

SUR/87/50

CONFIDENTIAL

May 27, 1987

The Chairman's Summing Up at the Conclusion of  
the 1987 Article IV Consultation with Zaïre  
Executive Board Meeting 87/74 - May 15, 1987

Directors were in broad agreement with the views expressed in the staff appraisal of the report on the 1987 Article IV consultation with Zaïre. Directors noted that the sharp deterioration in Zaïre's external terms of trade in 1986 had led to a very tight foreign exchange situation. Directors expressed regret that the authorities had not implemented adjustment measures in a timely manner to compensate for the decline in government revenue in 1986 and that the fiscal situation had been further exacerbated by large overruns in expenditures on wages and goods and services. While noting the impact of external factors on fiscal performance, Directors expressed concern about the relaxation in fiscal discipline that had led to a sharp monetary expansion, resulting in additional pressures on the exchange rate, the virtual depletion of official reserves, and a sharp acceleration of inflation in the first months of 1987.

Directors stressed that the difficulties encountered in 1986 had illustrated the persistent weaknesses of the Zaïrian economy. They welcomed the renewed commitment by the authorities to pursue appropriate financial and structural adjustment policies for 1987 and until the end of the decade. A strong and flexible implementation of policies would be essential to achieve the required restructuring of the economy toward a diversification of the export base and efficient import substitution. Directors emphasized the crucial role of demand management in the adjustment process and stressed the urgent need to improve the efficiency of public sector resource management in order to provide the private sector with the resources to effect the structural redeployment of the productive sectors of the economy.

While welcoming the authorities' decision to embark on a three-year adjustment program, many Directors expressed regret that the program did not contain more ambitious objectives compatible with promotion of adjustment and growth in the Zaïrian economy. Several Directors stressed that the magnitude of the imbalances and the deep-seated nature of the structural weaknesses required a bolder adjustment approach on the part of the authorities and that the present gradualist policies were inadequate. By way of example, the civil service and the public enterprises were singled out among the major weaknesses in the position of the public sector, and the lack of precision and timing of reform measures in these areas was deplored. The fiscal targets were seen by many Directors as too weak. In 1987, Directors insisted, resolute and sustained actions would be required to mobilize the programmed level of budgetary revenue and to keep expenditures within the program limits. In particular, they urged the authorities to keep the wage bill under control to avoid

slippages as in the past. It was also considered important to ensure an adequate level of budgetary support of the public investment program. Directors expressed concern about the underlying fiscal trend in light of the strong reliance on taxes on international trade, the weak prospects for exports, and the experience of the past. They underscored the need for a durable strengthening of fiscal performance and encouraged the authorities to step up their reform program regarding the broadening of the tax base, the strengthening of the tax administration, and enforcement of expenditure programming and controls. Directors also expressed the view that tight monetary policies would be needed in 1987 to reduce inflation and that the credit program be strictly implemented to avoid a crowding out of the private sector.

Directors welcomed the authorities' emphasis on the development of private sector activities. They stressed the importance of pursuing stable policies designed to encourage private investment and capital inflows or reflows, to provide the private sector with an increasing share of domestic credit, and to ensure the efficient allocation of resources by maintaining liberal exchange rate and pricing policies. Indeed, the Directors welcomed the fact that liberal exchange rate and pricing policies had been continuously maintained in spite of difficulties since 1983. Directors noted with satisfaction also that the World Bank has reviewed the overall size and composition of the public investment program.

Directors observed that Zaïre's external situation would remain very difficult for a number of years and expressed great concern about the fact that the balance of payments was unlikely to regain viability in the medium term. Directors underlined that the required structural adjustment of the Zaïrian economy would take time, given the weak prospects for Zaïre's major export commodities and the large external debt. In these circumstances, Directors stressed that increased donor and creditor assistance on concessional terms--including, for several of them, in the area of interest rates--was urgently needed, together with debt relief on exceptional terms. Directors expressed satisfaction with the increased involvement of the World Bank in Zaïre. Several Directors stressed that the sharp deterioration in Zaïre's terms of trade was unlikely to be temporary and that further adjustment could not be avoided. Most expressed concern about the sustainability of the programmed adjustment path, which required continued reliance on exceptional financing and they stressed that the authorities should stand ready to take substantive additional action to strengthen Zaïre's adjustment strategy.

Before concluding, I would like to add some brief personal remarks. I noted the abstentions registered by some and the reservations expressed by many Executive Directors despite their genuine sympathy for Zaïre. I take those abstentions and reservations as a signal of encouragement to the authorities in their adjustment efforts and as a signal to staff and management to urge the authorities to reinforce and accelerate the implementation of their adjustment policies--especially on the fiscal side, including the reform of the public enterprises. In addition, I noted that

Mr. Mawakani's opening statement was quite encouraging in that it reassured the Board, as well as Zaïre's creditors, of the authorities' firm determination to pursue appropriate adjustment policies in a medium-term policy framework. That approach will contribute significantly to the confidence of the international community in Zaïre's adjustment effort.

It is expected that the next Article IV consultation with Zaïre will be held on the standard 12-month cycle.

