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December 1, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Zaïre - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Zaïre for a purchase equivalent to SDR 114.5 million under the compensatory financing facility. A draft decision appears on page 19.

It is proposed to bring this subject, together with the staff report for the 1983 Article IV consultation with Zaïre and request for a stand-by arrangement (EBS/83/257, 11/30/83), to the agenda of the Executive Board 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. Kaibni, ext. (5)7721.

Att: (1)

INTERNATIONAL MONETARY FUND

ZAIRE

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research Department and the African Department

(In consultation with the Exchange and Trade Relations, Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and O.B. Makalou

December 1, 1983

The Managing Director has been informed that the Zairian authorities will shortly request a purchase of SDR 114.5 million (50.2 percent of quota) 1/ under the compensatory financing decision. The request is being made with respect to a shortfall in earnings from merchandise exports for the year ended March 1983. A request for the use of Fund resources under a 15-month stand-by arrangement in an amount equivalent to SDR 228 million (100 percent of quota) is expected to be considered by the Executive Board concurrently with the compensatory financing request. If both of these requests are approved and the resources are fully utilized, the member's purchases outstanding under the compensatory financing facility would increase from 46.9 percent to 97.1 percent of quota, 1/ and the Fund's total holdings of the member's currency, after scheduled repurchases, from 266.2 percent to 380.7 percent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Fund's Articles of Agreement will be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Zaire, is presented in four sections and an annex. The sections deal with. (1) the balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and export prospects; and (4) staff appraisal and proposed decision. The relations of Zaire with the Fund are summarized in the annex.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

In recent years Zaire's external payments position has been under great pressure, owing to a convergence of adverse factors, notably a softening of world market prices of the country's principal exports, mainly copper and cobalt, large scheduled debt service payments, and declining

1/ In terms of Zaire's new quota of SDR 291 million, the proposed purchase is equivalent to 39.3 percent which would raise the outstanding purchases under the CFF to 76.1 percent.

Table 1. Zaire: Balance of Payments, 1979-83

(In millions of SDRs)

	1979	1980	1981	1982 1/	1983 2/
A. Current account surplus or deficit (-)	25	-116	-360	-340	-240
Trade account	481	435	178	295	339
Exports, f.o.b.	(1,420)	(1,566)	(1,272)	(1,317)	(1,375)
Imports, f.o.b.	(-939)	(-1,131)	(-1,094)	(-1,022)	(-1,036)
Services	-582	-695	-745	-791	-754
Of which: interest on public debt 3/	(-151)	(-218)	(-269)	(-285)	(-228)
Unrequited transfers	126	144	207	156	175
B. Capital account	-223	-80	-268	-258	-212
Public capital	-89	-17	-143	-142	-212
Of which public debt amortization 3/	(-243)	(-309)	(-356)	(-334)	(-346)
Private capital and errors and omissions	-134	-63	-125	-116	--
C. SDR allocation	16	16	16	--	--
D. Overall deficit (-)	-182	-180	-612	-598	-452
Financing	182	180	612	598	452
Arrears (decrease -)	168	-1,035	110	345	...
Of which: cash payments	(-20)	(-50)	(-35)	(-22)	(-10)
Debt rescheduling and other assistance	51	1,239	315	136	...
Net Fund credit	-12	13	91	85	104
Purchases	(20)	(78)	(195)	(107)	(114)
Repurchases	(-32)	(-65)	(-104)	(-22)	(-10)
Other reserve movements (increase -)	-25	-37	96	32	-10
Memorandum items:					
Current account balance as percent of GDP	0.5	-2.5	-7.9	-6.7	5.4
Gross international reserves (at end of period) 4/	156.9	160.0	130.2	34.2	...
In weeks of imports, c.i.f.	7.4	6.2	5.1	1.4	...

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

1/ Provisional.

2/ Projections.

3/ Contractual amounts falling due in each year.

4/ Excluding gold, most of which is pledged.

public capital inflows, as well as inadequate domestic demand management. After showing a small surplus in 1979, the current account, including official transfers, deteriorated markedly in the following three years, registering deficits of SDR 116 million (equivalent to 2.5 percent of GDP) in 1980, SDR 360 million (7.9 percent of GDP) in 1981, and SDR 340 million (6.7 percent of GDP) in 1982. As the capital account also worsened, Zaire incurred even larger overall balance of payments deficits in each of these years (Table 1).

After declining sharply in 1981, export prices of copper and cobalt fell even further in 1982. Thus, despite substantial improvements in volumes, in 1982 total export earnings rose by less than 4 percent, compared with the low 1981 level. Although imports were constrained by the scarcity of foreign exchange, dropping by some 7 percent in nominal terms, the current account deficit showed little improvement, owing mainly to a concurrent drop in services receipts and an increase in interest payments due. At the same time, the capital account remained in substantial deficit, with scheduled amortization payments significantly exceeding loan disbursements. As a result, the balance of payments showed an overall deficit provisionally estimated at SDR 598 million, only slightly lower than the high of SDR 612 million recorded in 1981. 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 compensatory financing 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 and commercial bank creditors. Gross official reserves, excluding gold, which amounted to SDR 160 million at the end of 1980, fell to SDR 34 million at the end of 1982, equivalent to about one week's imports, c.i.f. Meanwhile, external payments arrears reached SDR 848 million at the end of 1982, equivalent to some seven months of projected 1983 exports of goods and services.

Although some improvement is in prospect as a result of a moderate increase in exports and the adoption of a comprehensive adjustment program, Zaire's external payments position remains under strain. In 1983 export earnings are projected to grow by more than 4 percent, while imports of goods and services will be constrained by the lack of foreign exchange, the tightened budgetary and credit policies, and the large devaluation of the zaire. Thus, the current account deficit is expected to decline appreciably to SDR 240 million. By contrast, the public capital account is projected to deteriorate, due largely to a substantial decline in official loan disbursements, reflecting the drop in commitments in recent years. Consequently, an overall balance of payments deficit of SDR 452 million is envisaged for 1983. In the first half of the year a large part of the overall deficit could not be financed, and hence there was a continued accumulation of arrears. However, mainly as a result of debt rescheduling arrangements, the stock of arrears is expected to be reduced considerably by the end of 1983.

b. Cooperation with the Fund

Since the proposed purchase would raise Zaire's total purchases outstanding under Decision No. 6224-(79/135) beyond 50 percent of quota, the request may be approved only if the Fund is satisfied that Zaire has been cooperating with the Fund in efforts to find, where required, appropriate solutions for its balance of payments difficulties.

The current request for a purchase under the compensatory financing facility is being presented for Executive Board consideration together with the staff report for the 1983 Article IV consultation and Zaire's request for a 15-month stand-by arrangement. The proposed stand-by arrangement is in support of an economic and financial program of adjustment for the period October 1983-December 1984, which aims essentially at reducing the external current account deficit to a sustainable position in the medium term, while establishing a firm basis for a gradual recovery in overall economic activity and a reduction of inflation. As part of the program, a far-reaching reform of the exchange system has been initiated, involving a large devaluation of the zaire, the introduction of a transitional dual arrangement, and elimination of restrictions, coupled with appropriate budgetary, monetary, and incomes policies.

In addition to accumulating external payments arrears since 1981, Zaire has maintained a number of restrictions on payments and transfers for current international transactions that have been subject to Fund approval under Article VIII. 1/ In the context of the adjustment program, a substantial liberalization and simplification of the restrictive system has been effected. This has included the abolition of the requirement that 30 percent of foreign exchange be surrendered by the commercial banks to the Bank of Zaire; the elimination of the system of financing imports without recourse to the foreign exchange resources of the banking system; the abolition of most resident foreign currency accounts and export retention quotas; and a considerable liberalization of the foreign exchange allocation system applicable to commercial banks, with the banks being allowed to allocate freely 75 percent of their foreign exchange resources. Further, import licensing regulations have been rationalized by subjecting only a limited number of nonessential imports to prior authorization of the Bank of Zaire, and all other imports to a simple declaration.

While the implementation of the adjustment program is expected to bring about a significant improvement in the external position, Zaire will continue to face external financing difficulties in the period ahead. The program provides for a reduction in external payments arrears through cash payments and reschedulings, and a unification in February 1984 of the transitional dual exchange rate arrangement. The restrictions relating to payments and transfers for current international transactions, including external payments arrears, and the multiple currency practice resulting from the recent introduction of a transitional dual exchange rate arrangement,

1/ For a detailed description of the exchange and trade system, see the paper on recent economic developments in Zaire.

are subject to approval of the Fund in accordance with the provisions of Article VIII, and such approval is being proposed in the context of the request for a stand-by arrangement. In view of the above, and particularly in light of Zaire's adoption of a comprehensive adjustment program, the staff believes that the stricter test of cooperation is met for the proposed compensatory financing purchase by Zaire.

2. Estimation of the export shortfall

The Zairian authorities have requested that the 12 months ended March 1983, the latest period for which actual data are available, be treated as the shortfall year. In the shortfall year, Zaire's export earnings amounted to SDR 1,281 million, about 9 percent below the average earnings of SDR 1,402 million for the two pre-shortfall years. Export earnings in the two post-shortfall years are projected to recover to an average level of SDR 1,450 million. On the basis of these export movements, the shortfall for the year ended March 1983 is calculated at SDR 114.5 million, which is the amount of the proposed purchase (Table 2).

Table 2. Zaire: Estimation of the Export Shortfall

(In millions of SDRs)

	Years Ending March				
				Projected 1/	
	1981	1982	1983	1984	1985
Exports	1,474.6	1,333.6	1,281.2	1,365.0	1,540.0
Shortfall			114.5		
Proposed purchase			114.5		

1/ Based on judgmental forecast of earnings given in Table 3.

The last compensatory financing purchase by Zaire was made in March 1982 (EBS/82/27, 2/11/82) for an amount equivalent to SDR 106.9 million. The purchase was in respect of a shortfall of SDR 215 million estimated for the calendar year 1981, of which data for the second half were estimated. Final calculation of the shortfall was completed in April 1983 (EBS/83/82, 4/22/83), and the shortfall based on actual data for the calendar year 1981 was SDR 302 million. 1/

3. Causes of the shortfall and export prospects

Of the overall shortfall of SDR 115 million, SDR 76 million (two thirds of the total) was on account of the principal mineral exports. The shortfall in the main agricultural exports amounted to about SDR 23 million (20 percent of the total), while "other" exports, a diverse category of minor minerals and agricultural and manufactured products, recorded a shortfall of SDR 15 million (Table 3).

The largest commodity shortfalls were incurred by cobalt (SDR 24 million), precious metals, consisting of gold and silver (SDR 21 million), coffee (SDR 18 million), copper (SDR 17 million), and diamonds (SDR 15 million). Smaller shortfalls on account of rubber (SDR 5 million) and "other" exports (SDR 15 million) were largely offset by export excesses for crude oil (SDR 14 million) and zinc (SDR 2 million).

The aggregate shortfall in earnings of major commodities accounting for 94 percent of exports was related to lower export prices resulting largely from depressed world demand (Table 4). The volume index in the shortfall year was above its five-year trend level; the index increased by 9 percent from the pre-shortfall year, with the increase in mineral exports (86 percent of total exports) exceeding 11 percent. For individual commodities, the shortfalls for copper and cobalt were entirely attributable to price shortfalls, while those for precious metals, coffee, and rubber were attributable to shortfalls in both price and volume. The shortfall for diamonds was entirely accounted for by a volume shortfall.

In recent years the growth of some of Zaire's export products has been adversely affected by exchange rate developments. In particular, the exchange rate appears to have adversely affected the exports of precious metals and diamonds by diverting exports from official to illicit channels, though production difficulties have also been a contributing factor. Overall, however, following several years of stagnation, the volume of Zaire's exports exhibited strong growth in the shortfall year, and, as indicated in Table 4, the aggregate volume of exports in the shortfall year was in excess; thus, movements in the aggregate volume of exports have had the effect of reducing the shortfall in earnings stemming from lower export prices. Taking all factors into account, the staff considers that the shortfall in Zaire's exports was due to factors largely outside the control of Zaire.

1/ Data for 1979, 1980, and 1981 have subsequently been revised, owing mainly to improvements in the accounting of GECAMINES' exports; using the revised data with the original projections for 1982 and 1983 (contained in EBS/82/27) results in a 1981 shortfall of SDR 199 million. If, however, the revised data for 1979-81 are used with the actual data for 1982 and the revised projection for 1983, the 1981 shortfall is reduced to SDR 108 million, which is still somewhat higher than the purchase of SDR 106.9 million made in March 1982.

Table 3. Zaire: Export Earnings and Shortfalls by Major Commodities

	Years Ending March 1/					Shortfall	
	1981	1982	1983	1984	1985	Geometric	Arithmetic
				(In millions of SDRs)			
Total exports	1,474.6	1,333.6	1,281.2	1,365.0	1,540.0	114.5	117.7
Principal mineral exports	1,213.2	1,112.9	1,097.3	1,147.0	1,308.0	75.9	78.4
Copper	597.0	544.0	607.0	634.0	755.0	16.7	20.4
Cobalt	213.8	125.6	100.1	98.0	110.0	23.6	29.4
Zinc	11.9	57.8	36.3	40.0	48.0	-1.9	2.5
Precious metals	68.3	45.7	29.1	59.0	61.0	21.4	23.5
Diamonds	104.8	74.0	76.8	96.0	111.0	14.5	15.7
Crude oil	217.4	265.8	246.0	220.0	223.0	-13.9	-13.2
Principal agricultural exports	153.4	128.4	104.4	123.0	131.0	22.7	23.6
Coffee	135.0	112.8	94.1	109.0	113.0	17.9	18.7
Rubber	18.4	15.6	10.3	14.0	18.0	4.6	5.0
Other exports	108.0	92.3	79.5	95.0	101.0	15.2	15.7
			(Percentage changes)				
Total exports		-10	-4	7	13		
Principal mineral exports		-8	-1	5	14		
Copper		-9	12	4	19		
Cobalt		-41	-20	-2	12		
Zinc		386	-37	10	20		
Precious metals		-33	-36	103	3		
Diamonds		-29	4	25	16		
Crude oil		22	-7	-11	1		
Principal agricultural exports		-16	-19	18	7		
Coffee		-16	-17	16	4		
Rubber		-15	-34	36	29		
Other exports		-15	-14	19	6		

1/ Export data based on calendar years have been provided for the period 1979-85, but data for years ending March are available only for the five years shown here.

Table 4. Zaire: Value, Volume, and Unit Value Indices by Major Commodities

(1983=100: In terms of SDRs)

	Value Share in Total Exports in 1983 (In Per Cent)	Years Ending March					Shortfall in Per Cent of Level in Shortfall Year
		1981	1982	1983	1984	1985	
Value	93.7	114	103	100	106	120	8.4
Principal mineral exports	85.6	111	101	100	104	119	6.8
Copper	47.4	98	90	100	104	124	2.6
Cobalt	7.8	214	126	100	98	110	23.6
Zinc	2.8	33	159	100	110	132	-5.3 (excess)
Precious metals	2.2	235	157	100	202	209	73.2
Diamonds	6.0	137	96	100	125	145	19.0
Crude oil	19.4	88	107	100	89	90	-5.5 (excess)
Principal agricultural exports	8.1	147	123	100	118	126	21.9
Coffee	7.3	144	120	100	116	120	19.2
Rubber	0.8	179	152	100	136	175	45.3
Volume		92	92	100	100	102	-2.9 (excess)
Principal mineral exports		90	90	100	99	101	-4.1 (excess)
Copper		85	87	100	91	90	-9.5 (excess)
Cobalt		79	64	100	128	128	-3.7 (excess)
Zinc		51	149	100	99	111	-3.5 (excess)
Precious metals		131	143	100	154	157	35.3
Diamonds		159	96	100	119	142	20.9
Crude oil		85	91	100	97	98	-6.0 (excess)
Principal agricultural exports		115	107	100	106	109	7.3
Coffee		111	106	100	105	108	5.9
Rubber		143	118	100	113	124	18.8
Unit value		124	113	100	106	117	11.7
Principal mineral exports		123	113	100	105	118	11.5
Copper		115	103	100	115	138	13.5
Cobalt		269	198	100	77	86	28.7
Zinc		65	107	100	111	119	-1.7 (excess)
Precious metals		179	110	100	132	133	28.2
Diamonds		86	100	100	105	102	-1.6 (excess)
Crude oil		104	118	100	92	92	0.8
Principal agricultural exports		128	115	100	111	115	13.4
Coffee		129	113	100	110	111	12.2
Rubber		125	128	100	121	141	22.2

a. Principal mineral exports

These exports, which accounted for 86 percent of Zaire's total exports in the shortfall year, comprise, in order of importance, copper, crude oil, cobalt, diamonds, zinc, and precious metals. More than 90 percent of copper, and all cobalt and zinc, are produced by the state's mining company. Générale des Carrières et des Mines du Zaire (GECAMINES), and are marketed by the state-owned mineral marketing agency, Société Zairoise de Commercialisation des Produits Miniers (SOZACOM). 1/

Except for crude oil and zinc, for which excesses were calculated, all of the individual products in this category recorded shortfalls.

(1) Copper

Copper accounts for about one half of Zaire's total export earnings and almost all of it is exported on the basis of contracts, generally made one year ahead. A significant portion of the copper produced by GECAMINES is shipped to Belgium for processing and sale by a Belgian mining company (SGM). About 6 percent of the total copper exports are produced by another mining concern, Société de Développement Industriel et Minier du Zaire (SODIMIZA), and are exported mainly to Japan.

Because of occasional difficulties in negotiating sales contracts, the annual movements of the volume of copper exports do not always correspond to changes in mine output. Thus, in 1981 exports of 441,000 tons were 7 percent lower than in 1980, and stocks increased by 62,000 tons to 73,000 tons. As export volume soared almost 25 percent to 542,000 tons in 1982, largely as a result of late finalization of contracts originally intended for 1981,

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1/ A significant portion of copper and cobalt, and, to a lesser extent, zinc, are exported in raw form to be refined in mining plants outside Zaire, mainly in Belgium, because of lack of refining capacity in Zaire. Thus "gross" export earnings (and, therefore, unit values) for these products have to be adjusted to take account of the costs associated with these "mixed sales." These costs are called F.M.M. (Frais de mise sur marché, or marketing costs) and include all expenses associated with prefinancing, transit, shipping, insurance, refining and reconditioning, reshipment, and commissions. The only information available on distribution of total F.M.M. charges among copper, cobalt, and zinc is a calculation related to calendar year 1982, which was made by GECAMINES in June 1983. These percentage distributions, which have been applied for the whole period used for compensatory financing calculations, i.e., the years ending March 1981-85, are as follows: copper 76.5 percent, cobalt 20.6 percent, and zinc 2.9 percent. Total F.M.M. charges for the shortfall year are estimated at SDR 143 million, compared with an average of SDR 176 million in the two pre-shortfall years and a projected average of SDR 110 million in the two post-shortfall years. The main reason for the projected decline in the F.M.M. charges is the reduction in interest payments on prefinancing, resulting mainly from the smaller proportion of copper stocked and refined abroad.

stocks declined sharply to 27,000 tons at the end of 1982. The export volume in the shortfall year corresponded closely to the volume exported in calendar year 1982; it amounted to 541,000 tons, compared with average exports of 466,000 tons for the two pre-shortfall years.

The unit value for Zaire's copper exports has moved broadly in line with the international price of copper. 1/ After reaching a high of 98 U.S. cents per pound in the year ended March 1980, the international copper price declined to 76 cents per pound in the year ended March 1982. In the first half of the shortfall year (April-September 1982) the price fell further, before recovering somewhat in the second half during the early stages of the world economic recovery. However, for the whole shortfall year ended March 1983, the international price, at 68 cents per pound, was 12 percent lower than the preceding year's level. Zaire's export unit values declined by 11 percent (in terms of SDRs) in the year ended March 1982 and by another 3 percent in the shortfall year. Nonetheless, as a result of the increase in the volume of exports, earnings in the shortfall year, at SDR 607 million, were 6 percent higher than the average of SDR 570 million for the two pre-shortfall years.

Given the emphasis on rehabilitation of capacity in the short term (as opposed to expansion in the medium term), GECAMINES' copper production in the calendar years 1983 and 1984 is projected to average 450,000 tons, somewhat lower than in 1981-82. Together with the projected production by SODIMIZA, Zaire's total copper production is expected to average 478,000 tons per annum for the calendar years 1983 and 1984. On this basis, the volume of exports in the two post-shortfall years is projected to average 488,000 tons, which is 10 percent lower than the volume exported in the shortfall year. Since March 1983 (i.e., the end of the shortfall year), the price of copper rose initially to 80 cents per pound in May 1983, but has declined substantially in subsequent months. For the first seven months of the post-shortfall period (i.e., April-October 1983), the price averaged 74 cents per pound, which is higher than the price in the shortfall year by 11 percent (13 percent in terms of SDRs); the price in October, however, fell to 65 cents per pound, the lowest monthly average recorded in a year. The major factor underlying the recent price decline has been an imbalance between world supply and demand for copper, as reflected in a rise in the volume of world stocks in recent months. Present indications suggest a likely correction of the imbalance in 1984, with growth in world consumption expected to exceed that of world production, as the recovery in consuming countries gathers momentum. For the whole of the first post-shortfall year, the price of copper is projected to average 71 cents per pound, about 5 percent higher than the price realized in the shortfall year. A more substantial recovery, to 84.5 cents, is projected for the

1/ The international price of copper is represented by the cash price of high grade copper on the London Metal Exchange (LME). Unit values correspond to "net" average prices, i.e., unit values calculated after deducting F.M.M. charges from export earnings. As indicated below, gross unit values of Zaire's copper exports move more closely in line with the international price of copper than net unit values.

second post-shortfall year. In line with these projections, the unit value of Zaire's copper exports in terms of SDRs is expected to increase by an average of 17 percent annually. 1/

On the basis of these volume and price projections, an average export value of SDR 692 million is estimated for the two post-shortfall years, compared with SDR 607 million in the shortfall year and an average of SDR 570 million in the pre-shortfall years. Consequently, a shortfall of SDR 17 million is calculated for copper in the year ended March 1983.

(2) Cobalt

Zaire is the largest producer and exporter of cobalt in the world, and cobalt accounted for about 8 percent of Zaire's total exports in the shortfall year. Since cobalt is a by-product of copper mining, the trend in cobalt production follows closely that for copper. Thus, the average cobalt production in 1983-84, projected at 10,000 tons, is expected to be slightly lower than the 1981-82 average production level.

The continued weak demand in the international market for cobalt since 1980 has resulted in sharp declines in export volumes. The average volume of exports in 1981 and 1982 amounted to less than 5,400 tons, representing a 22 percent decline from the 1980 level. This drop in exports, which exceeded the decline in production, resulted in some accumulation of

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1/ Gross unit values are projected to be the same as the LME prices. Because of the projected decline in the F.M.M. cost, the net unit values are expected to increase at substantially faster rates than the gross unit values. The table below compares the movement of "gross" and "net" unit values of Zaire's copper exports with the international copper price, in terms of both U.S. dollars and SDRs, for the years ending March 1981-85:

	Years Ending March				
	1981	1982	1983	1984	1985
International price					
US$/lb.	0.904	0.761	0.676	0.710	0.845
SDR/lb.	0.702	0.660	0.618	0.667	0.795
"Gross" unit value					
US$/lb.	0.917	0.746	0.658	0.710	0.845
SDR/lb.	0.713	0.647	0.602	0.667	0.795
"Net" unit value					
US$/lb.	0.755	0.603	0.557	0.625	0.747
SDR/lb.	0.587	0.523	0.509	0.587	0.703

stocks during calendar year 1982; 1/ however, the increase in stocks since 1981 has been relatively small compared with the substantial increases (more than doubling) experienced during 1979-81. Zaire's cobalt exports began to recover in 1982 in response to successive cuts in export prices; the volume of exports increased to 7,400 tons in the shortfall year ended March 1983, compared with an average of 5,300 tons in the two preceding years. Export unit values plummeted from the 1979-80 record level of nearly US$25 per pound to US$6.70 per pound in the shortfall year. Therefore, the value of exports fell from an average of SDR 164 million per year during the pre-shortfall years to SDR 100 million in the shortfall year.

As export prices are projected to remain low, the recovery in export volumes is expected to continue in the post-shortfall years; 6,800 tons were actually shipped in the first six months of 1983. This exceptionally high level of export volume in the first half of 1983 is accounted for by renewed foreign demand due to a number of factors: stocks in many consuming countries were being depleted; certain countries were willing to stockpile cobalt, especially in view of the prevailing low prices; substitutes for lower quality cobalt were becoming unprofitable; and Zambia was temporarily unable to export cobalt because of technical difficulties. For the two post-shortfall years the volume of cobalt exports by Zaire is projected to average 9,500 tons. 2/ On the basis of this volume projection, and of a price of US$5.3 per pound, the value of cobalt exports is expected to decline to an average of SDR 104 million in the two years ending March 1985. Taking these export movements into account, a shortfall of SDR 24 million is calculated for cobalt.

(3) Zinc

Zinc, which accounts for less than 3 percent of Zaire's total export earnings, recorded a small export excess of SDR 2 million in the year ended March 1983.

Production of zinc, which averaged 43,500 tons in 1979-80, increased to an average of 61,100 tons in 1981-82. Notwithstanding this increase in production, however, export volume dropped sharply in the year ended March 1981, due mainly to severe transportation problems. 3/ Thus, large stocks of zinc were accumulated in that year. As transportation difficulties eased in the following year, the volume of exports nearly doubled to 88,000 tons. In the shortfall year, export volume returned to a level

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1/ Data on cobalt stocks are available only for calendar years. By interpolation, stock data for the 12 months ended March 1983 are estimated at about 34,000 tons, compared with a norm level of about 35,000 tons.

2/ This amount includes sales of 1,814 tons to the U.S. General Services Administration at a price of US$5.5 per pound for delivery during the period October 1983 to September 1984.

3/ Zinc competes with copper for transportation facilities for export from Lubumbashi.

(58,500 tons) close to annual production. The movements of export unit values of Zaire's zinc have followed those of the international market; as the LME price declined to 32 cents per pound in the shortfall year, Zaire's unit values declined by 6 percent (in terms of SDRs), after reaching a high of 35 cents per pound in the preceding year. Earnings from zinc declined by 37 percent to SDR 36 million in the shortfall year.

An average export volume of 61,500 tons is projected for the two post-shortfall years. This projection of a 3 percent annual increase is partly based on a contract signed in April 1983 with the Motor Trading Co. of the United States for shipment of 60,000 tons over three years. Unit values are projected to increase by an average of 10 percent in the two post-shortfall years. Based on these volume and price movements, the value of Zaire's zinc exports is projected to average SDR 44 million in the two post-shortfall years, compared with an average of SDR 29 million in the three preceding years.

(4) Precious metals

Precious metals, consisting of gold and silver, 1/ accounted for a little over 2 percent (about one percent each) of Zaire's total exports in the shortfall year. The value of these exports, after dropping by one third in the year ended March 1982, declined by a further 36 percent in the shortfall year because of declines in both volumes and prices of gold and silver exports caused mainly by lower international demand. After increasing by 22 per cent in the year ended March 1982 as a result of improved extraction capacities, export volume of gold declined by more than 40 percent in the shortfall year due largely to low prices, which at some point were below the cost of production. Also, the smuggling of gold, mostly of hand-made jewelry (artisanal), may have been one of the causes of the decline in the volume of exports. In the year ended March 1982, the international price of silver declined by more than 40 percent, and that of gold by more than 25 percent. In the shortfall year, although international prices declined less sharply, the volume of silver exports declined by more than 10 percent due to the virtual exhaustion of the copper mines with high silver content ores.

Earnings from precious metals are projected to increase sharply in the post-shortfall period, mainly because of a large increase in gold exports. In order to discourage smuggling, the exchange rate for exports of artisanal gold (and diamonds) was freed in January 1983, and exporters of these products began receiving the local currency equivalent of their exports calculated at a substantially depreciated rate. This measure, which has been followed by a full-fledged exchange reform in September, is expected to encourage the recorded exports of gold, especially in artisanal form, and result in a large increase in the volume of gold

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1/ Gold is mined by three companies, Office des Mines d'Or de Kilo-Moto (Kilo-Moto), Société Minière et Industrielle du Kivu (SOMINKI), and GECAMINES, as well as by small-scale producers. Silver is mined by GECAMINES.

exports in the post-shortfall years. 1/ The volume of silver exports, however, is expected to decline further due to lower silver content in the ore recovered from copper mining.

Export unit value for gold is projected to increase substantially, partly because of the expected rise in the share of artisanal products, which command a higher price than raw gold. With the faster recovery in the international price of silver, the average unit value of silver exports is also expected to be higher in the two post-shortfall years than the level realized in the shortfall year. On the basis of these volume and price projections, average earnings from exports of precious metals in the two post-shortfall years are projected at SDR 60 million, still below the level in the year ended March 1981. A shortfall of SDR 21 million is calculated for precious metals.

(5) Diamonds 2/

Zaire is the world's leading exporter of industrial-grade diamonds, and diamonds accounted for 6 percent of Zaire's total exports in the year ended March 1983. As world demand for diamonds weakened considerably, Zaire's export volume of diamonds dropped by more than one third to 6.6 million carats in the year ended March 1982. A small increase to 6.8 million carats was recorded in the shortfall year. During this period (1981-83), the export unit value changed little, averaging US$12.5 per carat. After declining by 29 percent in the year ended March 1982, earnings increased somewhat (4 percent) in the shortfall year.

Following the exchange rate measures of January and September 1983, artisanal diamond exports through official channels are expected to expand rapidly. The small quantity (estimated at about a quarter of a million

1/ It is estimated that in the first half of 1983, 2,380 kg of gold (more than double the shortfall year volume) was exported for a total value of more than US$30 million.

2/ In April 1981, Zaire decided to break away from De Beers' Central Selling Organization (CSO), which had handled Zaire's diamond sales for about 15 years. The decision was aimed at getting better prices for its diamonds by making its own marketing arrangements. For nearly two years, the country's diamond sales were handled by independent British and Belgian companies. However, on March 7, 1983, SOZACOM announced that, with immediate effect, a two-year contract had been signed with the CSO, giving the latter exclusive rights to handle the sale of rough diamonds from Zaire's state-owned mines. One reason for this return to CSO is believed to be the fact that the CSO claims to offer better price stability than independents--and stability is important in planning mine production. Another reason is believed to be the CSO's success in securing the marketing rights for the bulk of diamond production from the new Argyle diamond field in western Australia. Argyle's diamonds are of a type similar to those of Zaire, and full production is expected to be reached in three years when production is projected to amount to a huge annual rate of 25 million carats. Thus, the additional competition from Australia would have made Zaire's independent marketing attempt difficult.

carats in 1983) of artisanal diamonds marketed by SOZACOM is of a very high quality, selling at about US$75 per carat. Non-SOZACOM artisanal exports (estimated at about 3 million carats in 1983) sell at a unit price of about US$15 per carat. The rest of the diamonds (estimated at about 5 million carats in 1983) are exported in uncut form by MIBA at an average price of US$8.5 per carat. Thus, total diamond export volume is projected to increase to 8.2 million carats in the first post-shortfall year and to 9.7 million carats in the year ending March 1985, and earnings are expected to average SDR 103 million in the two post-shortfall years. These export movements result in a shortfall of SDR 15 million.

(6) Crude oil

An export excess of SDR 14 million is calculated for crude oil, which accounted for 19 percent of total exports in the shortfall year. Crude oil production in Zaire has expanded since 1975, despite technical problems that have sometimes disrupted operations. Production is carried out by a consortium led by Zaire Gulf Oil and Zaire Pétrole (ZAIREP); the latter started operations in May 1979. All of Zaire's crude oil production is exported. Export volume increased from an average of 7.5 million barrels per year in the two pre-shortfall years to about 8.5 million barrels in the shortfall year. Despite this increase in volume, earnings declined from SDR 266 million in the year ended March 1982 to SDR 248 million in the shortfall year, because of a fall in unit value in line with lower international prices. Reflecting continued weakness of foreign demand, as well as less productive wells in Zaire, a marginal decline in the volume of exports to an average of 8.3 million barrels per year is projected for the two post-shortfall years. The export unit value, which moves in line with the spot market price for Saudi Arabian light crude, is projected to remain constant at the latter's low level of US$28.60 per barrel reached in March 1983. These projections result in an average export value of SDR 221 million in the two post-shortfall years.

b. Principal agricultural exports

The two major agricultural commodities, coffee and rubber, together accounted for 8 percent of Zaire's total exports in the shortfall year, and recorded a combined shortfall of SDR 23 million.

(1) Coffee

Zaire produces mostly robusta coffee, but also some arabica, and coffee exports account for 7 percent of total exports. As an exporting member of the International Coffee Agreement (ICA), Zaire is subject to annual (October/September) export quotas introduced under the Agreement in October 1980. So far, Zaire's quotas have been set as follows: 61,700 tons for 1980/81, 66,900 tons for 1981/82, and 66,100 for 1982/83. Despite the slight increase in average export quotas for the last two coffee years (1981/82 and 1982/83), the volume of coffee exports has declined from an average of 72,600 tons in the two pre-shortfall years to a level of 66,800 tons in the shortfall year, which is consistent with the country's export possibilities to quota markets. Zaire's exports to nonquota markets have apparently declined significantly, owing to intense competition in these markets; internal transportation difficulties and the existence of some illicit exports may also have adversely affected export volumes. These developments, plus a fall in export unit prices from an average of 95 cents per pound in the two pre-shortfall years to 70 cents per pound in the shortfall year, caused a decline in the value of coffee exports from an average of SDR 123 million in the two pre-shortfall years to SDR 94 million in the shortfall year.

ICA export quotas in the post-shortfall period are not expected to be much different from those in the current year, but, as more coffee is expected to be exported to nonquota markets in the post-shortfall period, an average increase of 4 percent in volume is projected. Furthermore, as excess world supply is expected to be reduced somewhat due to lower production in several countries, coffee prices recovered somewhat in the closing months of the shortfall year and have remained at the same level in the first six months of the post-shortfall period. Prices are projected to increase at an average rate of 7 percent per year in the next two years. These projections imply an average coffee export value of SDR 111 million in the two post-shortfall years. On the basis of these movements in export earnings, a shortfall of SDR 18 million is calculated for coffee in the year ended March 1983.

(2) Rubber

Natural rubber accounted for less than 1 per cent of Zaire's total exports in the shortfall year, and incurred a small shortfall (SDR 5 million) on account of both volumes and prices. The volume of exports declined from an average of 18,700 tons in the two pre-shortfall years to 14,300 tons in the shortfall year owing to lower international prices, which amounted to 39 cents per pound in the shortfall year compared with an average of 54 cents per pound in the preceding two years. As a result of a recovery in demand that began in early 1983 and is expected to continue, both export volumes and prices are projected to increase in the two post-shortfall years: volume at an average rate of 12 percent and price at 19 percent. Despite the projected increase in volume, average export volume in the two post-shortfall years, at 17,000 tons, will still be lower than during the pre-shortfall period. Based on these volume and price projections, the value of exports is expected to average SDR 16 million during the post-shortfall period.

c. "Other" exports

This category, which accounted for 6 percent of the total value of Zaire's exports in the shortfall year, consists of a number of relatively minor minerals, such as cadmium, tin, and tungsten; a variety of agricultural products, such as cocoa, palm and palm oil, tea, and wood; and several manufactured products, such as cement. The shortfall calculated for this category of exports amounted to SDR 15 million, or 10 percent of the total export shortfall.

The value of these exports, which averaged SDR 100 million in the two pre-shortfall years, declined by 20 percent to SDR 80 million in the shortfall year. The decline in the case of most agricultural products was largely on account of reduced volume due to smaller output resulting from adverse weather conditions, as well as transportation difficulties; but in the case of most minerals, it reflected price declines resulting from weak market conditions. In the case of manufactured products, the overvalued exchange rate may have contributed to the adverse movements of exports. Export earnings are projected to recover at an annual rate of 15 percent to an average value of SDR 98 million in the two post-shortfall years, because of expected price improvements as well as the effects of the recent exchange measures.

4. Staff appraisal and proposed decision

The Zairian authorities are expected to request a purchase of SDR 114.5 million, equivalent to 50.2 percent of quota (39.3 percent of new quota), under the compensatory financing facility in respect of a shortfall in export earnings of a similar amount experienced during the year ended March 1983. The proposed purchase would raise Zaire's outstanding purchases under the facility to 97.1 percent of quota (76.1 percent of new quota).

Zaire's balance of payments has been under great pressure in recent years, due to weak world market conditions and lower prices for the country's major exports, large scheduled debt service payments, and declining public capital inflows, as well as weaknesses in domestic demand management. The current account, after registering a small surplus in 1979, turned into a deficit of SDR 116 million in 1980. The deficit widened to an average of SDR 350 million in 1981-82, largely because of a smaller trade surplus. As the capital account also deteriorated, Zaire incurred overall balance of payments deficits of the order of SDR 600 million in 1981 and in 1982, entailing a substantial accumulation of arrears. In 1983 the current account deficit is expected to decline to SDR 240 million, mainly as a result of a larger trade surplus due to a moderate increase in export earnings and a virtual stagnation of imports; but net public capital outflow is estimated to increase markedly to SDR 212 million. Consequently, an overall balance of payments deficit of SDR 452 million is projected for 1983. This deficit is expected to be financed through debt rescheduling arrangements and use of Fund resources. The staff considers that, as Zaire's payments position continues to be very difficult, its balance of payments need justifies the proposed purchase.

The authorities have adopted a comprehensive adjustment program in support of which they are requesting a 15-month stand-by arrangement. In view of this, the staff considers that the cooperation requirement for the proposed compensatory financing purchase will be met when the stand-by arrangement, which is expected to be discussed concurrently with the compensatory financing request, becomes effective. The proposed request for a compensatory financing purchase is expected to include a statement that Zaire will cooperate with the Fund in efforts to find appropriate solutions to its balance of payments difficulties.

Total export earnings in the shortfall year, at SDR 1,281 million, were about 9 percent below the average earnings of SDR 1,402 million for the two preceding years. In the two post-shortfall years, earnings are projected to recover at an annual rate of 9 percent to an average level of SDR 1,450 million. On the basis of these export movements, the shortfall for the year ended March 1983 is calculated at SDR 114.5 million.

Large shortfalls were incurred by cobalt (SDR 24 million), precious metals, consisting of gold and silver (SDR 21 million), coffee (SDR 18 million), copper (SDR 17 million), "other" exports, including minor minerals and agricultural and manufactured products (SDR 15 million), and diamonds (SDR 14 million). A smaller shortfall was calculated for rubber (SDR 5 million), while export excesses of SDR 14 million and SDR 2 million were recorded for crude oil and zinc, respectively.

The earnings shortfalls for copper and cobalt were attributable entirely to price developments caused by weak international demand. Zaire's policy to gradually reduce the price of cobalt led to an increase of shipments, but the resulting volume excess was not sufficient to offset the price shortfall. Both price and volume factors were responsible for the shortfalls in export earnings from precious metals, coffee, rubber, and "other" exports, while the shortfall for diamonds was entirely on account of lower volume.

On an aggregate basis, the shortfall in earnings of commodities representing 94 percent of Zaire's exports was accounted for by instability in export unit values. The aggregate volume in the shortfall year increased by 9 percent; the vital mineral sector (86 percent of total exports) rose by 11 percent. Weak market conditions were largely responsible for the fall in export prices and the related shortfall in aggregate earnings. Export developments for some commodities, however, were probably affected by an overvalued exchange rate, a condition which encouraged the smuggling of such commodities as precious metals and diamonds. On balance, the staff believes that exogenous factors were mainly responsible for the export shortfall and, consequently, that the shortfall is attributable to factors largely beyond the member's control. The staff also considers that the shortfall is temporary in character, as demonstrated by a projected recovery in exports during the post-shortfall period.

The staff believes that the expected request will meet all the requirements set forth in the compensatory financing decision when the stand-by arrangement for Zaire becomes effective. Accordingly, the following draft decision is proposed for adoption by the Executive Board after a duly authenticated request has been received:

1. The Fund has received a request by the Government of Zaire for a purchase of SDR 114.5 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representation of Zaire and approves the purchase in accordance with the request, as of the date on which the stand-by arrangement set forth in EBS/83/260 becomes effective.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Zaire--Relations with the Fund
(As of October 31, 1983)

Date of membership:	September 28, 1963.
Status:	Article XIV.
Present quota:	SDR 228 million.
Proposed quota:	SDR 291 million.
Exchange rate:	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:	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:	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 Central Banking Department experts, including a Principal Manager, are currently serving in the Bank of Zaire.
Exchange system:	In addition to accumulating external payments arrears since 1981, Zaire has maintained a number of restrictions on payments and transfers for current international transactions that have been subject to Fund approval under Article VIII. A major reform of the exchange rate system and abolition of several exchange restrictions became effective on September 12, 1983.

However, Zaire continues to maintain certain restrictions on payments for invisibles and external payments arrears. Zaire also maintains bilateral payments agreements with two Fund members, Burundi and Rwanda. Although the previous multiple currency practices were abolished, a new multiple currency practice has resulted from the introduction of a temporary dual exchange rate arrangement. The staff is recommending the approval of this practice until the completion of the first review of the stand-by arrangement. It is also recommending approval of the existing exchange restrictions, including external payments arrears, until December 1984, or the completion of the 1984 Article IV consultation, whichever is earlier.

Recent staff contacts: Staff teams visited Zaire in May-June 1982, December 1982, and November 1983. The 1983 Article IV consultation discussions were initiated in May 1983 in Kinshasa and continued in July 1983; they were concluded in Washington in August 1983.