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The Acting Chairman's Summing Up at the Conclusion
of the 1983 Article IV Consultation with Zaïre
Executive Board Meeting 83/175 - December 16, 1983

Directors recalled that, despite its large and diversified resource base, Zaïre had faced very serious economic and financial difficulties almost continuously since 1975. The economy had generally stagnated, the rate of inflation had been very high, the balance of payments had been under great pressure, the servicing of the external debt had been a major problem, and substantial payments arrears had accumulated. Almost all Directors observed that the major internal and external imbalances were largely due to a long period of inadequate economic and financial management. In that context, they emphasized Zaïre's poor track record in most of its Fund-supported adjustment programs. Zaïre's difficulties, however, were compounded by structural problems, and were also due in part to factors beyond the control of the authorities, particularly a marked deterioration in world market prices of the country's principal exports, notably copper.

Directors noted that in 1981 and 1982 the authorities' efforts to come to grips with the country's acute problems had not been sufficiently vigorous or sustained. Thus, the overall economic and financial situation had greatly deteriorated. A major area of domestic policy weakness was inadequate control over government expenditure, including the operations of public enterprises, which had led to a marked widening of the budgetary deficit, thereby compromising the actions taken in the exchange rate field and other areas.

In view of this experience, Directors welcomed the authorities' resolve in early 1983 to bring the budget under control by limiting government outlays, strengthening tax enforcement, and, more generally, improving financial management. They noted the budget results achieved so far, which had helped contain net government borrowing from the banking system. The commitment to reduce the budget deficit from the equivalent of 8.7 percent of GDP in 1982 to 1.9 percent in 1983 was a strong indication of the magnitude of the adjustment effort which the authorities should pursue in a steadfast manner and continue into the future. Directors also noted the progress made in improving the allocation of resources by continuing the process of domestic price liberalization and by rationalizing the operations of GECAMINES and SOZACOM.

Directors stressed, however, that much stronger and more sustained adjustment efforts would be required to bring about a fundamental improvement in Zaïre's overall economic and financial situation and, especially, to achieve a viable balance of payments position over the medium term.

Accordingly, they felt that the adoption of a comprehensive program of adjustment for the period October 1983-December 1984 was an important step in the right direction. Directors welcomed and stressed the importance of the far-reaching price and exchange rate reform initiated by the authorities, coupled with the substantial liberalization of the exchange and trade system, as well as with appropriate fiscal and monetary policies. The exchange rate reform, involving a large initial devaluation of the zaïre which brought the rate to a realistic level and the implementation of a floating exchange rate regime based on an interbank foreign exchange market, was considered appropriate in Zaïre's circumstances; and it was hoped that it would ensure permanent responsiveness of the exchange rate to market forces. In this context, Directors pointed to the adoption of a temporary dual exchange rate arrangement and emphasized the importance of strict adherence to the timetable for a unification of the rates. However, some Directors were not convinced that wage policy, particularly with regard to public enterprises and the private sector, was adequately tight. They and others also called for decisive measures to improve the operations and financial viability of the public enterprises, as well as for further reductions in budgetary subsidies. Moreover, while monetary policy appeared appropriate, the authorities were encouraged to assure positive real interest rates.

Directors emphasized that the most recent policies and measures, though difficult and painful, needed to be vigorously applied if the adjustment program is to succeed. In this regard, it was critical for the authorities not only to maintain but also to strengthen the present stance of policy, and to continue to improve the allocation of resources. Furthermore, given the scope of the liberalization effort, the private sector now had greater opportunities for contributing to the revival of the economy. The increased realism of the 1983-85 public investment program was welcomed.

In approving Zaïre's request for a stand-by arrangement, Directors stressed the need for the authorities to fully restore the credibility of their economic and financial management. In that regard, the performance of Zaïre under the "shadow" program was encouraging. Directors attached great importance to Zaïre's commitment to take any further measures that may be necessary to achieve the objectives of the program, and they intended to follow developments closely on the occasion of the reviews of the stand-by arrangement. Close monitoring mechanisms were stressed in this connection. A few Directors were unable to give their support to the policy program underlying the request for a stand-by arrangement, citing their doubts about wage policy, public enterprises, and the problems regarding arrears and the balance of payments gaps. Moreover, a number of comments were made about the amount of access to Fund resources in this case, ranging from the view that access is too large and front-loaded to those who felt that access could well have been larger.

Despite the extent of the authorities' adjustment program, Directors observed that sizable financing gaps remained for both 1983 and 1984, reflecting the heavy external debt service burden. Zaïre's external

debt situation was clearly serious, and several Directors stressed that a major collaborative effort by the creditors would be needed in order to obtain appropriate rescheduling arrangements that would close the projected gaps, thereby ensuring the viability of the program. Directors attached great importance to strict compliance by Zaïre with the external debt obligations stemming from these and other arrangements on a strictly nondiscriminatory basis.

Directors regretted that there had been a long delay since the last Article IV consultation with Zaïre, and emphasized the importance of holding the next consultation with Zaïre on the standard 12-month cycle.