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EBS/92/177
Correction 1

CONFIDENTIAL

November 11, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Zaire - Overdue Financial Obligations to the Fund -
Further Review Following Declaration of Ineligibility

The following corrections have been made in EBS/92/177 (11/9/92):

Page 3, para. 3, line 2: for "Z 21,700,000" read "Z 1,700,000"

Page 14, Table 1: Revised.

Page 15, Table 1 (concluded), Footnote 9/, last sentence: Added.

Page 16, Table 2: Revised.

A number of changes to Tables 1 and 2 (pages 14 and 16, respectively) have been made reflecting more recently available data.

Corrected pages are attached.

Att: (4)

Other Distribution:
Department Heads

The economic and financial situation in Zaïre has continued to deteriorate throughout the year, with the economy still caught in a vicious spiral of hyperinflation and currency depreciation. The situation has recently been complicated further by the uncertainties surrounding the government transition process, and the resulting social and political tensions. Economic activity continues at a very low level, with real GDP projected to decline by some 8 percent in 1992, following drops of 7 percent and 2 percent in 1991 and 1990, respectively. The output tailspin has been led by falls in the production of copper, the output of which fell in 1991 to 259,000 tons, more than 50 percent below its normal level. In 1992, it is expected that copper production will not exceed 150,000 tons because of social and political problems concentrated in the producing region and transport bottlenecks, as well as financial difficulties of the state-owned mining company, GECAMINES.

The root cause of Zaïre's economic and financial problems has been the persistently poor economic management, and in particular the sustained fiscal shock administered to the economy by uncontrolled spending (see Chart 1 in the Appendix, which illustrates developments in the central government account). In 1992, compensation levels were de facto frozen until the end of the third quarter, when threefold wage increases were announced. Total government expenditure continued to rise in real terms, boosted in part by the cost of replacing equipment destroyed during the 1991 riots, but also reflecting outlays of the Presidency. Real revenue continued to shrink, reflecting the declining activity in the formal sector, the absence of a budgetary contribution from GECAMINES, and general erosion of the tax base. By the third quarter of 1992, revenue had fallen to below the equivalent of 10 percent of expenditure. The treasury deficit has been financed by money creation. During the first seven months of 1992, the money stock rose by some 940 percent; this was followed by a major surge in the following two months, bringing the increase through September 1992 to 2,360 percent. The inflation rate, which averaged 33 percent per month through August 1992, has varied sharply from month to month, reflecting in part periodic shortages of currency notes. In these circumstances, the Zaïrian currency, which has been de facto floating, continued its steep slide on the interbank foreign exchange market.

The official exchange rate, quoted weekly, moved from about Z 63,670 per US\$1 at end-1991 to Z 950,000 by end-September 1992, and to Z 1,700,000 at end-October 1992. An active parallel market has re-emerged; the parallel market rate, driven in part by speculative pressures, reached as much as Z 1,800,000 per US\$1 in late September, but returned close to the official rate in early October. Moreover, a weakening of commercial bank intermediation has been accentuated by bilateral exchange deals between major market participants. Private sector transactions reported through the commercial banks suggest steep declines in exports as well as imports, measured in SDR terms, and the exchange market has been growing thin and more susceptible to speculative attacks.

In this environment, and given the sharp drop in foreign exchange proceeds surrendered by GECAMINES, the foreign exchange receipts of the Bank

of Zaïre remained at a very low level, totaling US\$ 215 million through September 1992, compared with US\$ 404 million and US\$ 570 million during the same periods in 1991 and 1990, respectively. A major portion of this amount (US\$ 94 million) was absorbed by Government nondebt expenditure, and US\$ 36 million by the importation of new zaïre banknotes; only US\$ 37 million was sold to the commercial banks, essentially to cover the oil import bill. External debt service payments made by the Bank of Zaïre on behalf of the Government amounted to an additional US\$ 29.1 million, of which approximately US\$ 11.8 million was paid to the Fund and US\$ 8.9 million to other multilateral creditors. ^{1/} Zaïre continued to accumulate arrears to virtually all its creditors throughout the nine-month period, to an estimated level of US\$ 3.37 billion at end-September, US\$ 161 million of which amount was owed to multilateral creditors other than the Fund (Appendix Table 2).

The new Administration has been attempting to bring the budgetary situation under control. The staff discussed with the authorities the measures needed as a first emergency action to halt the inflation-depreciation spiral, to be followed by a program designed to relaunch the economy and set it on the course for recovery. The authorities were studying the staff's proposals, for implementation as soon as possible, and in the context of the 1993 budget. A number of administrative measures have been taken since September 1992, aimed at strengthening expenditure control and restoring fiscal orthodoxy. These include centralization of the authority to approve expenditure commitments and prior authorization of all payments to be made by the central bank on behalf of the Government. At the same time, the Treasury monetary financing plan has been tightened; the daily average recourse to such financing was reduced from Z 5.6 trillion in August 1992 to Z 1.5 trillion in October.

The Zaïrian delegation that visited headquarters for the Spring 1992 meetings of the Interim Committee indicated the authorities' intent to make regular payments to the Fund by using 20 percent of the foreign exchange resources surrendered by the state-owned mining company, GECAMINES, to the Bank of Zaïre under a statutory quota requirement. Since then and through November 3, 1992, Zaïre has made payments of SDR 10.1 million, which fall somewhat short of meeting this target and have not been sufficient to prevent a further accumulation of arrears.

For the fourth quarter of the year, the authorities expect foreign exchange receipts to amount to some US\$ 52 million, US\$ 33 million of which will represent GECAMINES revenue. If the authorities were to make payments in accordance with the formula described above, only some US\$ 6.6 million (about SDR 4.5 million) would be paid to the Fund, compared to new obligations of SDR 16.4 million falling due during that period. Thus, arrears to the Fund are likely to continue to accumulate in the absence of significantly increased payments in the near future.

^{1/} In SDR terms, payments to the Fund by Zaïre in 1992 through the end of September were SDR 8,338,379.

Measures for Prevention/Deterrence of Overdue Financial
Obligations to the Fund - Strengthened Timetable of Procedures (concluded)

Time after
Emergence of Arrears

Action

6-12 months

The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. It is proposed that, depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility be considered to take effect not more than twelve months after the emergence of arrears. It is proposed that the sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund could be considered at the same time as the declaration of ineligibility.

Up to 15 months

It is proposed that a declaration of noncooperation be considered within three months after the dispatch of the communications.

Up to 18 months

In case an amendment of the Articles would be adopted, it is proposed that a decision on suspension of voting and representation rights be considered within three months after the declaration of noncooperation.

Up to 24 months

It is proposed that the procedures on compulsory withdrawal be initiated within six months after the decision on suspension (in case an amendment of the Articles would be adopted) or nine months after the declaration of noncooperation.

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Table 1: Zaire: Payments Indicators, 1989 - 1992

	1989	1990 Est.	1991 Est.	1992 (Jan.-Sep.) Prel.
(in millions of SDRs)				
1. Payments to the Fund				
a. Obligations falling due to the Fund	212.5	175.5	105.4	43.1
b. Payments made to the Fund	312.8	147.6	50.3	8.3
c. Burden sharing refunds	---	---	1.0	0.8
d. Arrears to the Fund <u>1/</u>	---	27.9	81.9	115.8
2. Foreign exchange receipts				
a. Exports of goods	1717.0	1576.0	1205.7	784.9
b. Current account receipts <u>2/</u>	2061.0	1862.5	1426.1	882.4
3. Foreign exchange obligations and use				
a. Imports of goods	1563.0	1350.2	956.4	429.6
b. Debt service payments due <u>3/ 4/ 5/ 6/</u>	401.5	613.5	1008.8	766.2
c. Debt service payments made <u>5/ 6/ 7/</u>	437.6	220.2	99.6	22.3
d. Total foreign exchange expenditures <u>8/</u>	2494.6	2100.3	1356.2	599.7
4. Gross international reserves <u>1/ 9/</u>	265.3	180.1	161.0	144.3
5. Total external debt arrears <u>1/</u>	323.6	675.6	1568.1	2301.2
6. Obligations falling due to the Fund, as percent of:		(in percent)		
a. Exports of goods	12.4	11.1	8.7	5.5
b. Current account receipts <u>2/</u>	10.3	9.4	7.4	4.9
c. Imports of goods	13.6	13.0	11.0	10.0
d. Debt service payments due <u>3/ 4/ 5/ 6/</u>	52.9	28.6	10.4	5.6
e. Debt service payments made <u>5/ 6/ 7/</u>	48.6	79.7	105.8	193.3
f. Total foreign exchange expenditures <u>8/</u>	8.5	8.4	7.8	7.2
g. Gross international reserves <u>1/ 9/</u>	80.1	97.5	65.5	29.9
7. Payments made to the Fund as percent of:				
a. Exports of goods	18.2	9.4	4.2	1.1
b. Current account receipts <u>2/</u>	15.2	7.9	3.5	0.9
c. Imports of goods	20.0	10.9	5.3	1.9
d. Debt service payments due <u>3/ 4/ 5/ 6/</u>	77.9	24.1	5.0	1.1
e. Debt service payments made <u>5/ 6/ 7/</u>	71.5	67.0	50.5	37.2
f. Total foreign exchange expenditures <u>8/</u>	12.5	7.0	3.7	1.4
g. Gross international reserves <u>1/ 9/</u>	117.9	82.0	31.2	5.8
h. Obligations falling due to the Fund	147.2	84.1	47.7	19.3

Table 1 (concluded): Zaire: Payments Indicators; 1989 - 1992

	1989	1990 Est.	1991 Est.	1992 (Jan.-Sep.) Prel.
8. Arrears to the Fund as percent of:				
a. Exports of goods	---	1.8	6.8	14.8
b. Current account receipts <u>2/</u>	---	1.5	5.7	13.1
c. Imports of goods	---	2.1	8.6	27.0
d. Debt service payments due <u>3/</u> <u>4/</u> <u>5/</u> <u>6/</u>	---	4.5	8.1	15.1
e. Debt service payments made <u>5/</u> <u>6/</u> <u>7/</u>	---	12.7	82.2	519.3
f. Total foreign exchange expenditures <u>8/</u>	---	1.3	6.0	19.3
g. Gross international reserves <u>1/</u> <u>9/</u>	---	15.5	50.9	80.2
h. Total external debt arrears <u>1/</u>	---	4.1	5.2	5.0

Sources: Bank of Zaire; OGEDEP; and staff estimates.

1/ End of period.

2/ Including official transfers.

3/ Including payments due to the Fund.

4/ After rescheduling and cancellation, but excluding arrears.

5/ Payments on Gecamines Trust debt and IFC debt are not included.

6/ Excludes payments on central bank debt.

7/ Including payments made to the Fund and repayment of arrears.

8/ Cash payments.

9/ Including gold holdings, and reserves in the special Paris Club debt service account at the Federal Reserve Bank of New York. The stock reported here for 1992 refers to end-August.

Table 2: Zaire: External Debt Service Payments and Arrears, 1989 - 1992

(In millions of US\$)

	1989	1990 Est.	1991 (Jan-June) Est.	1991 Est.	1992 (Jan-June) Est.	1992 (Jul-Sep) Est.
I. Payments due <u>1/ 2/</u>						
Total	<u>1238.1</u>	<u>1306.1</u>	<u>713.9</u>	<u>1377.8</u>	<u>716.5</u>	<u>363.4</u>
Fund	255.9	233.5	85.6	144.1	44.2	16.4
Multilateral institutions	66.7	78.2	42.3	84.4	48.5	39.5
London Club	104.5	70.6	15.0	30.1	13.5	6.9
Paris Club	755.1	884.7	550.5	1078.8	596.5	294.7
Kinshasa Club	55.9	39.1	19.2	40.4	13.8	5.9
II. Payments made <u>2/ 3/</u>						
Total	<u>560.9</u>	<u>298.7</u>	<u>102.5</u>	<u>135.3</u>	<u>18.4</u>	<u>10.7</u>
Fund	384.7	195.6	64.1	68.8	7.1	4.7
Multilateral institutions	65.7	62.6	12.5	24.0	5.5	3.4
London Club	24.1	4.0	0.0	0.0	0.0	0.0
Paris Club	52.0	10.7	10.3	14.2	0.0	0.5
Kinshasa Club	34.4	25.8	15.6	28.3	5.8	2.1
III. Arrears <u>4/</u>						
Total	<u>425.3</u>	<u>961.2</u>	<u>1490.2</u>	<u>2243.0</u>	<u>2959.6</u>	<u>3389.2</u>
Fund	---	39.7	57.2	117.2	154.5	170.6
Multilateral institutions	1.1	17.5	44.1	79.8	121.1	162.2
London Club	402.2	468.5	490.7	509.1	522.6	529.5
Paris Club	---	417.3	876.4	1505.9	2121.3	2482.0
Kinshasa Club	22.0	18.2	21.8	31.0	40.1	44.9

Sources: Bank of Zaire; OGEDEP; and staff estimates.

1/ Before rescheduling and cancellation.

2/ Amounts do not include payments on Gecamines Trust debt, IFC debt and central bank debt.

3/ Including repayment of arrears.

4/ Stock of arrears at end of period after rescheduling and cancellation.