

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

**IMMEDIATE
ATTENTION**

EBS/83/257
Supplement 3

CONFIDENTIAL

December 22, 1983

To: Members of the Executive Board
From: The Acting Secretary
Subject: Zaire - Request for Stand-By Arrangement

The attached supplement to the paper on Zaire's request for a stand-by arrangement has been prepared on the basis of additional information.

In the absence of a request for discussion by an Executive Director by the close of business on Tuesday, December 27, 1983, the proposed decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

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INTERNATIONAL MONETARY FUND

ZAIRE

Request for Stand-By Arrangement
Additional Information and Proposed Decision

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

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

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

December 21, 1983

I. Introduction

On December 16, 1983 the Executive Board approved Zaire's request for a 15-month stand-by arrangement in an amount equivalent to SDR 228 million (EBS/83/257, 11/30/83), but stipulated that the arrangement "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." This paper describes the arrangements recently made for reducing Zaire's debt service obligations, and includes a proposed decision to make the stand-by arrangement effective on December 27, 1983. The Executive Board also approved Zaire's request for a compensatory financing purchase equivalent to SDR 114.5 million "as of the date on which the stand-by arrangement set forth in EBS/83/257 becomes effective." Accordingly, approval of the proposed decision on the stand-by arrangement would have the effect of enabling Zaire to make the compensatory financing purchase immediately thereafter.

II. External Payments Gaps

As explained in EBS/83/257, notwithstanding the programmed decline in the overall balance of payments deficits and taking into account the reduction in commercial and invisible arrears through cash payments, as well as the need to gradually build up official foreign reserves, Zaire's financing requirements were projected to total SDR 472 million in 1983 and SDR 482 million in 1984. After accounting for possible net use of Fund resources under the program, including the requested compensatory financing purchase (EBS/83/260), substantial financing gaps remained, amounting to SDR 368 million in 1983 and SDR 353 million in 1984, in addition to the stock of arrears of unpaid principal and interest of

SDR 740 million as of December 1982. In view of these large financing gaps, the Zairian authorities have sought additional balance of payments support, particularly in the form of reschedulings of the country's external debt service and arrears to official creditors within the Paris Club and similar relief from other creditors. With regard to multilateral development institutions having claims on Zaire, the program allows for no accumulation of arrears to any such creditor.

III. Debt Relief from Paris Club Creditors

On December 19-20, 1983 representatives of Zaire and 13 creditor countries ^{1/} met under the aegis of the Paris Club to consider Zaire's request for debt relief. In summary, the Paris Club creditors have agreed to reschedule 95 percent of all arrears as of December 31, 1983, as well as 95 percent of debt service payments falling due in 1984; the remaining 5 percent has also been deferred for payment in two tranches by end-1984 and end-1985. The rescheduled debt up to, and including 1984, is to be repaid over a six-year period following a six-year grace period; however, the rescheduled debt service in 1984 on short-term debt previously rescheduled is to be repaid over three years following a three-year grace period. Finally, moratorium interest for debt due prior to December 31, 1983, has been capitalized and is to be repaid over a 12-year period.

On the basis of the latest available debt data, the staff estimates that the Paris Club has granted Zaire effective debt relief totaling at least SDR 1,440 million. This total broadly consists of: (a) SDR 740 million on account of principal and interest in arrears, as of end-December 1982, that has been regularized; (b) SDR 360 million on account of principal and interest payments that fell due in 1983 and were not paid; and (c) SDR 340 million on account of principal and interest payments falling due in 1984 (Table 1).

At the conclusion of the meeting, the representatives of the participating creditor countries agreed to recommend to their respective governments or appropriate institutions that they grant Zaire debt relief on the terms described below:

a. The debt relief applies to the following categories of debt: (i) commercial credits guaranteed or insured by the governments of the participating creditor countries or their appropriate institutions having an original maturity of more than one year and concluded before June 30, 1983; (ii) loans from governments or appropriate institutions of the participating creditor countries having an original maturity of more than one year and concluded before June 30, 1983; (iii) repayments of principal and interest due under previous Paris Club reschedulings

^{1/} Austria, Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

Table 1. Zaire: Balance of Payments, 1980-84

(In millions of SDRs)

	1980	1981	1982 Prov.	1983 Program	1984
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	-750	-40
Of which: cash payments	(-50)	(-35)	(-22)	(-10)	(-40)
Debt rescheduling and other assistance	1,239	315	136	1,108	360
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	-49
<u>Memorandum item:</u>					
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.

having an original maturity of more than one year; and (iv) repayments of principal and interest due under previous Paris Club reschedulings having an original maturity of one year or less.

b. Under the agreement, 95 percent of the amounts of principal and interest due from January 1, 1984, up to December 31, 1984, inclusive, or due and not paid as of December 31, 1983 (excluding late interest charges due on that date) on loans and credits mentioned in paragraph a (i) (ii) and (iii) above, will be rescheduled or refinanced. Repayment of the rescheduled amounts will be made in 12 equal and successive semi-annual installments beginning December 31, 1989 and ending on June 30, 1995. Also, 95 percent of the amounts of principal and interest due from January 1, 1984, up to December 31, 1984, inclusive or due and not paid as of December 31, 1983 (excluding late interest charges) as a result of the consolidation of debts mentioned in paragraph a (iv) above, will be rescheduled or refinanced. Repayment of these amounts will be made in six equal and successive semiannual installments beginning on December 31, 1987 and ending on June 30, 1990. The remaining 5 percent of the amounts mentioned above will be paid in two equal installments on December 31, 1984 and December 31, 1985.

c. As regards late interest charges due on December 31, 1983, on maturities due and not paid as of that date, these charges will be paid in 12 equal and successive annual payments beginning on June 30, 1984, and ending on June 30, 1995.

d. The interest rate to be paid in respect of these financial arrangements will be determined bilaterally on the basis of the appropriate market rate.

e. The Zairian representatives undertook that the Government of Zaire would: (i) negotiate promptly rescheduling arrangements on comparable terms with all other creditors, including debts to banks and suppliers, as well as debts under special payments mechanisms; (ii) accord to each of the Paris Club creditor countries a treatment no less favorable than that accorded to any other creditor country for the consolidation of debts of a comparable term; (iii) pay all overdue obligations to, or guaranteed by, the Paris Club creditors, and not covered by this rescheduling, as soon as possible, but no later than June 30, 1984; (iv) seek to conclude with the Paris Club creditors the necessary implementing bilateral agreements no later than June 30, 1984; and (v) keep the Chairman of the Paris Club informed of the contents of the bilateral rescheduling agreements reached.

f. The provisions of the Paris Club rescheduling agreement do not apply to countries with respect to which debts of principal and interest, falling due during the consolidation period, including the arrears registered at the beginning of this period, are less than SDR 1 million. The payments owed to these countries should be made on the original due dates.

g. To facilitate the implementation of the Paris Club rescheduling agreement, the Government of Zaire will deposit the equivalent of at least SDR 14.25 million at the end of each month of 1984 in a special account at the central bank of a participating creditor country, and will arrange to have this bank notify the Chairman of the Paris Club as soon as each deposit has been made. The total amount deposited approximates the amounts estimated to be payable to all participating creditor countries during the year under the terms of the agreement. As bilateral implementing agreements are signed and specific payments under these agreements become due, the Government of Zaire will draw on the special account to meet these payments; no drawing will be made on the special account for any other purpose before all payments due for 1984 under the bilateral agreements have been made.

IV. Other Debt Relief

While requesting debt relief from Paris Club creditors, the Zairian authorities have also approached the commercial banks of the London Club to reschedule or refinance debt service payments in arrears as of end-1983 and those falling due in 1984. In addition, they intend to seek debt relief from other creditors.

V. Staff Appraisal

As indicated above, the debt relief obtained by Zaire from the Paris Club creditors amounts to at least SDR 1,440 million. On this basis, the staff is now confident that the projected financing gaps of SDR 368 million in 1983 and SDR 353 million in 1984 will be covered.

VI. Proposed Decision

Accordingly, the following decision is proposed for adoption by the Executive Board:

1. The Fund takes note of the arrangements toward the reduction of Zaire's debt service obligations for 1983 and 1984 to a level consistent with Zaire's program, as described in EBS/83/257, Supplement 3 (12/22/83).

2. The stand-by arrangement for Zaire in EBS/83/257, Supplement 2 (12/22/83) shall enter into effect on December 27, 1983.