DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/83/257
Supplement 2

CONFIDENTIAL

December 22, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zaïre - Stand-By Arrangement

Attached for the records of the Executive Directors is the text of the stand-by arrangement for Zaïre agreed at Executive Board Meeting 83/175, December 16, 1983.

Att: (1)

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 a period of 15 months from the effective date of this arrangement 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. Purchases under the stand-by arrangement shall be made from borrowed resources until purchases under the arrangement reach the equivalent of SDR 23,775,000; thereafter purchases shall be made 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.