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**FOR
AGENDA**

EBS/84/72
Correction 1

CONFIDENTIAL

April 25, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Zaïre - Staff Report for Review Under the Stand-By Arrangement
and Exchange Measures

The following correction has been made in EBS/84/72 (4/2/84):

Page 18, penultimate line: for "system to the Government at end-March"
read "system at end-March"

A corrected page is attached.

Att: (1)

measures, namely: containing the budget deficit in order to limit bank financing to the original target of Z 2,600 million for 1984 in spite of several adverse developments, strengthening customs control with technical assistance from the European Communities, reducing the expansion of credit to the private sector from its original target, establishing a money market by issuing short-term Treasury bills with sufficiently remunerative interest rates, and improving the functioning of the interbank foreign exchange market. In order to keep an equilibrium between the demand for and the supply of foreign exchange, there must exist a remuneration for domestic currency holdings corresponding to a positive real interest rate.

The 1984 government budget is tight because any higher bank financing of the budget deficit than is programmed would have further exacerbated inflationary pressures and the depreciation of the zaire. The foreign exchange budget of the Bank of Zaire is also very tight and the cost of servicing the foreign debt remains high even after rescheduling, budgetary expenditures on the external debt being almost twice as large as the public wage bill. However, restoring Zaire's international credit standing through regular debt service payments is essential for its future development and the securing of additional financial assistance to finance the balance of payments gaps projected for the years ahead. In the meantime, the staff proposes that the Fund approve the restrictions on payments and transfers for current international transactions evidenced by the existence of payments arrears on external debt.

The staff believes that the adjustment policies and measures contained in the program for 1984 represent further major efforts at improving Zaire's economic and financial situation. However, the forthcoming months will be difficult ones and hence will demand maximum vigilance by the authorities to prevent slippages. The recent measures taken by the Executive Council are in the right direction, and deserve Fund support, but their implementation needs to be monitored very closely. The proposed additional review should therefore provide the possibility of an early detection of difficulties that may arise, and permit timely corrective action thereby enhancing the chances of success of the program. The staff also believes that the request for a waiver of the ceiling on net domestic assets of the banking system and of the subceiling on net credit to Government, for the end of December 1983, would be justified. The increase in these monetary aggregates during 1983 is consistent with the ceilings and subceilings of the program; the excess in the stock values of these aggregates is due to an upward revision of the base resulting from a reclassification of the items contained in the monetary survey.

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

A. Stand-By Arrangement

1. Zaire has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Zaire (EBS/83/257, Supplement 2, December 22, 1983), and the letter of the President of Zaire dated September 12, 1983 with annexed memorandum, attached to the stand-by arrangement, in order to reach understandings subject to which Zaire may make further purchases under the stand-by arrangement. Zaire has also requested the Fund to waive observance of the performance criteria in paragraph 4(a)(iv) and (v) of the stand-by arrangement for end-December 1983.

2. The letter of the President of Zaire dated March 26, 1984, together with Table 1, shall be attached to the stand-by arrangement for Zaire and the letter of September 12, 1983 with annexed memorandum shall be read as supplemented by the letter of March 26, 1984, and Table 1.

3. The Fund grants the waiver requested by Zaire.

4. Zaire will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Zaire's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12 1/2 per cent of quota

(a) during any period in which

(i) the ceilings on net domestic assets of the banking system at end-March and end-June 1984; or