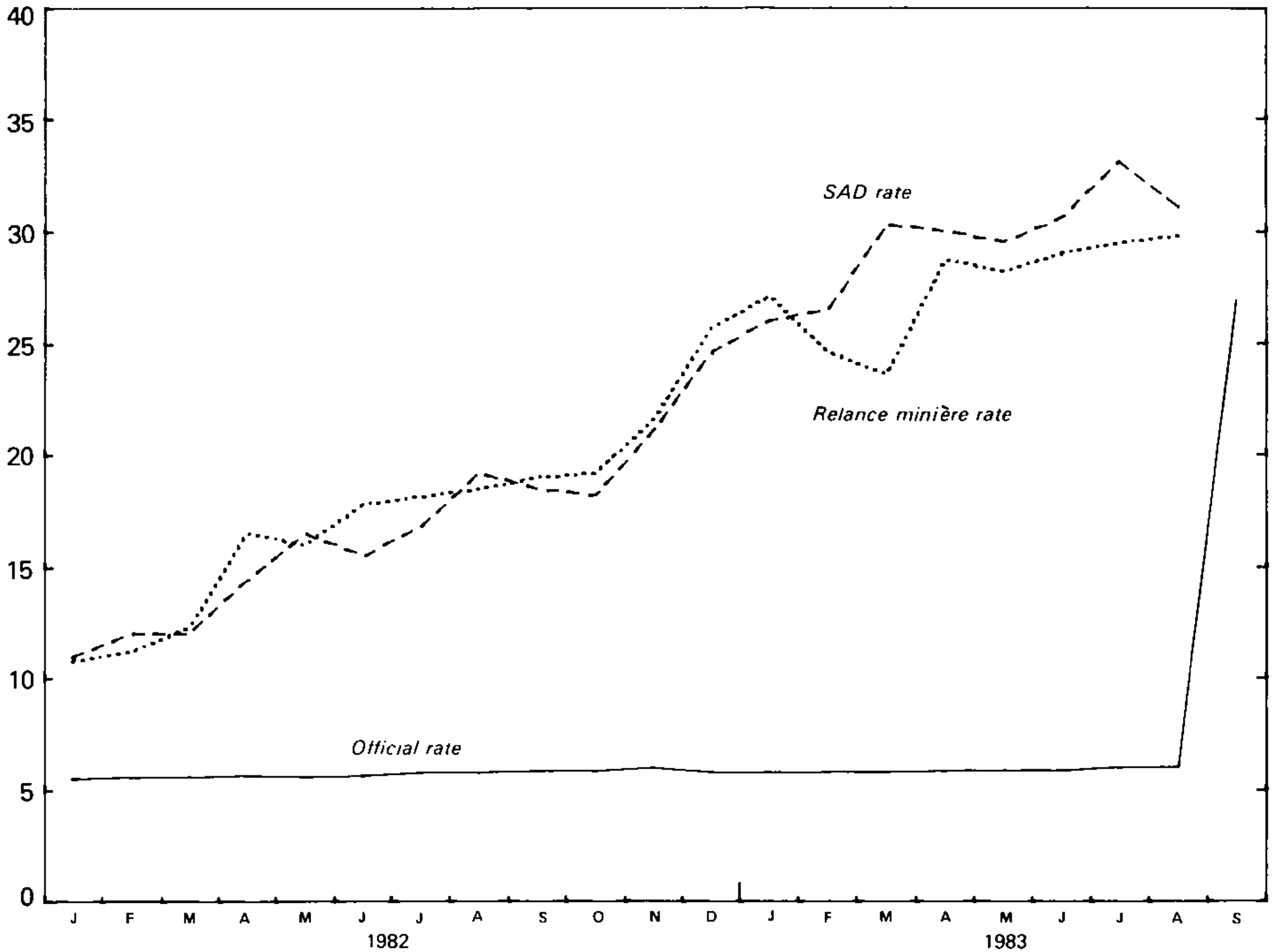
Source: IMF Data Fund

[1] Import weighted, based on official exchange rates.

CHART 2
ZAIRE

EXCHANGE RATE DEVELOPMENTS, 1982-83

(In zaires per U.S. dollar)



Source. Data provided by the Zairian authorities.

discharged only a small part of the debt service obligations, and there has been a further accumulation of arrears.

2. The adjustment program for October 1983-December 1984

Although Zaire made significant progress as a result of the measures implemented in late 1982 and early 1983, there was no doubt that much stronger and sustained adjustment efforts would be required to bring about a fundamental improvement in the overall economic and financial situation and, in particular, to achieve a viable balance of payments position over the medium term. Therefore, following a comprehensive review of the existing difficulties and various policy options, the Executive Council decided to undertake a program of economic and financial adjustment covering the period October 1983-December 1984. The program, in support of which Zaire is requesting a 15-month stand-by arrangement in an amount equivalent to SDR 228 million, is set forth in the attached letter of intent (Appendix II) and the accompanying Memorandum on the Economic and Financial Policies of the Executive Council of Zaire (henceforth referred to as the Policy Memorandum), and is discussed in detail below. It should be noted that, by building upon the measures initiated early this year, the program effectively covers the whole of 1983 and 1984. Furthermore, most of the key elements of the program have already been introduced, effective September 12, 1983. A summary of the program is presented in Table 5.

a. Basic objectives and assumptions

The basic objective of the authorities' adjustment program is to reduce the external current account deficit (based on interest payments due) from SDR 340 million in 1982 to SDR 240 million in 1983 and further to SDR 230 million in 1984, or by about one third over the two-year period (Table 3). The program also aims at reviving the economy and containing the rate of inflation, though progress in these areas is likely to be limited through mid-1984. In view of the expected lags in response of the economy to the measures already taken, and the stringent financial constraints, real GDP is projected to grow by only 1 percent in 1983 and 2 per cent in 1984, implying a drop in real per capita income. Meanwhile, owing to the impact of the recent exchange reform, the inflation rate has accelerated sharply and is projected to average 68 percent for 1983 as a whole, before declining to 47 percent in 1984. However, assuming that appropriate policies continue to be pursued, rapid progress in all of these areas could be achieved in the following years.

A major assumption of the program is that total export earnings, expressed in terms of SDRs, will increase by more than 4 percent in 1983 and by 11 per cent in 1984, mainly on account of higher prices for most of Zaire's major export commodities (Appendix VI). Specifically, it has been assumed that realized export prices of copper, which averaged US$0.66 per pound in 1982, will rise to US$0.73 per pound in 1983 and to

Table 5. Zaire: Summary of the Adjustment Program, 1983-84

	1982	1983	1984
		Program	
Assumptions			
Total exports (percent increase)	3.6	4.4	10.9
Exports of copper			
Volume (thousand tons)	542.6	489.2	487.2
Unit price (U.S. cents per pound)	66	73	79
Terms of trade (percent change)	-8.4	-0.5	1.7
Official exchange rate, annual average (zaires per U.S. dollar)	5.8	12.9	30.0
Targets			
Real GDP (percent change)	-1.0	1.0	2.0
Inflation rate (percent)	37.2	68.0	47.0
Balance of payments			
Current account deficit (-)			
In millions of SDRs	-340	-240	-230
As per cent of GDP	-6.7	-5.4 1/	-8.6 1/
Overall deficit (-)			
In millions of SDRs	-598	-452	-400
Net cumulative reduction in commercial and invisible arrears			
In millions of SDRs	22.0	10.0	40.0
Budgetary surplus or deficit (-)			
In billions of zaires	-2.8	-1.0	0.3
As percent of GDP	-8.7	-1.9	0.3
Net domestic assets of the banking system			
Change in billions of zaires	4.0	4.8	4.9
Change in percent	77.3	51.9	34.6
Net bank claims on the Government			
Change in billions of zaires	3.3	2.4	2.6
Change in percent	86.5	34.0	27.5

1/ The current account deficit relative to GDP drops only slightly in 1983 and increases in 1984 due to the fact that GDP declines markedly in terms of SDRs in 1983 and 1984 because of the large devaluation of the zaire.

Table 5 (continued). Zaire: Summary of the Adjustment Program, 1983-84

Principal elements of the program

Actions already taken	Progress during program period
1. External policies	
a. Exchange rate: On September 12, 1983 the official exchange rate was changed from Z 6.3 = SDR 1 to Z 28.2 = SDR 1 and a temporary dual exchange rate arrangement, involving two phases, was introduced. In the first phase, which ended on October 14, 1983, the free market rate was set once a week by the commercial banks, in consultation with the Bank of Zaire; the spread between the official and free market rates was limited to 10 percent. Since the beginning of the second phase, the free rate is being determined on an interbank foreign exchange market; the spread between the two rates has been brought to under 5 percent.	Unification of the official and free market rates is to be completed no later than the end of February 1984.
b. Exchange and trade system: On September 12, 1983 the 30 percent foreign exchange surrender requirement by the commercial banks to the Bank of Zaire was abolished; most resident foreign currency accounts and export retention quotas were also abolished; the foreign exchange allocation system applicable to commercial banks was liberalized considerably; the system of imports financed without recourse to the foreign exchange resources of the banking system was eliminated; and import licensing regulations were rationalized by making a limited number of nonessential imports subject to prior authorization and all other imports subject only to a simple declaration.	The foreign exchange allocation system applicable to commercial banks is to be liberalized further by the end of February 1984. The provisional list of nonessential imports is to be reviewed before the end of 1983.
c. External payments arrears:	Commercial and invisible arrears will be reduced through programmed cash payments. There will be no accumulation of arrears on external debt service payments following the envisaged debt reschedulings.
d. External borrowing:	New external debt commitments contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to SDR 100 million in 1983 and SDR 150 million in 1984; within these ceilings, subceilings of SDR 30 million and SDR 40 million, respectively, will apply to loans with a maturity of 1-5 years.

Table 5 (concluded). Zaire: Summary of the Adjustment Program, 1983-84

2. Domestic pricing policy	
Effective September 12, 1983, there was a de jure liberalization of all domestic prices which de facto had been set free during 1982 and early 1983. Retail prices of petroleum products have been adjusted to enable full pass through of the impact of the exchange rate change.	Tariffs of public utilities and domestic public transport will be increased to take account of the petroleum price adjustments, and will be kept under review.
3. Fiscal policy	
A number of recommendations of the joint Fund/World Bank technical assistance mission were implemented, including an increase in the motor vehicle tax, simplification of rental income tax administration, and revaluation of corporate assets for profits tax purposes.	Implementation in 1984 of a number of other recommendations of the joint Fund/World Bank technical assistance mission, including an upward adjustment of tax rates on real property, a harmonization of individual income taxes, and an extension of the system of presumptive income tax assessment to some liberal professions and the services sector.
A new fiscal regime for GECAMINES was introduced, effective September 12, 1983.	
Budgetary controls continued to be strengthened primarily through a progressive centralization of all government operations at the Ministry of Finance and the Budget. All expenditure commitments are to be made solely through the Ministry. The Central Pay Directorate has been reintegrated into the Ministry. A comprehensive list of government employees is being finalized.	Quarterly targets have been established for 1983 for key expenditure categories, as well as for total budgetary expenditure; appropriate quarterly targets for 1984 will be set in the context of the first review.
4. Wage and salary policy	
The increase in the wage bill of the government sector is to be limited to 40 percent over the two-year period 1983-84, with 20 percent effective October 1, 1983 and the remainder effective April 1, 1984.	
5. Monetary and credit policies	
Effective September 12, 1983, the basic central bank rediscount rate has been increased from 15 percent to 20 percent; virtually all commercial bank lending rates have been liberalized; interest rates charged on central bank advances to the Treasury have been raised from 3 percent to 7 percent; and the remuneration paid on Treasury bills has been increased from 4.75 percent to 10 percent.	Credit ceilings on net domestic assets and on net bank claims on the Government have been established for end-December 1983; appropriate quarterly ceilings for 1984 will be set in the context of the first review. Minimum reserve requirements for commercial banks will be reviewed prior to end-1983 and, if necessary, modified.

US$0.79 per pound in 1984. Copper prices on the London Metal Exchange averaged US$0.75 per pound in the first nine months of 1983; although they fell substantially in October-November 1983, they are expected to move upward in the months ahead as the economic recovery in the major industrial countries gains momentum. Clearly, in view of the importance of copper to Zaire's overall export earnings, the program is particularly sensitive to developments in the world copper market. Copper export volume, which was unusually high in 1982 because of the conclusion of certain sales contracts originally intended for the previous year, is projected to decline moderately to around 490,000 tons in both 1983 and 1984. Export earnings from gold and diamonds are expected to be up significantly, primarily because of larger export volumes. As a result of the liberalization measures taken early this year, export volume of gold is projected to more than double in 1983 and to increase moderately in 1984, while that of diamonds is expected to increase by about one fifth in both 1983 and 1984. In addition, higher agricultural production is expected to lead to rising export volumes of coffee, rubber, and other commodities. Altogether, increased export earnings from copper, gold, diamonds, and agricultural products are projected to more than offset a decline in earnings from cobalt and crude oil exports in 1983 due to lower prices. Prospects for cobalt and crude oil are expected to improve in 1984, as prices are projected to rise and, in the case of cobalt, volume is projected to increase significantly.

Another important assumption is that receipts from services will pick up as a result of the exchange reform. By contrast, the program envisages a further substantial decline in official capital disbursements in 1983, followed by only a modest improvement in 1984. This decline reflects the marked slowdown in official loan commitments over the past few years, owing to various adverse factors, including the alarming growth in Zaire's debt service payments arrears.

In view of the above, the increase in nominal imports is to be limited to about 2 percent in 1983 and to 6 percent in 1984 through the policies and measures already taken and those envisaged under the program for the period immediately ahead. Given the expected rise in external prices, import volume would remain practically unchanged in 1983, but it would increase by some 1.5 percent in 1984, which would help promote the desired revival in the domestic economy.

b. Exchange and trade reform

The centerpiece of the adjustment program initiated by the authorities is a far-reaching exchange reform involving the establishment of an interbank foreign exchange market to freely determine the exchange rate of the zaire. This reform, adopted against the background of widening spreads between the official and parallel market exchange rates of the zaire, has been designed with a view to reducing the large distortions in the economy, promoting exports and import-substituting industries, ensuring responsiveness of the exchange rate system to market forces, discouraging parallel market activities, and fostering budgetary discipline. As an integral part of the reform, effective September 12, 1983 the official exchange rate of the zaire was changed from Z 1 = SDR 0.15750 to Z 1 = SDR 0.03542, representing a devaluation of 77.5 percent against the SDR, or 445 percent in terms of local currency. Concurrently, the authorities adopted a floating exchange rate regime, abandoning the fixed parity of the zaire vis-à-vis the SDR introduced on March 12, 1976; in contrast to the past discrete changes of the rate, this regime would provide a much-needed permanent flexibility in the exchange rate field. While doing so, the authorities also put in place a temporary dual exchange rate arrangement, consisting of two clearly defined markets, an official market restricted to the operations of the Bank of Zaire and a free market covering the operations of the rest of the banking system. This arrangement, entailing two phases, will give way to a unified exchange rate system no later than the end of February 1984; in the meantime, the spreads between the official and the free market exchange rates will be kept within specified margins, as indicated below.

During the first phase, which was completed on October 14, 1983, transactions on the official market are estimated to have covered about 48 percent of the total foreign exchange transactions, with the remaining 52 percent being carried out on the free market. On the receipts side, official transactions were limited to receipts from GECAMINES, royalties and taxes from oil companies, and other specified central bank and government revenue in foreign exchange, including bridging finance equivalent to US$35 million. On the expenditure side, official transactions were confined to outlays for oil imports, external public debt service, Fund charges and repurchases, operational costs of the Bank of Zaire, and specified priority imports and payments for invisibles by the Government. For the week of September 12, 1983, the free market exchange rate was set by the Bank of Zaire at the same level as that of the prevailing relance minière rate. Subsequently, and through October 14, 1983, the free rate was determined weekly by the commercial banks, in consultation with the Bank of Zaire, on the basis of the rates banks were intending to apply to transactions on the free market. The spread between the official and the free market exchange rates was kept within 10 percent in the first phase; thus, whenever the free rate involved a wider spread, the official rate was automatically adjusted by the Bank of Zaire.

With the start of the second phase, the interbank foreign exchange market was launched. The share of official transactions in the total is expected to be reduced, though not substantially because the drawings from the Fund will accrue to the official market. However, the Bank of Zaire will begin selling part of its foreign exchange resources on the free market, thereby increasing the supply on this market and possibly offsetting any undue pressures on the rate. As a minimum, such sales, which are a performance criterion under the program, are to amount to SDR 14 million during the period October 1983-February 1984; minimum sales for the remainder of 1984 will be established in the context of the first review of the program. The free rate is being determined on the interbank foreign exchange market, which has been functioning increasingly smoothly. The weekly fixing (each Friday) is being conducted on the basis of the following principal rules: the fixing rate must be set at a level which allows the largest buying bid to be transacted; bids without limits have to be effected in the first instance; and those bids with specified limits could be split and effected to the extent possible. Irrespective of the weekly fixing rate, commercial banks are free to negotiate any rate in their daily transactions among themselves, as well as with their clients. Since the introduction of the second phase, the spread between the official and the free market (fixing) exchange rates has been brought to within 5 percent; it will be progressively reduced so that unification of the two rates would be effected no later than the end of February 1984. A maximum spread of 5 percent between the two rates, as well as their scheduled unification, constitute performance criteria under the program. By the end of the second phase, and with a view to enhancing interbank transactions, the net foreign exchange position of each commercial bank will be limited to a certain proportion of its own resources.

The evolution of the free and official rates since the introduction of the exchange reform is given below.

Effective date	Free rate	Official rate
	(In zaires per U.S. dollar)	
September 12, 1983	29.9253	26.9328
September 19, 1983	30.3455	27.3110
September 26, 1983	30.4621	27.4159
October 3, 1983	30.4960	27.4464
October 10, 1983	30.3960	27.3572
October 17, 1983	30.4849	28.9606
October 24, 1983	30.4000	28.9605
October 31, 1983	30.5701	29.1332
November 7, 1983	30.6608	29.2197
November 14, 1983	30.6577	29.3333
November 21, 1983	30.7800	29.3333
November 28, 1983	30.8398	29.3903

As a complement to the exchange reform, the authorities have taken several measures to liberalize and simplify the exchange and trade system. Effective September 12, 1983, the requirement that commercial banks cede to the Bank of Zaire 30 percent of export earnings surrendered to them has been abolished; in this way, the amounts accruing to the free market have been correspondingly increased. All resident foreign currency accounts, which in the past were partly used to finance parallel market activities, have also been abolished, though the Bank of Zaire has given GECAMINES and some other companies a transition period to comply with this aspect of the new exchange regulations. Furthermore, all export retention quotas, except for those covered by international credit agreements, notably GECAMINES', and bilateral conventions between the Government and foreign partners, have been eliminated; under existing agreements, GECAMINES is authorized to retain 45 percent of its export proceeds, or BF 1.2 billion per month, whichever is greater, to meet its own payments abroad. The program provides that the introduction of any new foreign exchange retention scheme will be subject to prior consultation with the Fund staff.

The foreign exchange allocation system applicable to commercial banks has also been liberalized considerably. Until recently, the commercial banks had to devote 45 percent of their retained earnings from exports and invisibles to imports of raw materials, intermediate goods, and certain finished products, 30 percent to imports of essential consumer goods and pharmaceuticals, and 25 percent to payments for invisibles. Under the new regulations, the commercial banks are allowed to freely allocate 75 percent of their retained earnings, while continuing to observe the limit of 25 percent on payments for invisibles; this allocation is expected to be liberalized further in the context of the first review of the program. Finally, the system of imports financed without recourse to the foreign exchange resources of the banking system (SAD imports), which gave rise to a multiple currency practice, has been eliminated. The relance minière rate, which also constituted a multiple currency practice, has been discontinued.

In view of the elimination of the system of SAD imports, import licensing regulations were rationalized through the introduction of a provisional negative list of nonessential imports subject to prior authorization, with all other imports being subject only to a simple declaration. The provisional list was revised in early November 1983 and a formal one, consisting of a very limited number of items subject to prior authorization, is expected to be issued shortly. The authorities have also changed tariff rates on a number of import categories, as described below.

Despite the far-reaching liberalization measures already taken, Zaire continues to maintain a number of restrictions on payments and transfers for current international transactions, notably with respect to payments for freight, travel, salary transfers, and certain transfers of profits and dividends, which require the prior authorization of the Bank of Zaire. In addition, Zaire continues to maintain bilateral payments agreements with two Fund members, Burundi and Rwanda. 1/ The above restrictions are subject to Fund approval under Article VIII.

1/ For a detailed description of these restrictions, see the background paper on recent economic developments in Zaire.

c. Domestic pricing policy

As mentioned earlier, since 1981 the authorities have put into effect a substantial liberalization of the domestic pricing system. Thus, price controls at the ex-factory, wholesale, and retail levels now apply only to a few items which are considered of strategic importance, particularly petroleum products, public utility tariffs, and domestic public transport. Even in these cases, controls continue to be administered flexibly, involving no overall price subsidies. In view of the fact that the lifting of certain price controls had been undertaken through administrative circulars, the authorities considered it essential to issue on September 12, 1983 an ordonnance-loi recapitulating all of the price liberalization measures introduced through the early part of this year; in this way, they gave full legal force to the practices and procedures already in effect for some time. To discourage profiteering, the authorities retain the right to apply ex post price controls, notably on manufactured products, but these are used sparingly, and enterprises are free to set their prices on the basis of cost and profit considerations.

With regard to petroleum products, whose retail price structure was changed in December 1982, further modifications have been made to take full account of the exchange rate adjustment. In particular, effective September 14, 1983, the retail price per liter of premium gasoline was raised from Z 12.50 to Z 35.00, diesel fuel from Z 3.10 to Z 15.50, and kerosene from Z 3.00 to Z 15.00. On November 8, 1983 the authorities readjusted the structure of retail petroleum prices, this time lowering the prices of certain products that are used primarily by domestic manufacturing industries and the transportation sector; the essential objective of this change was to attenuate the impact of petroleum prices on the general price level. While the price of premium gasoline was maintained, the retail price of kerosene was lowered to Z 10.00 per liter and that of diesel fuel to Z 10.00 per liter. The price compensation system was left unchanged, and the reductions in prices were made possible mainly by cutbacks in that component of the final price that provides resources for the reserve fund of the national petroleum company; this component had been increased significantly as part of the initial adjustment in September. As in the past, therefore, there is no subsidy to petroleum products from the government budget. To reflect the changes in petroleum prices and any other increases in costs, the tariffs of public utilities, as well as of domestic public transport, will be increased by the end of 1983.

As indicated in the Policy Memorandum, the authorities intend to continue to formulate economic policies that will promote competition in the economy, and thereby foster a better allocation of resources. In this regard, the Executive Council has requested World Bank assistance in formulating measures to improve the performance of the manufacturing sector, including appropriate modifications in trade policy.

d. Fiscal policy

To help achieve the basic objectives of the program, the authorities have taken additional fiscal measures, and they intend to introduce others, so as to reduce the budgetary deficit from the equivalent of 8.7 percent of GDP in 1982 to 1.9 percent of GDP in 1983 and to eliminate it in 1984 (Table 4). If account is taken of projected government outlays financed directly through foreign loans and grants outside the budget, the overall government deficit would be brought down in terms of GDP from 11.6 percent in 1982 to 4.5 percent in 1983 and 2.9 percent in 1984. In this way, net government borrowing from the banking system, which had reached a high of Z 3.3 billion in 1982, will be limited to Z 2.4 billion in 1983 and Z 2.6 billion in 1984, notwithstanding the sizable external debt amortization. Actual external debt amortization payments are projected to amount to Z 1.4 billion in 1983 and Z 2.9 billion in 1984, while total external debt service payments are estimated to be Z 3.2 billion and Z 8.1 billion, respectively. In relation to the money stock at the beginning of each year, net government borrowing from the banking system is programmed to decline sharply, from 70 percent in 1982 to 30 percent in 1983 and further to 22 percent in 1984.

The fiscal adjustment is expected to result from a faster growth in revenue than in expenditure. In fact, reflecting the impact of the large devaluation and the new measures, total budgetary revenue is estimated to increase by 77 percent in 1983 and 84 percent in 1984, whereas total budgetary expenditure, excluding external debt amortization, is programmed to rise by 34 percent and 67 percent, respectively.

Revenue gains from the exchange rate adjustment and the introduction of a new fiscal regime for GECAMINES, effective September 12, 1983, are expected to be substantial, totaling Z 4.1 billion in 1983, equivalent to some 8 percent of GDP. The revenue yield of the exchange rate adjustment alone is estimated to be of the order of Z 2.3 billion in 1983, with the bulk of this being attributable to royalties and taxes from oil companies, income taxes paid by expatriates, and import duties and taxes. The new fiscal regime for GECAMINES, based on the recommendations of the Fund/World Bank technical assistance mission mentioned earlier, is designed to ensure a reasonably predictable flow of revenue to the Treasury, while guaranteeing GECAMINES the necessary investment resources to implement its rehabilitation program. Under this regime, a basic export tax of 7 percent is applied to the company's metal exports (except germanium) and is creditable against the profits tax. Furthermore, a surtax of 80 percent is levied on copper sales when the copper price, as quoted on the London Metal Exchange, exceeds a threshold equivalent to SDR 2,500 per ton; the surtax is deductible from the company's profits. GECAMINES remains subject to all other domestic and import taxes. In view of the new fiscal regime and the exchange rate adjustment, GECAMINES' total tax payments, including those on profits and on salaries of its employees, are estimated to amount to Z 2.3 billion in 1983 and Z 4.6 billion in 1984, compared with a revised budgetary estimate of Z 0.5 billion for 1983 prior to the devaluation.

To attenuate the impact of the devaluation on the cost of living, the authorities have lowered customs duties on certain essential items as follows: food and nonfood products (e.g., corn, fish, groundnuts, palm oil, salt, sugar, and pharmaceuticals), from 10 percent to 3 percent; intermediate industrial goods and inputs, from 20 percent to 3 percent; certain utility vehicles, from 72-167 percent to 50 percent; and petroleum products, from 18 percent to 12 percent. The resulting loss in revenue for the last four months of 1983 is estimated at Z 146 million. To offset part of this loss, customs duties on certain luxury items have been increased as follows: private vehicles, from 130 percent to 200 percent; electric appliances, from 67 percent to 200 percent; decoration articles, from 50 percent to 100 percent; luxury foodstuffs, from 50 percent to 100 percent; and other nonpriority items, from 90 percent to 130 percent. These increased duty rates are estimated to yield Z 86 million in the last four months of 1983.

In the context of the 1984 budget, a draft of which is being considered by the Legislative Council, a number of other revenue measures recommended by the Fund/World Bank technical assistance mission will be implemented. These are expected to include an increase in tax rates on real property, a harmonization of individual income taxes, and an extension of the system of presumptive income tax assessment to some liberal professions and the services sector. At the same time, personal income taxation will be adjusted so that income earners may derive the full benefit of the salary increases indicated below.

On the expenditure side, the authorities intend to continue to strengthen budgetary controls primarily through a progressive centralization of all government operations at the Ministry of Finance and the Budget. To this end, all expenditure commitments are to be made solely through the Ministry; under no circumstances is the Treasury's account with the Bank of Zaire to be debited without the prior approval of the Ministry. In addition, the Central Pay Directorate has been reintegrated into the Ministry, and a comprehensive list of government employees, including primary and secondary school teachers, is being finalized. In the meantime, the system of monthly lump-sum payments of salaries to primary and secondary school teachers, which was initiated in 1981, is being rigorously enforced. Furthermore, outlays for subsidies and transfers, travel, and materials and supplies are being strictly limited. To make controls more effective, and consistent with the ceilings on net credit of the banking system to the Government, quarterly targets are being maintained on key expenditure categories, particularly salary payments for primary and secondary school teachers, and outlays of the Presidency and the Political Institutions, as well as on total budgetary expenditure, as specified in the Policy Memorandum. The results will be closely monitored, and should these targets not be observed there will be consultations with the Fund staff to reach understandings on appropriate corrective measures. The total budgetary expenditure target includes the payment of specific amounts for external debt service, domestic arrears, and nondebt arrears in foreign exchange of the Treasury. In the event that actual payments fall short of the specified amounts, the total budgetary expenditure target will be reduced by an equivalent amount.

In order to enforce budgetary discipline and to facilitate the settlement of external debt obligations, the Government will establish a blocked account at the Bank of Zaire into which it will deposit the domestic currency counterpart of the external debt service as and when the payments fall due. This blocked account, to be used exclusively for debt servicing, is expected to become effective as soon as the results of the envisaged debt reschedulings are known.

e. Wage and salary policy

In view of the prevailing high rate of inflation and the large devaluation, the authorities felt compelled to review wages and salaries in the government sector, which had been kept unchanged since August 1982. This review, which was conducted in close consultation with the trade unions, also provided an opportunity to re-examine the structure of wages and salaries. However, conscious of the need for prudence, the authorities decided to raise the wage bill by no more than 40 percent over the two-year period 1983-84, with 20 percent effective October 1, 1983 and the remainder effective April 1, 1984. Given the hiring freeze already in effect, and the Government's intention to reduce the number of its employees, the average nominal increase in wages and salaries will be higher than indicated above. Nonetheless, average real wages in the government sector are projected to continue to decline over the two-year period. The authorities have urged public enterprises, as well as the private sector, to exercise similar restraint in granting wage and salary adjustments, despite the existing pressures from trade unions to avoid any further reductions in real incomes.

f. Monetary and credit policies

To reinforce the fiscal program, monetary and credit policies are being directed toward containing the growth of broad money to some 50 percent in 1983 and 35 percent in 1984, or substantially below the estimated increases in nominal GDP of 69 percent and 49 percent, respectively. Accordingly, and in view of the projected evolution of the external payments situation, the adjustment program limits the expansion in net domestic assets of the banking system to about 52 percent in 1983 and 35 percent in 1984, as against 77 percent in 1982. Given the fiscal targets, which imply a substantial reduction in net bank credit to the Government, the overall increase in net domestic assets should provide adequate scope for the financing of essential nongovernment investments and imports. In general, the program seeks to channel increased credit to the private sector, thus reversing the trend of the last few years when the Government's borrowing requirements have "crowded" out those of the rest of the economy. Credit to enterprises and households is targeted to increase by 66 percent in 1983, as against 47 percent in 1982, with the bulk of the expansion taking place in the last four months of 1983 to accommodate in part the increased needs of importers and manufacturers following the recent exchange rate change. Quarterly credit ceilings have been set by the Bank of Zaire, and they are being closely monitored to ensure their strict adherence. For 1984, the program envisages a 58 percent increase in credit to enterprises and households in order to help promote the desired economic recovery.

As shown in Table 6, the expansion in net domestic assets of the banking system will be limited to Z 4.8 billion in 1983 and Z 4.9 billion in 1984; within these overall limits, the increase in net bank credit to the Government will be kept to Z 2.4 billion in 1983 and Z 2.6 billion in 1984, while credit to enterprises and households will not exceed Z 1.3 billion in 1983 and about Z 1.9 billion in 1984. Credit ceilings, as performance criteria, have been set only for end-December 1983; appropriate quarterly credit ceilings will be established for 1984 during the first review of the program.

With effect from September 12, 1983, the Bank of Zaire has adjusted and liberalized interest rates on commercial bank lending, which had been kept unchanged since April 1981 despite rising inflation rates. Some lending rates of commercial banks had been freely negotiable since April 1981; these applied to rediscountable credit not related to the financing of production and equipment in industrial, agricultural, and agro-industrial activities, as well as to nonrediscountable medium- and long-term credit. Under the recent review, all commercial bank lending rates have been made freely negotiable, with the exception of those for the noncoffee agricultural sector; the freely negotiable rates are now in the range of 25-35 percent. Interest rates for agricultural loans other than for coffee, which were set at 11 percent (short-term) and 13 percent (medium-term), have been unified at 15 percent. The still favorable rate for noncoffee agriculture is consistent with the authorities' objective to foster the development of this key sector of the economy, while limiting increases in food prices in the immediate future. Deposit rates of the commercial banks, which are regulated by the Bank of Zaire, remain unchanged at 5-30 percent, depending upon the type and maturity of the deposit; however, the authorities recognize the need to review these rates in light of developments in domestic liquidity and prices.

The Bank of Zaire has increased its basic rediscount rate from 15 percent to 20 percent, also as of September 12, 1983. At the same time, the interest rate paid on the Bank's advances to the Treasury has been raised from 3 percent to 7 percent, and the Treasury bill rate from 4.75 percent to 10 percent. The minimum reserve requirements for

Table 6. Zaire: Monetary Survey, 1980-84 1/

(In millions of zaires; end of period)

	1980	1981	1982				1983				1984
	Dec.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept. 2/	Dec. 3/	Dec. 3/
Net foreign assets (broad)	-713.5	-2,092.0	-2,415.8	-3,970.3	-3,955.8	-4,235.6	-4,170.9	-4,513.2	-23,207.2	-24,337.0	-26,125.0
Net foreign assets (narrow)	464.6	-416.1	-792.6	-2,018.3	-2,042.8	-2,075.2	-2,014.8	-2,041.4	-14,821.3	-17,398.5	-20,218.0
Foreign assets	(1,578.7)	(2,230.7)	(2,816.7)	(1,758.2)	(1,718.0)	(1,755.4)	(1,852.0)	(1,991.4)	(8,325.4)	(...)	(...)
Foreign liabilities	(1,114.1)	(2,646.8)	(3,609.3)	(3,776.5)	(3,760.8)	(3,830.6)	(3,866.0)	(4,032.8)	(22,519.5)	(...)	(...)
Foreign currency deposits	-146.5	-180.0	-188.3	-561.5	-560.6	-846.1	-854.5	-1,189.3	-2,585.9	-1,031.5	-1,200.0
Provision for external arrears other than on public debt service	-1,031.6	-1,495.9	-1,434.9	-1,390.5	-1,352.4	-1,314.3	-1,301.6	-1,282.5	-5,800.0	-5,907.0	-4,707.0
Net domestic assets	3,380.5	5,219.0	6,387.6	7,385.0	8,372.8	9,254.0	9,865.3	10,197.2	12,554.2	14,054.0	18,918.0
Net claims on Government	2,329.4	3,783.6	4,471.1	5,407.6	6,342.1	7,057.3	7,038.2	7,234.0	8,114.1	9,457.3	12,057.3
Credit to enterprises and households	1,014.3	1,342.4	1,576.2	1,684.2	1,774.9	1,971.9	2,167.0	2,463.8	2,660.2	3,271.9	5,171.9
Other net domestic assets	36.8	93.0	340.3	293.2	255.8	224.8	660.1	499.4	1,779.9	1,324.8	1,688.8
Money and quasi-money	3,367.3	4,644.9	5,558.1	6,104.8	6,908.7	8,015.9	8,478.0	9,221.6	11,331.2	12,064.0	16,300.0
Revaluation gains and losses and other adjustments	-970.0	-2,065.9	-2,134.3	-3,238.1	-3,039.7	-3,545.5	-3,331.6	-4,085.6	-24,420.9	-24,783.7	-25,943.7
SDR allocation counterpart	269.7	548.0	548.0	548.0	548.0	548.0	548.0	548.0	2,436.7	2,436.7	2,436.7

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

1/ The data from June 1982 onward are not strictly comparable with those of the earlier period because of adjustments to foreign assets and liabilities.
2/ Provisional.
3/ Program.

commercial banks at the Bank of Zaire are being maintained at 25 percent; these reserve requirements will be reviewed prior to the end of 1983 and, if necessary, modified to take account of such factors as the impact of the exchange rate change on bank liquidity.

g. Balance of payments and financing requirements

On the basis of the policies and measures described above, and the assumptions regarding copper prices and other exogenous variables, the program envisages a reduction of the overall balance of payments deficit (based on debt service payments due) from an estimated SDR 598 million in 1982 to SDR 452 million in 1983 and further to SDR 400 million in 1984. To these amounts should be added programmed reductions in commercial and invisible arrears through cash payments of SDR 10 million in 1983 and SDR 40 million in 1984. Furthermore, in view of the need to gradually build up foreign reserves, the program provides for moderate increases of SDR 10 million and SDR 42 million in 1983 and 1984, respectively. Therefore, Zaire's financing requirements are projected to total SDR 472 million in 1983 and SDR 482 million in 1984, reflecting essentially the heavy external debt service burden. Even after accounting for net use of Fund resources under the program, including the requested compensatory financing purchase, substantial financing gaps would remain, amounting to SDR 368 million in 1983 and SDR 353 million in 1984.

In view of these large financing gaps, the Zairian authorities have been seeking additional balance of payments support, particularly in the form of reschedulings of the country's external debt and arrears to official creditors within the Paris Club and commercial bank creditors of the London Club. Since official creditors within the Paris Club account for some two thirds of Zaire's debt, in their Policy Memorandum the authorities express the hope that the bulk of the necessary debt relief will come from that source, and will be on favorable terms which will make it possible to discharge the resulting service obligations. To this end, they have already made a preliminary presentation to the Paris Club creditors, with a view to an early formal rescheduling. Given the magnitude of the problem, they have also asked the London Club creditors for debt relief. Through these initiatives, the authorities expect to be able to complete a financing package for the program that could be supported by the Fund.

To avoid aggravating the already serious external debt situation, the authorities intend to limit new commitments on nonconcessional terms to a strict minimum. Specifically, new external loans contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to SDR 100 million in 1983 and SDR 150 million in 1984; within these ceilings, subceilings of SDR 30 million and SDR 40 million, respectively, will apply to loans with a maturity of 1-5 years. These will cover borrowings by the Bank of Zaire, but concessional loans and refinancing arrangements obtained from existing creditors in the context of debt reschedulings will be excluded from the ceilings. Short-term debt of under one year maturity has been very small, and, other than the bridging finance mentioned earlier, it is not expected to be significant during the program period.

h. Performance criteria and reviews

The proposed stand-by arrangement includes the following performance criteria: (a) ceilings on net domestic assets of the banking system, net credit of the banking system to the Government, minimum foreign exchange sales of the Bank of Zaire on the interbank market, a net cumulative reduction of commercial and invisible arrears through cash payments, and new external borrowing by the Government or against government guarantee; (b) the maximum spread of 5 percent between the official and free market exchange rates during the second phase of the temporary dual arrangement; (c) the scheduled unification of the two rates indicated above; and (d) the standard clauses regarding the exchange and payments system. The quantitative performance criteria for end-December 1983 are shown in Table 7.

Furthermore, there will be two comprehensive reviews with the Fund of progress under the program, the first not later than the end of February 1984 and the second not later than the end of August 1984, both of which are performance criteria. During the first review, understandings will be reached on all quantitative performance criteria not already specified for 1984. The two reviews will also cover the implementation of the foreign exchange budget of the Bank of Zaire.

3. Medium-term economic outlook

Despite the progress made in the first half of 1983, and the strong actions already taken under the adjustment program, Zaire will still face a difficult economic and financial situation in the period ahead. To a large extent, this is the legacy of many years of inadequate economic management which has led to significant declines in real investment, imports, and GDP; decapitalization and structural maladjustments in key industries; and high rates of domestic inflation, coupled with serious balance of payments and debt servicing problems. However, given Zaire's large and diversified resource base, there is clearly a potential for a satisfactory economic recovery and a resolution of the country's financial problems over the medium term.

The adjustment program for 1983-84 could lay the basis for a recovery of the economy, but appropriate supply and demand management policies will need to be pursued for several years if the recovery is to take hold. In addition, the evolution of the Zairian economy will be critically dependent on the revitalization of the world economy, and its concomitant favorable impact on copper prices, increased development assistance, and the nature and scope of debt rescheduling.

Table 7. Zaire: Proposed Ceilings under the Program for end-December 1983

	1982 Dec. 1/	1983 March 1/	June 1/	Sept. 2/	Dec. 3/
		(In millions of zaires)			
Net domestic assets of the banking system at the end of period	9,254	9,865	10,197	12,554 4/	14,054 4/
Net credit of the banking system to the Government at the end of period	7,057	7,038	7,234	8,114 4/	9,457 4/
		(In millions of SDRs)			
Minimum foreign exchange sales of the Bank of Zaire on the interbank market	--	--	--	--	14 5/
Net cumulative reduction of commercial and invisible arrears through cash payments by the end of period	22	...	4	5	10
New external borrowing by the Government or against government guarantee through the end of period					
a. 1-12 years' maturity	...	...	...	...	100
b. 1-5 years' maturity	...	...	...	...	30

1/ Actuals.
2/ Provisional.
3/ Performance criteria.
4/ These amounts are based on the assumptions that (a) external debt service payments will amount to US$122 million during the period January-September 1983 and US$180 million through the end of December 1983; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US$60 million at the end of June 1983, will be reduced by US$5 million in each of the last two quarters; and (c) arrears in domestic payments, which amounted to Z 254 million at the end of June 1983, will be reduced by Z 204 million in the fourth quarter. In the event that actual payments fall short of the amounts indicated in (a) and (b), all the credit targets and performance criteria will be reduced by equivalent amounts; should the actual payments fall short of the amounts indicated in (c), only the targets and performance criterion relating to net bank credit to the Government will be reduced by equivalent amounts.
5/ End-February 1984.

a. <u>The public investment program for 1983-85</u>

As a complement to the adjustment measures described above, and with a view to stimulating the economy, the Zairian authorities have decided to undertake a public investment program for 1983-85. The program, which has been prepared with World Bank assistance and will be presented to a meeting of the Consultative Group for Zaire in December 1983, aims essentially at reviving the economy and increasing exports through rehabilitation and strengthening of the directly productive sectors and the supporting infrastructure. It is expected that the liberalization measures recently introduced, especially the exchange and trade reform, will improve the viability of public sector projects, as well as those in the private sector.

In several respects, the new program carries forward the policies and measures put into place during the last few years. Although the figures are still provisional and may be amended in the light of the outcome of the Consultative Group meeting, the public investment program for 1983-85 provides for total outlays of Z 12.2 billion (at mid-1983 prices), of which 8 percent is allocated to agriculture, 22 percent to mining, 42 percent to transportation, and the balance mainly to energy and water supply. Of the total investment, about 55 percent is to be financed through the government budget and internally generated resources of public enterprises, and 45 percent by foreign assistance; almost 70 percent of the required foreign assistance has already been secured, leaving about Z 1.7 billion to be found in the near future. The part of the program which covers the adjustment period 1983-84 has total investment projected at Z 7.9 billion, of which Z 4.3 billion from domestic sources and Z 3.6 billion in the form of external assistance.

The total size of the 1983-85 public investment program is about 13 percent smaller, in constant prices, than the 1981-83 program; this reflects the authorities' desire to set realistic objectives and give priority to the completion of ongoing projects. The proportion of external financing in the 1983-85 program is also lower, both in absolute and relative terms, compared with that of 1981-83; external financing declines from the equivalent of Z 8.9 billion to Z 5.5 billion in absolute terms, and from 64 percent to 45 percent of the total cost. This shift in the source of funding constitutes a realistic assumption, given present conditions for external assistance. In terms of sectoral allocation, the new program gives greater emphasis to agriculture, 8 percent of the total compared with 4 percent in 1981-83, and to transportation, 42 percent of the total compared with 30 percent; the substantial outlays for transportation are geared partly to facilitating rural development. These shifts in priorities, which take account of the critical needs of the economy, are in broad conformity with the evaluation and advice given to the authorities by the World Bank staff.

b. Balance of payments and external debt

Assuming that appropriate policies continue to be pursued, Zaire could reach a viable balance of payments position in five or six years. As shown in Table 8, the external current account deficits are projected to decline steadily during 1985-87 and to turn into a small surplus in 1988, when an overall balance of payments surplus is also expected. However, a sizable financing gap would continue to exist in 1985; such gaps would decline markedly thereafter, but would not be completely eliminated until 1989. As a result, Zaire would still need rescheduling of its external debt obligations and/or other exceptional financial assistance in each of the years through 1988. Including Fund obligations on projected credit as of end-March 1985, the debt service ratio would amount to 39 percent in 1985, and it would decline gradually thereafter to 21 percent in 1989 (Table 9).

A basic assumption underlying the above balance of payments projections is that Zaire's total export earnings will increase at an average annual rate of 10 per cent during the 1985-89 period. This assumption is based primarily on: (a) a further rise in average realized export prices for copper in 1985 to US$0.95 per pound, followed by increases of only five cents each year thereafter to US$1.15 per pound in 1989; (b) an average annual increase of 6 percent in copper export volumes, in line with the rehabilitation and expansion of GECAMINES' production capacity; (c) gradual increases in export volumes of cobalt, gold, and diamonds, and a recovery in those of zinc starting in 1986; and (d) a further diversification in agricultural production, which would broaden the export base. All of these factors will be re-examined in the context of the program reviews.

Another major assumption is that payments on account of services, excluding IMF charges and interest on public debt, will increase by an average annual rate of 6 percent during the period. Interest payments, which include the effects of the additional financing required to close the overall balance of payments gaps during the 1983-88 period, are projected to increase from SDR 310 million in 1985 to SDR 345 million in 1989. At the same time, it is assumed that gross disbursements of public capital, which are expected to recover in 1984, will increase throughout the 1985-89 period, with net inflows starting in 1988. This is based on the expectation that Zaire will be able to secure new commitments of around SDR 300 million in 1985 and on such commitments rising thereafter to SDR 450 million in 1988, i.e., the level reached in 1980. Increased inflows of public capital, as well as a gradual resumption of private capital flows, are based partly on the hypothesis that new commitments will pick up once existing arrears are liquidated and debt service obligations are discharged promptly. In addition, appropriate macroeconomic policies and realistic exchange rate levels should encourage capital flows, including the return of foreign direct investment.

Table 8. Zaire: Medium-Term Outlook of the Balance of Payments, 1983-89

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989
Trade balance	339	419	495	575	655	745	825
Exports, f.o.b.	1,375	1,524	1,675	1,850	2,040	2,250	2,450
Imports, f.o.b.	-1,036	-1,105	-1,180	-1,275	-1,385	-1,505	-1,625
Services	-754	-834	-875	-915	-950	-975	-1,010
Receipts	90	100	110	125	140	155	170
Expenditure	-844	-934	-985	-1,040	-1,090	-1,130	-1,180
Of which: Freight and insurance	(-234)	(-245)	(-260)	(-280)	(-300)	(-325)	(-345)
IMF charges	(-44)	(-55)	(-50)	(-45)	(-40)	(-35)	(-25)
Interest on public debt 1/	(-288)	(-296)	(-310)	(-315)	(-330)	(-335)	(-345)
Unrequited transfers	175	185	200	220	240	260	280
Current account balance	-240	-230	-180	-120	-55	30	95
Public capital	-212	-170	-130	-50	--	75	145
Disbursements	(134)	(180)	(240)	(290)	(320)	(390)	(450)
Amortization 1/	(-346)	(-350)	(-370)	(-340)	(-320)	(-315)	(-305)
Private capital	--	--	--	5	15	30	40
Overall balance (deficit -)	-452	-400	-310	-165	-40	135	280
Financing items	452	400	310	165	40	-135	-280
Arrears (reduction -)	-10	-40	...	...	...	...	...
Reserves (increase -)	-10	-42	...	...	...	...	-173
Net Fund credit	104	129	-74	...	...	...	-107
Purchases	114	198	30	...	...	...	--
Of which: CFF	(114)	(--)	(--)	(...)	(...)	(...)	(--)
Repurchases	-10	-69	-104	-94	-126	-200	-107
Of which: CFF	(--)	(--)	(-40)	(-53)	(-13)	(-45)	(-61)
Gap	368	353	384	259	166	65	--
Memorandum item:							
Average export unit value of copper in U.S. cents per pound	73	79	95	100	105	110	115

Sources: Program for 1983-84; and staff projections for 1985-89.

1/ Contractual amounts falling due in each year; including the debt service payments associated with additional financing required to close the overall balance of payments gap each year.

Table 9. Zaire: External Debt Service Projections, 1983-89

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989
A. Service payments on debt outstanding as of end-1982	573.1	568.5	530.7	446.8	391.7	350.4	310.6
Interest	(227.1)	(218.5)	(162.3)	(117.2)	(92.8)	(68.3)	(47.5)
Amortization	(346.0)	(350.0)	(368.4)	(329.6)	(298.9)	(282.1)	(263.1)
B. Service payments on projected disbursements from new borrowings after 1982 1/	1.0	6.3	17.3	34.9	55.9	80.6	103.3
Interest	(1.0)	(6.1)	(13.8)	(23.8)	(37.9)	(54.2)	(70.5)
Amortization	(--)	(0.2)	(3.5)	(11.1)	(18.0)	(26.4)	(32.8)
C. Subtotal (A + B)	574.1	574.8	548.0	481.7	447.6	431.0	413.9
Interest	(228.1)	(224.6)	(176.1)	(141.0)	(130.7)	(122.5)	(118.0)
Amortization	(346.0)	(350.2)	(371.9)	(340.7)	(316.9)	(308.5)	(295.9)
D. Payments to the IMF	54.0	124.0	154.0 2/	139.0 2/	166.0 2/	235.0 2/	132.0 2/
Charges	(44.0)	(55.0)	(50.0)	(45.0)	(40.0)	(35.0)	(25.0)
Repurchases	(10.0)	(69.0)	(104.0)	(94.0)	(126.0)	(200.0)	(107.0)
E. Total, before rescheduling 3/ (C + D)	628.1	698.8	702.0	620.7	613.6	666.0	545.9
Interest	(272.1)	(279.6)	(226.1)	(186.0)	(170.7)	(157.5)	(143.0)
Amortization	(356.0)	(419.2)	(475.9)	(434.7)	(442.9)	(508.5)	(402.9)
Memorandum items:							
Exports of goods and services	1,465.0	1,624.0	1,785.0	1,975.0	2,180.0	2,405.0	2,620.0
Debt service ratio 4/							
Excluding IMF	39.2	35.4	30.7	24.4	20.5	17.9	15.8
Including IMF	42.9	43.0	39.3	31.4	28.2	27.7	20.8

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

1/ Assumes new borrowings after 1982 as given in Table 8, with the proportion of concessional loans projected at 80-85 percent of the total. The terms for concessional loans are assumed to be 3 percent interest and a grace period exceeding 8 years; for nonconcessional loans, the terms assumed are 13 percent interest, 1 year grace period, and 8 years maturity.

2/ Based on net Fund credit projected for end-March 1985.

3/ Excluding the effects of any additional financing which would be required to close the overall balance of payments financing gaps.

4/ Total debt service payments, before rescheduling, as a percentage of exports of goods and services.

Finally, as a result of a continued implementation of strict demand management policies, and in line with targeted GDP real growth, imports are projected to rise by 7-8 percent a year over the 1985-89 period, or by 3-4 percent in real terms. The projected increase in real imports is consistent with currently foreseeable resource availabilities, as well as with the fact that the new exchange rate regime will provide the required incentives for an expansion of import-substituting industries.

V. Staff Appraisal

Although Zaire has a large and diversified resource base, and hence a considerable potential for development, it has faced serious economic and financial difficulties almost continuously since 1975. The economy has generally stagnated, the rate of inflation has been very high, the balance of payments has been under great pressure, and the servicing of the external public debt has been a major problem. As in the case of most developing countries, these difficulties have been due in part to factors beyond the control of the Zairian authorities, notably a marked deterioration in the terms of trade. To a large extent, however, Zaire's problems are the legacy of a long period of inadequate economic and financial management.

In recent years the authorities have made various efforts to come to grips with the country's acute problems, but these efforts have not been sufficiently vigorous or sustained. Faced with a deepening crisis, in late 1979 and 1980 Zaire implemented an adjustment program which was supported by an 18-month stand-by arrangement with the Fund, as well as by other external assistance, including debt rescheduling from official and commercial bank creditors. On this basis, it was hoped that further progress could be made in the context of a program for 1981-83, in support of which the Fund granted a three-year extended arrangement. But the gains achieved in 1980 proved short-lived, not only on account of a sharp decline in copper prices but also because of a weakening of the Government's resolve to pursue strong adjustment measures. As in the past, the major source of weakness was the government budget, with expenditure being allowed to rise rapidly despite a marked slowdown in revenue growth. Thus, as the fiscal deficit widened, the gains from the substantial devaluation of June 1981 were quickly eroded, external payments pressures mounted, and there was a considerable accumulation of arrears. As the program went seriously off track and no remedial action was taken, the overall economic and financial situation deteriorated even further in 1982.

Against this background, in late 1982 and early 1983 the authorities undertook a comprehensive review of the situation geared toward the early adoption of a strong and credible program of economic and financial adjustment. Meanwhile, recognizing the urgency of bringing the budget under control, they introduced a number of measures to limit government outlays strictly, strengthen tax enforcement, and, more generally, improve financial management. While attempting to contain the growth of domestic demand, they also took measures to improve the allocation of resources. To this effect, the process of domestic price liberalization was continued, the trade of artisanal gold and diamonds was freed, development efforts in agriculture were intensified, and steps were initiated to improve the operations of GECAMINES and SOZACOM. These initial measures, which in effect constituted a "shadow program" of action, yielded some encouraging results, especially in the area of the budget, where a significant improvement was recorded in the first half of 1983. Nevertheless, the authorities recognized that much stronger and sustained adjustment efforts would be required to bring about a fundamental improvement of the overall situation and, in particular, to achieve a viable balance of payments position over the medium term.

Accordingly, they have adopted a comprehensive program of adjustment for 1983-84 designed to reduce the external current account deficit, contain the rate of inflation, and lay the basis for a revival of the economy. In this context, effective September 12, 1983 they initiated a far-reaching exchange reform, involving a large devaluation of the zaire and the implementation of a floating exchange rate regime based on an interbank foreign exchange market on which the exchange rate is now freely determined. The transitional dual exchange rate arrangement which has been put in place is programmed to give way to a unified system no later than the end of February 1984. When fully implemented, this reform would help reduce the large distortions in the economy, promote exports and import-substituting industries, ensure responsiveness of the exchange rate system to market forces, discourage parallel market activities, and foster budgetary discipline. As a complement to the exchange reform, which has already brought the official exchange rate of the zaire very close to the free market rate, the authorities have also taken several measures to dismantle exchange and trade restrictions, as well as to continue the liberalization of the domestic pricing system and the interest rate structure. In addition, they have tightened fiscal and monetary policies and adopted a prudent wage and salary policy, despite the acceleration of inflation as a result of the pass through of the recent exchange rate adjustment on retail prices of petroleum products. These policies and measures, though painful for large segments of the population whose real incomes have already declined substantially in recent years, will have to be vigorously applied if the program is to succeed. In particular, and in view of past experience, it will be essential to maintain a firm lid on budgetary outlays so as to maximize the gains from the exchange reform. It will also be important to continue to improve the allocation of resources, and it is to be hoped that Zaire's public investment efforts will be supported by increased external development assistance. Furthermore, in view of the sensitivity of the program to certain exogenous variables, particularly world copper prices, these will have to be closely watched and, if necessary, appropriate adjustments should be made.

Despite the extent of the authorities' adjustment program, in support of which they are requesting use of Fund resources, substantial financing gaps are projected for both 1983 and 1984, reflecting essentially the heavy external debt service burden. In view of this, the authorities have already approached their official and commercial bank creditors so as to reach satisfactory arrangements for a reduction of Zaire's debt service obligations for 1983 and 1984 to a level consistent with debt servicing capacity. In the absence of cash assistance from creditors, the gaps could be closed only by exceptional debt rescheduling, including a consolidation of already rescheduled debt which constitutes a major proportion of the total. Therefore, the nature and scope of such rescheduling is critically important for the completion of an overall financing package, without which the program would not be viable and hence could not be supported by the Fund. On the basis of present and foreseeable circumstances, Zaire would require debt relief or other comparable assistance even after 1984, but assuming that appropriate policies continue to be pursued the need for such assistance should decline appreciably and be eliminated in the late 1980s, when Zaire is expected to reach a sustainable external payments position.

The exchange and trade system has been liberalized substantially. However, Zaire continues to maintain a number of restrictions on payments and transfers for current international transactions, notably certain restrictions on payments for invisibles and external payments arrears. Zaire also continues to maintain bilateral payments agreements with two Fund members, Burundi and Rwanda. Although the system of imports financed without recourse to the foreign exchange resources of the banking system, as well as the relance minière market, which gave rise to multiple currency practices, have been abolished, a new multiple currency practice has resulted from the introduction of the temporary dual exchange rate arrangement in September 1983. In view of the authorities' adoption of comprehensive policies for balance of payments adjustment, and in light of their commitment to unify the exchange rate system by the end of February 1984, the staff recommends approval of the multiple currency practice until the completion of the first review of the stand-by arrangement; it also recommends approval 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. Furthermore, it is recommended that the next Article IV consultation with Zaire be held on a standard 12-month cycle.

The staff believes that the adjustment policies and measures set forth in the attached letter of intent of September 12, 1983, requesting a stand-by arrangement in an amount equivalent to SDR 228 million, represent major efforts toward tackling Zaire's economic and financial difficulties and achieving a viable balance of payments position over the medium term, and hence merit Fund support. These efforts will have to be sustained over a period of several years, and, to be successful, will also need to be supported by creditors and donors.

VI. Proposed Decisions

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

(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 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.

Zaire - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated September 12, 1983 from the President of the Republic of Zaire requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Zaire intend to pursue for the period of this stand-by arrangement.

To support these objectives, policies, and measures, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from the effective date of this arrangement until March , 1985 Zaire will have the right to make purchases from the Fund in an amount equivalent to SDR 228 million, subject to paragraphs 2, 3, 4, and 5, without further review by the Fund.

2. a. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of:

SDR 36 million until February 28, 1984;
SDR 78 million until May 30, 1984;
SDR 118 million until August 30, 1984;
SDR 158 million until November 29, 1984; and
SDR 198 million until February 27, 1985.

b. None of these limits shall apply to a purchase under this stand-by arrangement that would not 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 12.5 percent of quota.

3. The initial purchase of SDR 36 million under this stand-by arrangement shall be made entirely from borrowed resources and all subsequent purchases from ordinary and borrowed resources in the ratio of 1 to 1.2, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Zaire will not make purchases under this stand-by arrangement, other than the initial purchase of SDR 36 million that it may request not later than within 15 days of the effective date of this 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 12.5 percent of quota:

a. during any period in which the data at the end of the preceding period indicate that:

(i) the amount of foreign exchange sales of the Bank of Zaire on the interbank market described in paragraph 10 of the annexed memorandum; or

(ii) the maximum spread between the official and free market exchange rates during the second phase of the temporary dual arrangement described in paragraph 10 of the annexed memorandum; or

(iii) the scheduled unification of the official and free market exchange rates described in paragraph 10 of the annexed memorandum; or

(iv) the ceiling on net domestic assets of the banking system described in paragraph 17 of the annexed memorandum; or

(v) the ceiling on net credit of the banking system to the Government described in paragraph 17 of the annexed memorandum; or

(vi) the ceilings on contracting of nonconcessional government and government-guaranteed external debt described in paragraph 23 of the annexed memorandum; or

(vii) the net cumulative reduction of commercial and invisible arrears through cash payments described in paragraph 24 of the annexed memorandum

is not observed;

b. after February 28, 1984, until suitable performance clauses have been established in consultation with the Fund pursuant to the reviews contemplated in paragraph 26 of the annexed memorandum, or after such clauses have been established, while they are not being observed; or

c. if Zaire:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When Zaire is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Zaire and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Zaire's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Zaire. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Zaire and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Zaire, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will normally be either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Zaire will consult the Fund on the timing of purchases involving borrowed resources.

8. Zaire shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. a. Zaire shall repurchase the amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Zaire's balance of payments and reserve position improves.

b. Any reductions in Zaire's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

c. The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will normally be either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed no later than seven years from the date of purchase.

10. During the period of the stand-by arrangement, Zaire shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Zaire or of representatives of Zaire to the Fund. Zaire shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Zaire in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

11. Zaire will consult the Fund on the adoption of any measures that may be appropriate, at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria under paragraph 26 of the annexed memorandum have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of this stand-by arrangement and while Zaire has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Zaire's balance of payments policies.

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

Kinshasa, September 12, 1983

Dear Mr. de Larosière:

The Executive Council has been making determined efforts to resolve Zaire's economic and financial difficulties. In view of the sharp deterioration of the external payments situation, in late 1982 and early 1983 the Council introduced a number of measures aimed at containing the growth of domestic demand and improving the allocation of resources. To this effect, an austerity budget was adopted, expenditure controls were tightened, and strict limits were set on net government borrowing from the domestic banking system. At the same time, the process of domestic price liberalization initiated in 1981 was continued, and steps were taken to improve the operations of key sectors of the economy, notably agriculture and mining. These measures, together with a moderate upturn in world market prices for our principal exports, have begun to yield positive results, especially in the area of the budget. However, Zaire still faces acute structural and financial problems. Serious bottlenecks continue to hinder the development of the economy, the balance of payments is under severe pressure, and external debt service obligations falling due over the next three to five years are incompatible with the country's debt servicing capacity and a minimum economic recovery.

Against this background, the Executive Council has decided to reinforce the measures already in place by undertaking a program of economic and financial adjustment covering the remainder of 1983 and 1984. This program, which is described in the attached Memorandum on the Economic and Financial Policies of the Executive Council of Zaire, is designed to achieve a viable balance of payments position over the medium term. It also seeks to revive the economy, contain inflationary pressures, and promote internal and external confidence through improved financial management. As part of the program, we have recently introduced a major exchange rate reform, involving a large devaluation of the zaire, together with a substantial liberalization of the exchange and trade system. These actions are being accompanied by appropriate fiscal, monetary, and incomes policies. To be successful, the program will require not only strong and sustained domestic efforts but also considerable external assistance to deal with the very difficult debt situation and to support our long-term development efforts. Accordingly, we have already approached our official and private creditors to obtain a far-reaching rescheduling of the debt, without which it would not be possible to make progress toward the attainment of a viable external payments position over the medium term. Furthermore, we intend to present our public investment program for 1983-85 to a meeting of the Consultative Group for Zaire, to be chaired by the World Bank later this year, with a view to obtaining the necessary development assistance.

In support of the adjustment program described in the attached Memorandum, Zaire hereby requests a 15-month stand-by arrangement from the International Monetary Fund for an amount equivalent to SDR 228 million. As indicated above, in view of Zaire's large resources needs during the program period and beyond, we intend to seek additional external assistance from bilateral and multilateral sources.

The Executive Council believes that the policies and measures set forth in the attached Memorandum are adequate to achieve the objectives of the program, but will take any further measures that might become necessary for this purpose. Zaire will consult with the Fund in accordance with the policies of the Fund, and will provide the Fund staff with all relevant information in connection with the progress being made toward achieving the program's objectives. The objectives and performance criteria of the program for the remainder of 1983 are specified in the attached Memorandum. As regards 1984, Zaire will reach understandings with the Fund on the corresponding performance criteria in the context of the first comprehensive review of the program not later than the end of February 1984; the second review will take place not later than the end of August 1984. In this connection, the Zairian authorities intend to discuss with the Fund staff the progress in the implementation of the program in December 1983 and July 1984.

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

Attachment: Memorandum

Memorandum on the Economic and Financial Policies of the Executive Council of Zaire

I. Background

1. After showing some improvement in 1980, Zaire's overall economic and financial situation weakened in 1981 and deteriorated even further in 1982, to the point where the country faced an acute crisis. In 1982 real gross domestic product (GDP) is estimated to have declined by 1 percent, as structural problems in key sectors of the economy were exacerbated by a severe shortage of foreign exchange. Meanwhile, owing mainly to a continued increase in government expenditure, domestic demand grew at a relatively rapid pace. As a result, the rate of inflation edged upward to 37 percent, the balance of payments came under greater pressure, and parallel market activities intensified, entailing a considerable widening of the spread between the official and parallel market exchange rates for the zaire.

2. This deterioration was due in part to external factors, notably a further weakening of world market prices for the country's principal exports at a time of very high debt servicing obligations. Realized export prices for copper, which had declined by about 22 percent in 1981, fell by an additional 15 percent in 1982; cobalt prices dropped even more sharply, by as much as 46 percent in 1982 compared with 1981. Thus, despite sizable improvements in sales, in 1982 export earnings increased only slightly in SDR terms, remaining well below the levels attained in 1979 and 1980. Although imports of goods and services were inevitably constrained, the current account deficit amounted to SDR 340 million, while the overall balance of payments deficit (including all debt service payments due) was close to SDR 600 million. Since freely usable official reserves were virtually exhausted, over half of the overall deficit could not be financed, involving a substantial accumulation of arrears on debt service payments to both official and private creditors. At the end of 1982 total external arrears, comprising arrears on commercial and invisible payments of SDR 207 million, reached SDR 848 million, representing some seven months of projected 1983 export earnings.

3. In a much larger sense, however, the aggravation of the internal and external imbalances in 1982 was attributable to a serious deterioration in government budgetary performance. Although there was a slowdown in government spending in comparison with the preceding year, such spending was still excessive in light of the deceleration in revenue growth. Total expenditure, excluding debt amortization payments, increased by 45 percent, or by about 8 percent in real terms, whereas total receipts went up by 29 percent. Consequently, the overall budgetary deficit in 1982 rose to a high of Z 2.8 billion, equivalent to 8.7 percent of GDP, as against 5.9 percent of GDP in 1981. In view of the debt amortization payments actually made, domestic bank financing of the budget

more than doubled to Z 3.3 billion, which was equal to 70 percent of the money stock at the beginning of the year. Credit to the private sector and other net domestic assets of the banking system also rose substantially. Therefore, given developments in the external sector, money supply in 1982 expanded by 73 percent, twice as fast as the increase in nominal GDP.

II. Initial Policy Response

4. Faced with this critical situation, in late 1982 and early 1983 the Executive Council introduced a number of measures aimed at containing the growth of domestic demand and improving the allocation of resources. The major focus of these measures was on bringing the government budget under control and, more generally, improving financial management. To this effect, an austerity budget was adopted for 1983, involving substantial cutbacks in most categories of government outlays, expenditure controls were tightened, and strict limits were set on net government borrowing from the domestic banking system. Meanwhile, a widespread drive was launched to investigate and put an end to abuses in the management of public funds. On the revenue side, several measures were also taken, in line with the recommendations of an IMF/World Bank technical assistance mission: the motor vehicle tax was doubled; the tax on rental income was restructured to simplify its administration; a tax was imposed on radio and television ownership; certain specific customs and excise duties were updated; and provision was made for the revaluation of corporate assets (to take account of inflation) for profits tax purposes. In light of all of these actions, the 1983 budget, as approved by the Legislative Council last February, envisaged a reduction in the overall deficit to Z 2.2 billion and in net government borrowing from the domestic banking system to Z 2.4 billion.

5. Concurrently, the process of domestic price liberalization initiated in 1981 was continued, including the introduction in December 1982 of a new price structure for petroleum products involving no overall budgetary subsidy. The trade of artisanal gold and diamonds was also freed, with exporters of these commodities being allowed to dispose of their repatriated proceeds through the banking system at a substantially depreciated exchange rate, and Zaire re-established marketing arrangements with the De Beers Group for the sale of its industrial diamonds. Furthermore, development efforts in agriculture were intensified, mainly with World Bank assistance, and steps were initiated to improve the operations of GECAMINES (by far the most important state-owned mining company) and SOZACOM (the state-owned mineral marketing agency).

6. To ensure the rehabilitation of GECAMINES' productive capacity and preserve its financial viability, the Executive Council undertook to relieve the company of its nonmining activities, to avoid imposing levies on its financial resources other than as legally required, and to

repay all obligations arising from past sales without receipts (as agreed with the World Bank). In addition, the Council committed itself to ensure full observance of the new marketing and financial agreement between GECAMINES and SOZACOM, concluded in August 1982, with a view to promoting inter alia the transparency and full accountability of the marketing of GECAMINES' products by SOZACOM.

7. The above measures have already shown positive results, especially in the area of the budget. Provisional data for the first half of 1983 indicate that budgetary operations, excluding external debt amortization payments, moved into overall surplus, as revenue collections were generally on target and expenditure was well below estimates. Most of the improvement was the result of genuine economies, particularly with respect to materials and supplies, travel, and a number of other spending categories, reflecting the tightening of expenditure controls. At the same time, there were some delays in nondebt service payments, due entirely to the lack of foreign exchange; such arrears increased by Z 136 million over the six-month period to Z 613 million at the end of June 1983. Even so, the budgetary turnaround was substantial, with net government borrowing from the domestic banking system amounting to only Z 0.2 billion in the first half of 1983, compared with Z 1.6 billion in the corresponding period of 1982. As bank credit to the private sector also slowed, the expansion in net domestic assets of the banking system was well within the limit set by the Bank of Zaire.

8. Despite the improvement recorded in recent months, Zaire still faces acute structural and financial difficulties. Serious bottlenecks continue to hinder the development of key sectors of the economy, sizable internal financial imbalances persist, and the external payments position remains under severe pressure. Moreover, given the size and structure of the external debt, the servicing burden is very high, representing about 40 percent of projected exports of goods and services in 1983 and 1984.

III. The Adjustment Program

9. Against this background, the Executive Council has decided to reinforce the measures already in place by undertaking a program of economic and financial adjustment covering the remainder of 1983 and 1984. The basic objective of this program is to make substantial progress toward the attainment of a viable balance of payments position over the medium term. In particular, it aims at reducing the external current account deficit from SDR 340 million in 1982 to SDR 240 million in 1983 and further to SDR 230 million in 1984. The program also aims at gradually reviving the economy, while containing inflationary pressures.

10. As a key element of the program, effective September 12, 1983 a major exchange rate reform was initiated with the objective of an early establishment of an interbank foreign exchange market for determining the

exchange rate of the zaire. This reform has already involved an adjustment of the official exchange rate of the zaire, from Z 6.3 = SDR 1 to Z 28.2 = SDR 1, and the introduction of the first phase of a temporary dual exchange rate regime consisting of two clearly defined markets, an official market and a free market. During this phase, which will be completed no later than October 17, 1983, transactions on the official market will be limited to receipts from GECAMINES, oil royalties and taxes, and bridging finance (equivalent to US$50 million), and to outlays for oil imports, external public debt service, IMF charges and repurchases, operational costs of the Bank of Zaire, and specified priority imports and payments for invisibles by the Government; these are estimated to cover about 48 percent of total foreign exchange transactions, with the remainder being carried out on the free market. The free market rate is being fixed once a week by the commercial banks, in consultation with the Bank of Zaire. The spread between the official and free market exchange rates will at no time exceed 10 percent in the first phase. To this end, the official rate will be adjusted automatically by the Bank of Zaire whenever any new fixing of the free market rate involves a wider spread. During the second phase, the share of official transactions in the total will be reduced, with the Bank of Zaire selling part of its foreign exchange resources on the free market; as indicated in Table 1 on the proposed ceilings under the program, such sales will amount to the equivalent of at least SDR 14 million during the period October 1983-February 1984. The free market rate will be determined on a fully operative interbank foreign exchange market, in the light of transactions up to a specified time each week. The spread between the official and free market exchange rates will be brought to within 5 percent at the start of the second phase, and will be progressively reduced so that unification of the two rates would be effected no later than the end of February 1984; the official rate will continue to be adjusted automatically to achieve these objectives. By the end of February 1984, the Bank of Zaire will set a limit that each commercial bank will have to observe regarding its net foreign exchange position in relation to its own resources.

11. A substantial liberalization and simplification of other exchange and trade arrangements has also been undertaken. As of September 12, 1983, the following measures went into effect: the 30 percent foreign exchange surrender requirement by the commercial banks to the Bank of Zaire has been abolished; resident foreign currency accounts were eliminated; and all export retention quotas, except for those (notably GECAMINES') covered by international credit agreements and bilateral conventions between the Government of Zaire and foreign partners, were also abolished. The introduction of any new foreign exchange retention scheme will be subject to prior consultation with the Fund staff. The foreign exchange allocation system applicable to commercial banks was liberalized considerably, with the banks being allowed to freely allocate 75 percent of their foreign exchange resources; this system will be liberalized further by the end of February 1984. In addition, the system of imports financed without recourse to the foreign exchange resources of the banking system has been eliminated. In view of

this, import licensing regulations have been rationalized by making a limited number of nonessential imports subject to prior authorization of the Bank of Zaire and all other imports subject only to a simple declaration. The list of nonessential imports will be reviewed before the end of the current year.

12. In order to reap the full gains from the exchange rate reform, the fiscal adjustment already initiated will be strengthened and sustained. Accordingly, additional measures have been introduced on both the revenue and expenditure fronts, and others will be taken, to reduce the overall budgetary deficit from the equivalent of 8.7 percent of GDP in 1982 to about 2 percent of GDP in 1983, and to eliminate it in 1984. In this way, net government borrowing from the domestic banking system in relation to the money stock at the beginning of the period would also be reduced sharply, from 70 percent in 1982 to some 30 percent and 22 percent in 1983 and 1984, respectively. The policies and measures envisaged for the period ahead will be reviewed with the Fund staff before the end of this year and, if necessary, appropriate adjustments will be made to ensure the realization of the 1984 fiscal targets.

13. As indicated in paragraph 4, a number of the tax reforms recommended by the IMF/World Bank technical assistance mission have already been implemented. Furthermore, in conjunction with the exchange rate reform, a new fiscal regime for GECAMINES, recommended by the same mission, was introduced effective September 12, 1983. This new fiscal regime, which was favorably considered in a meeting held in Kinshasa on July 15, 1983 between the Zairian authorities and representatives of the Commission of the European Communities, the IMF, and the World Bank, is designed to ensure a reasonably predictable flow of revenue to the Treasury, while guaranteeing GECAMINES the necessary investment resources to implement its rehabilitation program. Under the new system, a basic export tax of 7 percent is levied on all of the company's metal exports (except germanium), and a surtax of 80 percent on copper sales above a threshold price equivalent to SDR 2,500 per ton as quoted on the London Metals Exchange. GECAMINES remains subject to all other domestic and import taxes. Given the large exchange rate adjustment, GECAMINES' total tax payments, including those on profits and on salaries of its employees, are now expected to reach Z 2.3 billion in 1983 and Z 4.6 billion in 1984, compared with an initial budgetary estimate of Z 720 million for 1983. The exchange rate adjustment will also yield substantial gains from exports other than those of GECAMINES, as well as from imports. However, to attenuate the impact of the adjustment on import costs in local currency, customs duties on essential foodstuffs, raw materials, and spare parts have been reduced; the reductions have been partly offset by increases in other duty rates. The net revenue gain in 1983 from all of the above changes is expected to be of the order of Z 4.1 billion, equivalent to some 8 percent of GDP. In the context of the 1984 budget, a number of other revenue measures recommended by the fiscal mission mentioned above will be implemented, notably an upward adjustment of tax

rates on real property, a harmonization of individual income taxes, and an extension of the system of presumptive income tax assessment for some liberal professions and the services sector. Personal income taxation will also be adjusted so that income earners will derive the full benefit of the salary increases indicated below.

14. On the expenditure side, budgetary controls will continue to be strengthened, primarily through a progressive centralization of all government operations at the level of the Ministry of Finance and the Budget. To this end, all expenditure commitments will henceforth be made solely through the Ministry of Finance and the Budget; under no circumstances will the Treasury's account with the Bank of Zaire be debited directly without the approval of the Ministry. Furthermore, the Central Pay Directorate has been reintegrated into the Ministry, and a comprehensive list of government employees, including primary and secondary school teachers, is being finalized and computerized. In the meantime, the system of monthly lump-sum payments of salaries of primary and secondary school teachers, initiated in 1981, is being strictly enforced. Quarterly targets on selected expenditure categories will also be maintained. Accordingly, consistent with the ceilings on net credit of the banking system to the Government indicated in the attached Table 1, the following expenditure targets will be observed: (a) cumulative outlays for salary payments for primary and secondary school teachers will not exceed Z 900 million during the period January-September 1983 and Z 1,270 million through the end of December 1983; (b) outlays of the Presidency and the Political Institutions will not exceed Z 640 million during the period January-September 1983 and Z 910 million through the end of December 1983; and (c) total budgetary expenditure, including all external debt service payments, will not exceed Z 7,480 million during the period January-September 1983 and Z 13,470 million through the end of December 1983. The total expenditure target assumes that the external debt service payments will amount to US$122 million during the period January-September 1983 and US$180 million through the end of December 1983. It also assumes that arrears in foreign exchange of the Treasury, which amounted to the equivalent of US$60 million at the end of June 1983, will be reduced by US$5 million in the third quarter and by an additional US$5 million in the fourth quarter; and that arrears in domestic payments, which amounted to Z 254 million at the end of June 1983, will be reduced by Z 204 million in the fourth quarter. In the event that actual payments in respect of external debt service and the liquidation of arrears fall short of the assumed amounts, the total expenditure target will be reduced by an equivalent amount. The results will be closely monitored, and should these targets not be observed there will be consultations with the Fund staff to reach understandings on appropriate corrective measures. In order to enforce budgetary discipline and to facilitate the settlement of external debt obligations, a blocked account will be established at the Bank of Zaire into which the Government will deposit the domestic currency counterpart as and when the payments fall due; this blocked account, to be used exclusively for debt servicing, will become effective as of

January 1, 1984, when the results of the envisaged debt reschedulings are expected to be known.

15. In view of the prevailing high rate of inflation and the exchange rate adjustment, the Executive Council felt compelled to review wages and salaries in the government sector, which had been kept unchanged since August 1982. However, conscious of the need to keep any increases within prudent limits, it was decided to raise the wage and salary bill by 40 percent over the two years 1983-84, with 20 percent effective October 1, 1983 and the remainder effective April 1, 1984. The wage increases will be modulated to favor the lower income groups. The Council is urging public enterprises, as well as the private sector, to exercise similar restraint in this area. In addition, the present freeze on new hirings will continue to apply in the government sector, at least through the end of 1983.

16. To reinforce the fiscal and incomes policies described above, monetary and credit policies have been designed to curb the increase in the net domestic assets of the banking system to about 52 percent in 1983 and 35 percent in 1984. In view of the likely evolution of the external payments situation, these increases would be consistent with containing the growth in broad money to 51 percent in 1983 and 35 percent in 1984, compared with 73 percent in 1982. Given the fiscal targets, which imply a sharp reduction in net bank credit to the Government, the overall increase in net domestic assets would provide adequate scope for meeting the genuine credit needs of the private sector, especially for the financing of productive investments and essential imports. In general, credit policies will be directed toward channeling increased resources to the private sector compared with the actual experience of the past few years. However, total credit to the private sector will not exceed Z 1.3 billion for 1983 as a whole, and it will be kept to about Z 1.9 billion during 1984.

17. The overall expansion in the net domestic assets of the banking system will be limited to Z 4.8 billion in 1983, in accordance with the quarterly ceilings set forth in Table 1; within this limit, the increase in net credit of the banking system to the Government, which amounted to Z 3.3 billion during 1982, will not exceed Z 2.4 billion for 1983 as a whole. The above ceilings will be reduced, if necessary, in accordance with the provisions indicated in footnote 5 of the same table. During the first review of the program, appropriate quarterly credit ceilings will be established for 1984.

18. In the context of a recent review of the interest rate structure, which had been kept unchanged since April 1981, the Bank of Zaire has adjusted and liberalized interest rates on commercial bank loans, effective September 12, 1983. Specifically, the rates charged by commercial banks on all loans, with the exception of those to the noncoffee agricultural sector, have been liberalized and are now freely set by

the banks; lending rates to the noncoffee agricultural sector, which are still regulated, have been unified at 15 percent in order to encourage the development of this key sector of the economy. Deposit rates of the commercial banks remain unchanged, but will be kept under review and modified appropriately according to the evolution of domestic liquidity and the need to encourage financial savings. As of September 12, 1983, the interest rate payable on central bank advances to the Treasury has been raised from 3 percent to 7 percent, and the remuneration payable on Treasury bills has also been increased, from 4.75 percent to 10 percent. At present, the minimum reserve requirements for commercial bank deposits at the Bank of Zaire are set at 25 percent; these will be reviewed, prior to the end of 1983, in light of the experience with the new exchange rate regime and the liquidity position of the domestic banking system.

19. In order to promote a better allocation of resources, the Executive Council has put into effect a substantial liberalization of the domestic pricing system. Controls on retail prices of all goods and services have been lifted, except for those on petroleum products, electricity, water, and internal transport; in addition, producer prices for agricultural products, including coffee and cotton, have been completely liberalized. An ordonnance-loi recapitulating the price liberalization measures taken in the recent past was promulgated on September 12, 1983. As regards petroleum products, the structure of retail prices, which was adjusted in December 1982, has been further modified to take full account of the exchange rate change; in particular, effective September 12, 1983 the retail price of premium gasoline has been raised from Z 12.50 per liter to Z 35 per liter, and that of gas oil from Z 3.10 per liter to Z 15.50 per liter. There continues to exist a price compensation system in the new structure of retail prices, under which certain petroleum products are taxed in such a way that others can be subsidized; thus, there is no net subsidy from the budget, and it is the intention of the Executive Council to maintain this policy. In the same spirit, the tariffs of public utilities, as well as of transport, will be increased by mid-October 1983, to reflect the adjustments in petroleum prices and any other increases in costs. These tariffs will be kept under review and, if necessary, will be adjusted promptly. Overall, the Council will continue to formulate economic policies that will promote competition in the economy. In this regard, the Council has requested World Bank assistance in formulating measures to improve the performance of the manufacturing sector, including appropriate modifications in trade policy.

20. The adjustment measures for 1983-84, as described above, need to be placed in the context of a medium-term economic recovery program. To this end, the Zairian authorities are in the process of finalizing, in collaboration with the World Bank, a public investment program covering the period 1983-85. This program, which aims primarily at completing the projects included in the previous program for 1981-83, underscores the Executive Council's commitment to rehabilitate and strengthen the productive sectors of the economy, as well as to ease transportation and

other bottlenecks which have constrained past developments efforts. About 70 percent of the total investment under the new program is expected to be devoted to the rehabilitation of existing productive capacity in the agricultural, mining, and transportation sectors. The program, which will be ready by mid-September, will be presented by the Executive Council to a meeting of the Consultative Group for Zaire, scheduled for late 1983, with the objective of obtaining the necessary support from donor countries and international financial institutions.

21. With regard to the key sectors of the economy, the objectives of the public investment program are closely interlinked. In agriculture, increased production of food crops and certain cash crops for export will permit both import substitution as well as higher foreign exchange earnings. In the mining sector, GECAMINES' investment program gives priority to the maintenance and rehabilitation of the present production capacity of 470,000 tons of copper; an increase in the proportion of copper refined locally; and an eventual expansion of output beyond the present level. The transportation sector program emphasizes investments that will ameliorate the utilization and efficiency of existing facilities, in large part through improved maintenance and rehabilitation. Overall, the public investment program will be compatible with the macroeconomic policies already in place, the availability of resources, and the ability of the public sector to execute successfully the projects concerned.

22. The realization of the adjustment program for the rest of 1983 and 1984, as described above, is critically dependent upon a far-reaching rescheduling of Zaire's external debt. Despite the measures already in effect, and those that the Executive Council intends to implement before the end of 1984, substantial external financing gaps remain. Since the overwhelming proportion of Zaire's debt is owed to official creditors within the Paris Club, the Council very much hopes that the bulk of the necessary debt relief will come from that source. Furthermore, in view of the magnitude of the problem, such debt relief will need to be on favorable terms so that the annual debt service could be at a realistic level and hence could reasonably be discharged. In view of these considerations, the Council has requested a meeting of the Paris Club in the near future to take up the issue of Zaire's official debt. Moreover, the Council has asked Zaire's principal private bank creditors to reschedule syndicated credits in the context of the London Club.

23. Even with debt relief on the scale indicated above, external debt service payments will remain sizable. Therefore, in 1983 new external debt commitments on nonconcessional terms will be kept to a strict minimum to avoid exacerbating the present debt servicing difficulties. Specifically, new external loans contracted or guaranteed by the Government with an initial maturity of 1-12 years will be limited to SDR 100 million in 1983 and SDR 150 million in 1984; within these ceilings, subceilings of SDR 30 million and SDR 40 million, respectively, will apply to loans with a maturity of 1-5 years. These will cover borrowings

by the Bank of Zaire, but concessional loans and refinancing arrangements obtained from existing creditors in the context of debt reschedulings will be excluded from the ceilings.

24. As mentioned earlier, during the program period steps will be taken to relax further existing restrictions on payments and transfers for current international transactions. In this context, arrears on commercial and invisible payments registered with the Bank of Zaire, which amounted to SDR 207 million at the end of 1982, will be reduced through cash payments by SDR 10 million in 1983 and by SDR 40 million in 1984. At the same time, following the envisaged debt reschedulings, there will be no accumulation of arrears on external debt service payments; such arrears amounted to an estimated SDR 853 million at the end of June 1983. During the program period the Executive Council does not intend to introduce any new multiple currency practice, or impose new or intensify existing restrictions on payments and transfers for current international transactions, or enter into any bilateral payments agreements with Fund members. Furthermore, the Council does not intend to impose new or intensify existing restrictions on imports for balance of payments purposes.

25. The implementation of the adjustment program will be closely monitored by the Bank of Zaire and the Ministry of Finance and the Budget. 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. Furthermore, additional measures will be taken by the Council should this become necessary in order to attain the basic objectives of the program.

26. The performance criteria under the program will relate to (a) the ceilings on net domestic assets of the banking system, net credit of the banking system to the Government, foreign exchange sales of the Bank of Zaire on the interbank market, the net cumulative reduction of commercial and invisible arrears through cash payments, and new external borrowing by the Government or against government guarantee, as specified in Table 1; (b) the maximum spread between the official and free market exchange rates during the second phase of the temporary dual arrangement indicated in paragraph 10; (c) the scheduled unification of the two rates also indicated in paragraph 10; and (d) the provisions regarding the exchange and trade system set forth in paragraphs 11 and 24. Furthermore, there will be two comprehensive reviews with the Fund of progress under the program, the first not later than the end of February 1984 and the second not later than the end of August 1984, both of which will be performance criteria. During the first review, understandings will be reached on all quantitative performance criteria not already specified for 1984. The two reviews will also cover the implementation of the foreign exchange budget of the Bank of Zaire.

Table 1. Zaire: Proposed Ceilings under the Program for end-December 1983

	1982	1983			
	Dec. 1/	March 1/	June 2/	Sept. 3/	Dec. 4/
		(In millions of zaires)			
Net domestic assets of the banking system at the end of period	9,254	9,865	10,197	12,811 5/	14,054 5/
Net credit of the banking system to the Government at the end of period	7,057	7,038	7,234	9,097 5/	9,457 5/
		(In millions of SDRs)			
Foreign exchange sales of the Bank of Zaire on the interbank market	--	--	--	--	14 6/
Net cumulative reduction of commercial and invisible arrears through cash payments by the end of period	22	...	4	5	10
New external borrowing by the Government or against government guarantee through the end of period					
a. 1-12 years' maturity	...	100	100	100	100
b. 1-5 years' maturity	...	30	30	30	30

1/ Actuals.
2/ Provisional; to the extent that the actual data may differ from the provisional, the targets and performance criteria will be adjusted accordingly.
3/ Indicative targets.
4/ Performance criteria.
5/ These amounts are based on the assumptions that (a) external debt service payments will amount to US$122 million during the period January-September 1983 and US$180 million through the end of December 1983; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US$60 million at the end of June 1983, will be reduced by US$5 million in each of the last two quarters; and (c) arrears in domestic payments, which amounted to Z 254 million at the end of June 1983, will be reduced by Z 204 million in the fourth quarter. In the event that actual payments fall short of the amounts indicated in (a) and (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.
6/ End-February 1984.

Zaire - Relations with the Fund

Date of membership	September 28, 1963
Status	Article XIV
Present quota	SDR 228 million
Proposed quota	SDR 291 million
Exchange system	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 floating exchange rate regime was introduced, and the first weekly official rate was set at the equivalent of Z 1 = SDR 0.03542.
Fund holdings of Zaire's currency (October 31, 1983)	SDR 607.0 million (266.2 percent of quota), of which SDR 106.9 million (46.9 percent) related to purchases under the compensatory financing facility.
SDR holdings (October 31, 1983)	SDR 9,034, equivalent to 0.01 percent of the net cumulative allocation of SDR 86.3 million.
Distribution of profits from gold sales	US$18.0 million
Gold distribution	96,709 troy ounces of fine gold
Trust Fund loans outstanding	SDR 106.7 million
Technical assistance	Four CBD experts, including a Principal Manager, are currently serving in the Bank of Zaire.
	A joint Fund-World Bank technical assistance mission in the fiscal field visited Zaire in August-September 1981, and its reports were presented to the authorities in April-May 1982.

Zaire - Relations with the Fund (concluded)

Staff contacts

Staff teams visited Zaire in May-June 1982 and December 1982 to review economic and financial developments and prospects.

The 1983 Article IV consultation discussions with Zaire were initiated in Kinshasa during the period May 9-21, 1983. Subsequently, in connection with negotiations on an adjustment program, the discussions were continued in Kinshasa during July 5-20, 1983, and they were concluded in Washington during August 2-9, 1983.

A staff team visited Zaire in November 1983 to review the implementation of certain aspects of the adjustment program.

The last Article IV consultation discussions with Zaire were initiated in Kinshasa during August-September 1981, and they were concluded in Washington in October 1981; the staff report (SM/81/241 and Supplement 1) was discussed by the Executive Board, along with a request for a purchase under the compensatory financing facility, on March 12, 1982. The Board's decision on the consultation was:

1. The Fund takes this decision relating to Zaire's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1981 Article XIV consultation with Zaire, in the light of the 1981 Article IV consultation with Zaire conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zaire's exchange system involves restrictions on payments and transfers for current international transactions, including external payments arrears, and a new multiple currency practice, as described in SM/81/241. The Fund notes with satisfaction the abolition in February 1980 of a multiple currency practice, the significant reduction of external payments arrears through rescheduling and cash payments, and the authorities' intention to pursue a flexible exchange rate policy. The Fund urges the authorities to remove the remaining restrictions on payments and transfers for current internationl transactions as soon as possible. In the meantime, in the light of Zaire's adoption of comprehensive policies for balance of payments adjustment, including policies

to reduce progressively the amount of arrears outstanding and reliance on other exchange restrictions, which are supported by an extended arrangement from the Fund (EBS/81/126), the Fund grants approval for the retention of these restrictions and the new multiple currency practice until December 31, 1982, or the next Article IV consultation, whichever comes first. The Fund also urges Zaire to examine the possibility of eliminating bilateral payments agreements with Fund members.

Zaire - Relations with the World Bank Group

(In millions of U.S. dollars)

A. Overall IBRD/IDA operations (as of June 30, 1983)	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
Agriculture and livestock	--	39.0	--	58.3
Development finance	--	46.7	--	28.2
Education	--	8.6	--	--
GECAMINES	100.0	--	--	6.9
Water supply	--	23.6	--	15.0
Transportation	--	118.0	--	103.0
Energy	--	0.8	--	16.7
Total	100.0	236.7	--	228.1
Of which: repaid (-)	(30.9)	(1.3)	--	--
Total outstanding	69.1	235.4	--	228.1

B. IFC investments 1/ (as of June 30, 1983)	Disbursed	Undisbursed
Total	5.2	0.3
Of which: repaid (-)	(3.7)	
Total outstanding	1.5	0.3

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 4/	64.5	45.3	8.4
1984 4/	75.0	35.4	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 June 30, 1983.
4/ Projected.

Zaire - Basic Data

Area, population, and GDP per capita

Area	2,343,950 square kilometers
Population: Total (1982 estimate)	30.6 million
Growth rate	2.7 percent
GNP per capita (1982 estimate)	SDR 176

	1980	1981	1982	1983 Proj.	1984 Proj.
GDP					
Total (in millions of zaires)	17,207.3	23,602.9	32,058.0	54,400.0	81,400.0
Agriculture (percent of real GDP)	19.1	19.1	19.8	...	...
Manufacturing (percent of real GDP)	6.9	6.8	6.7	...	...
Mining (percent of real GDP)	22.5	23.6	22.5	...	...
Percent change in real GDP	2.4	2.4	-1.0	1.0	2.0
Gross investment as percent of GDP (at market prices)	19.9	19.8	17.6	21.7	...
Prices (percent change)					
GDP deflator	51.2	34.0	37.2	68.0	47.0
Consumer prices	46.7	35.4	37.2	68.0	47.0
Budgetary operations			(In millions of zaires)		
Revenue	3,738.6	4,858.8	6,259.1	11,063.0	20,400.0
GECAMINES	983.7	650.4	385.9	2,260.0	4,600.0
Other	2,754.9	4,208.4	5,873.2	8,803.0	15,800.0
Current expenditure	3,456.4	5,506.1	7,952.4	11,267.0	18,750.0
Capital expenditure	246.4	744.9	1,084.9	834.0	1,400.0
Budgetary surplus or deficit (-)	35.8	-1,392.2	-2,778.2	-1,038.0	250.0
External borrowing (net) as percent of budgetary deficit	-846.4	4.5	17.8	131.2	-1,040.0
Domestic bank borrowing as percent of budgetary deficit	746.4	-104.5	-117.8	-231.2	940.0
Budgetary deficit as percent of GDP	0.2	-5.9	-8.7	-1.9	0.3

Zaire - Basic Data (concluded)

	1980	1981	1982	1983 Proj.	1984 Proj.
Money and credit			(Percent change)		
Net domestic assets	45.1	54.4	77.3	51.9	34.6
Government	13.0	62.4	86.5	34.0	27.5
Private sector	15.4	32.3	46.9	65.9	58.1
Money and quasi-money	61.5	37.9	72.6	50.5	35.1
Balance of payments			(In millions of SDRs)		
Exports, f.o.b.	1,566	1,272	1,317	1,375	1,524
Imports, f.o.b.	-1,131	-1,094	-1,022	-1,036	-1,105
Trade balance	435	178	295	339	419
Net services and unrequited transfers	-551	-538	-635	-579	-649
Current account balance	-116	-360	-340	-240	-230
Capital account (net)	-80	-268	-257	-212	-170
Public capital	-17	-143	-142	-212	-170
Private capital and errors and omissions	-63	-125	-116	--	--
SDR allocation	16	16	--	--	--
Exceptional financing and reserve movements	180	612	597	452	400
Debt rescheduling and other assistance	1,239	315	136	...	...
Payments arrears (decrease -)	-1,035	110	345	...	...
Net international reserves (increase -)	-24	187	117	...	...
Current account deficit (-) as percent of GDP	-2.5	-7.9	-6.7	-5.7 1/	-8.9 1/
Gross official foreign reserves (end of period) 2/	160.0	130.2	34.2	39.2 3/	...
External public debt					
Disbursed and outstanding (end of period)	3,320	3,723	3,705	...	...
Actual debt service as percent of exports of goods and services 4/	21.6	24.9	17.9	18.4	28.1

1/ The current account deficit relative to GDP drops only slightly in 1983 and increases in 1984 due to the fact that GDP declines markedly in terms of SDRs in 1983 and 1984 because of the large devaluation of the zaire.

2/ Excluding gold, most of which is pledged.

3/ End-September 1983.

4/ Including IMF charges and repurchases and reduction of commercial arrears through cash payments.

Zaire - Merchandise Exports, f.o.b., by Major Commodity, 1980-84

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

	1980	1981	1982	1983 Projections	1984 Projections
GECAMINES exports					
Copper					
Value (US$)	957.6	694.8	740.6	740.3	801.2
Value (SDRs)	736.2	588.6	670.8	690.0	741.9
Volume (tons)	436,672	404,575	508,211	460,000	460,000
Unit price (US$/lb.)	0.995	0.779	0.661	0.730	0.790
Cobalt					
Value (US$)	377.3	158.3	182.8	112.4	148.3
Value (SDRs)	289.7	134.6	164.7	104.8	137.3
Volume (tons)	6,853	3,394	7,264	8,500	10,000 2/
Unit price (US$/lb.)	25.00	18.56	9.96	6.00	7.00
Zinc					
Value (US$)	21.4	71.2	43.1	43.7	54.5
Value (SDRs)	16.4	61.2	39.3	40.7	50.5
Volume (tons)	29,588	87,778	54,979	55,000	65,000
Unit price (US$/lb.)	0.328	0.363	0.356	0.36	0.38
Silver					
Value (US$)	58.0	19.9	18.0	22.0	19.8
Value (SDRs)	44.6	16.9	16.2	20.5	18.3
Volume (kgs) 3/	83,545	57,470	71,774	50,000	45,000
Unit price (US$/t. oz.)	19.68	9.82	7.11	12.50	12.50
Cadmium					
Value (US$)	1.4	0.5	0.7	0.4	0.4
Value (SDRs)	1.1	0.5	0.7	0.4	0.4
Volume (tons)	278	129	260	260	260
Unit price (US$/lb.)	2.28	1.76	1.22	0.66	0.70
Gold					
Value (US$)	2.0	1.4	1.2	1.1	1.2
Value (SDRs)	1.6	1.2	1.2	1.0	1.1
Volume (kgs) 4/	99.0	84.0	94.0	86.0	95.0
Unit price (US$/t. oz.)	572.72	472.49	361.91	350.00	350.00
F.M.M. 5/					
US$	-239.3	-203.4	-173.8	-113.1	-110.3
SDRs	-183.9	-172.5	-157.4	-105.4	-102.2
Subtotal					
US$	1,178.4	742.7	812.7	806.8 6/	915.1
SDRs	905.7	630.5	735.5	752.0 6/	847.3
Non-GECAMINES exports					
Copper (SODIMIZA)					
Value (US$)	74.9	61.8	50.1	47.0	47.4
Value (SDRs)	57.5	52.4	45.4	43.8	43.9
Volume (tons)	34,133	35,989	34,400	29,200	27,200
Unit price (US$/lb.)	0.995	0.779	0.661	0.730	0.790
Gold (KILOMOTO, SOMINKI)					
Value (US$)	31.7	23.2	21.9	66.3	68.7
Value (SDRs)	24.4	19.7	19.8	61.8	63.6
Volume (kgs)	1,464.0	1,401.0	1,866.0	4,700.0	4,750.0
Unit price (US$/t. oz.)	612.59	468.62	332.70	400.00	410.00

Zaire - Merchandise Exports, f.o.b., by Major Commodity, 1980-84 (concluded)

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

	1980	1981	1982	1983	1984
				Projections	
Diamonds (MIBA, artisanal)					
Value (US$)	113.6	77.2	76.2	104.7	118.3
Value (SDRs)	87.3	65.5	69.0	97.6	109.5
Volume ('000 carats)	9,997	6,586	6,725	8,100	9,700
Unit price (US$/carat)	11.36	11.72	11.33	12.92	12.20
Coffee					
Value (US$)	163.1	111.8	105.0	114.2	123.8
Value (SDRs)	*125.3*	*94.8*	*95.1*	*106.4*	*114.6*
Volume (tons)	74,123	67,645	68,004	70,000	72,000
Unit price (US$/lb.)	0.998	0.750	0.700	0.740	0.780
Rubber					
Value (US$)	19.8	18.8	11.5	14.1	18.5
Value (SDRs)	15.2	15.9	10.4	13.1	17.1
Volume (tons)	19,522	18,509	14,930	16,000	17,500
Unit price (US$/lb.)	0.46	0.46	0.35	0.40	0.48
Crude oil					
Value (US$)	228.2	273.5	274.3	220.9	243.0
Value (SDRs)	174.4	231.9	248.5	205.9	225.0
Volume ('000 barrels)	6,625	7,668	8,108	8,100	8,100
Unit price (US$/barrel)	34.45	35.67	33.83	27.27	30.00
Other exports					
Value (US$)	133.5	93.6	93.0	100.9	111.6
Value (SDRs)	102.6	79.4	84.2	94.0	103.4
Adjustments					
Value (US$)	95.0	97.2	10.2	--	--
Value (SDRs)	72.6	81.8	9.2	--	--
Total					
Value (US$)	2,038.2	1,499.8	1,454.1	1,474.9	1,646.4
Value (SDRs)	1,566.0	1,271.9	1,317.1	1,374.6	1,524.4
Rate of change					
In SDRs (per cent)	10.3	-18.8	3.6	4.4	10.9

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

1/ Exchange rates used: SDR 1 = US$1.292 for 1979; SDR 1 = US$1.30153 for 1980; SDR 1 = US$1.17916 for 1981; SDR 1 = US$1.10401 for 1982; SDR 1 = US$1.073 for 1983; and SDR 1 = US$1.08 for 1984. Measure conversion rates used: metric ton = 2,204.7 pounds; troy ounce = 35.374 grams; and carat = 200 milligrams.

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

3/ 96.8 per cent pure.

4/ 99.0 per cent pure.

5/ Marketing and financing costs (Frais de mise sur marché).

6/ Including a small amount of germanium exports (US$0.8 million, or SDR 0.7 million).