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EBS/86/19

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January 28, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Zaïre - Review Under the Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the review under the stand-by arrangement for Zaïre. A draft decision appears on page 20.

It is understood that the Executive Director elected by Zaïre will be requesting the Board for a waiver of the circulation period, to enable this subject to be brought to the agenda for discussion on Friday, February 21, 1986.

Mr. Goreux (ext. 6961) or Mr. Kuhn (ext. 8737) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the Review Under the Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by A.D. Ouattara and W.A. Beveridge

January 27, 1986

I. Introduction

On September 20, 1985 the Executive Board completed the first review under the current 12-month stand-by arrangement for Zaire (EBS/85/207), which was approved on April 24, 1985 for an amount equivalent to SDR 162 million (56.7 percent of quota). Zaire has made four purchases under the program for a total of SDR 129 million. The fifth and last purchase of SDR 33 million will become available after February 14, 1986, upon observance of the end-December 1985 performance criteria and completion of this review. As of December 31, 1985, the Fund's holdings of Zaire's currency subject to repurchase amounted to SDR 656.4 million (225.5 percent of quota); excluding holdings under special facilities, they amounted to SDR 475.0 million (163.2 percent of quota). If the last purchase under the program is made, the Fund's holdings of Zaire's currency subject to repurchase, excluding special facilities, would amount to SDR 496.8 million or 170.7 percent of quota as of end-March 1986 (Table 1).

The discussions that provided the basis for the second review were held in Kinshasa during the period November 11-23, 1985 in conjunction with initial discussions on a possible new program and the Article IV consultation discussions. 1/ The present report on the review of the program will focus primarily on economic performance during 1985. A supplement will be issued shortly after the return of a follow-up mission scheduled to visit Kinshasa during the first half of February. Perspectives for 1986 and the medium term will be presented in the report on the Article IV consultation discussions, which could be issued

1/ Staff members on the mission were Mr. Louis M. Goreux (head-AFR), Mr. Michael G. Kuhn (AFR), Mr. Bernard J. Nivollet (ETR), Mr. Bassirou A. Sarr (FAD), Mr. Ousmane Kaba (AFR), and Mrs. Irene Klotz (secretary-AFR). The mission was assisted by Mr. Regis F. Blin, Fund Resident Representative in Kinshasa. Mr. Mawakani Samba, Alternate Executive Director for Zaire, participated in the discussions.

Table 1. Zaire: Fund Position During Period of Arrangement, March 31, 1985-March 1986

	Mar. 31 1985 1/	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-Mar.
		(In millions of SDRs)			
Transactions under tranche policies (net) 2/		23.1	39.8	23.4	21.8
Purchases		40.0	56.0	33.0	33.0
Ordinary resources		40.0	56.0	33.0	33.0
Borrowed resources		--	--	--	--
Repurchases		-17.0	-16.2	-9.6	-11.2
Ordinary resources		-12.3	-7.4	-4.9	-2.4
Borrowed resources		-4.7	-8.8	-4.7	-8.8
Transactions under special facilities (net) 3/		-13.4	-13.4	-13.4	-13.4
Purchases		--	--	--	--
Repurchases		-13.4	-13.4	-13.4	-13.4
Total Fund credit outstanding (end of period)	610.2	619.9	646.3	656.4	664.8
Under tranche policies	388.8	411.9	451.6	475.0	496.8
Special facilities	221.4	208.0	194.7	181.4	168.0
		(As percent of quota)			
Total Fund credit outstanding (end of period)	209.7	213.0	222.1	225.5	228.4
Under tranche policies	133.6	141.5	155.2	163.2	170.7
Special facilities	76.1	71.5	66.9	62.3	57.7

Source: Treasurer's Department, International Monetary Fund.

1/ End of calendar month in which staff paper is issued.
2/ Ordinary and borrowed resources.
3/ Compensatory financing facility and buffer stock facility.

in March 1986. Summary statements of Zaire's relations with the Fund and the World Bank are provided in Attachments I and II, respectively. Selected economic and financial indicators are provided in Attachment III.

II. Recent Performance under the Program

Following the implementation of corrective measures in the course of the second quarter to offset the slippage that occurred earlier in the year, the program continues on track despite a number of unfavorable developments which have required substantially stronger adjustment efforts than had been envisaged under the original program. The balance of payments has come under increasing stress because of a combination of lower-than-anticipated export earnings due to weak export prices and a stagnation in the volume of oil exports, lower-than-expected disbursements from bilateral sources, and lower-than-programmed debt relief from creditors other than Paris and London Club creditors. The resulting very tight situation in the foreign exchange market has led to a substantially faster-than-anticipated depreciation of the exchange rate, which contributed to a more rapid inflation, slowed down the growth of imports of goods and services and adversely affected the growth in economic activity. Reflecting these developments, the budget has come under increasing pressure, especially on the expenditure side, which was reflected in a sharp increase in net credit to Government in the third quarter. The original program ceilings for the expansion of net domestic assets and of net credit to Government were met, however, at end-September. Zaire also complied with all other performance criteria at end-September. The fourth purchase under the program, which was contingent on observance of the end-September performance criteria, was effected on December 1, 1985.

1. External developments

a. Balance of payments

It had already become evident at the time of the first review that the originally programmed improvement in Zaire's external performance for 1985 would not be attained, largely because of a substantial shortfall in exports, which was expected to lead to a deterioration of the overall balance of payments deficit from the original program target of SDR 408 million to SDR 451 million. The higher deficit was at the time expected to be financed through higher than originally programmed debt relief. The overall balance of payments deficit is now estimated at SDR 432 million, slightly lower than the previous projection. It appears, however, that the adjustment came about in a somewhat different way than had been expected with a larger export shortfall, lower imports, significantly smaller disbursements of public capital, and smaller debt relief.

Revised balance of payments projections show an export shortfall of SDR 160 million relative to program estimates with export earnings now expected to grow by only 2.3 percent compared with the initial target growth rate of 7.8 percent (Table 2). Even though the average price of copper and cobalt was higher than expected, which led to a gain in export earnings of some SDR 65 million for GECAMINES, export receipts from all other sources fell significantly short of program estimates, due to weaker prices as well as smaller volume increases, in particular for crude oil and coffee (Attachment III, Table I). The shortfall in oil exports amounting to some SDR 104 million was caused by technical difficulties with a number of wells and lower world market prices, while the shortfall in coffee exports of SDR 46 million was largely due to lower-than-expected non-quota sales despite high levels of stocks. About 45 percent of the export shortfall was offset by lower imports resulting from weaker oil prices, a slower domestic growth rate, and smaller disbursements of public capital. The impact of the exchange rate depreciation on imports is estimated to be comparatively small because a substantial share of imports is financed directly from proceeds held abroad by the main export firms (such as GECAMINES and the oil-exporting companies) and because imports of consumption goods, in particular of luxury goods, have so far exhibited a far lower price elasticity than other non-oil imports. The shortfall in the trade balance by SDR 88 million was more than offset by an SDR 119 million decline in net expenditures on services, mainly due to lower export-related expenditures, in particular, smaller earnings by the oil-exporting companies, as well as higher service receipts. Hence, with unrequited transfers essentially unchanged, the current account deficit is now estimated to be some SDR 28 million lower than originally projected. This improvement in the current account, however, was more than offset by lower net inflows of public capital. The shortfall in net disbursements, now expected to reach about SDR 39 million, was caused in part by delays in the release of local currency counterpart funds through the budget and various bureaucratic and administrative difficulties, but also by a slower-than-anticipated pace of disbursements by creditors. These developments led to a widening of the overall balance of payments by SDR 24 million, which was essentially financed by a decrease in the Bank of Zaire's net reserves of SDR 7 million compared with an initial target increase of SDR 15 million, which could have been achieved if debt relief had been of the scale envisaged at the time of the first review of the program.

b. Debt rescheduling

Following the Paris Club meeting on May 23-24, 1985 to consider Zaire's request for a rescheduling, debt relief had been estimated at SDR 447 million, of which SDR 321 million from Paris Club creditors and SDR 61 million from London Club creditors. Actual debt relief obtained from creditors in the Paris and London Clubs was in line with these estimates and amounted to SDR 380 million (Appendix III, Table II). Debt relief was also obtained from creditors paid through special payments mechanisms, but the originally envisaged debt relief from

Table 2. Zaire: Balance of Payments, 1983-85 1/

(In millions of SDRs)

	1983	1984 Preliminary	1985 Original program (1)	1985 Revised estimates (2)	1985 Difference (3)=(2)-(1) (3)
Trade balance	372	557	624	536	-88
Exports, f.o.b.	1,494	1,846	2,049	1,889	-160
Copper, cobalt, and zinc	(890)	(938)	(938)	(998)	(60)
Crude oil	(221)	(315)	(413)	(309)	(-104)
Diamonds	(130)	(215)	(240)	(222)	(-18)
Coffee	(109)	(207)	(234)	(188)	(-46)
Other	(144)	(172)	(224)	(172)	(-59)
Imports, c.i.f.	-1,122	-1,289	-1,425	-1,353	72
Services	-825	-980	-1,069	-950	119
Receipts	108	138	114	155	41
Expenditures	-933	-1,118	-1,183	-1,105	78
IMF charges	(-42)	(-48)	(-55)	(-56)	(-1)
Interest on medium- and long-term debt 2/	(-272)	(-367)	(-331)	(-333)	(-2)
Other	(-619)	(-703)	(-797)	(-716)	(81)
Of which: oil companies	(-42)	(-106)	(-184)	(-119)	(65)
Unrequited transfers (net)	165	81	106	103	-3
Private	3	-89	-66	-70	-4
Public	162	170	172	173	1
Current account balance	-288	-342	-339	-311	28
(Excluding interest rescheduled)	(-130)	(-182)	(...)	(-212)	(...)
Public capital	-184	-288	-267	-306	-39
Disbursements	136	132	174	140	-34
Amortization 2/	-320	-420	-441	-446	-5
Private capital and errors and omissions	-54	101	198	185	-13
Overall deficit (-)	-526	-529	-408	-432	-24
(Excluding interest and principal rescheduled)	(-97)	(-63)	(...)	(-18)	(...)
Financing items					
Arrears (reduction -)	-480 3/	-74	-54	-54	--
Of which: Bank of Zaire 4/	(-12)	(-40)	(-40)	(-40)	(--)
Debt rescheduling and other assistance	909	466	...	414	...
Net Fund credit	105	104	65	65	--
Purchases	(115)	(158)	(169)	(169)	(--)
Repurchases	(-10)	(-54)	(-104)	(-104)	(--)
Other reserve movements (increase -)	-8	33	-15	7	22
Financing gap	--	...	412	...	--
Memorandum item:					
Average export unit value of copper in U.S. cents per pound	71	63	61	65	4

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

1/ Balance of payments data have been revised on the basis of revised data provided by the Bank of Zaire for the years 1983 and 1984. A number of methodological changes have also been made. The data for the original program projections have been adjusted to take into account these methodological changes. Export data were augmented by GECAMINES' "Frais de Mise sur le Marché" (SDR 83 million) and included in imports of services; imports were augmented by freight and insurance operations related to imports (SDR 177 million) and subtracted from imports of services; and earnings by the oil-exporting companies (SDR 184 million) were included in service expenditures and subtracted from private capital flows.

2/ Contractual amounts falling due in each year.

3/ Amount rescheduled under Paris Club agreement (SDR 525 million, including SDR 97 million of late moratorium interest), plus cash payments (SDR 12 million) on commercial and invisible arrears, minus further accumulation of arrears (SDR 57 million) on medium- and long-term external debt.

4/ Cash payment by the Bank of Zaire on commercial and invisible arrears.

other creditors of SDR 32 million could not be secured. As a result, debt relief obtained amounted to only SDR 414 million and actual debt service payments (excluding the Fund) reached SDR 377 million.

The general features of the Paris Club rescheduling and the agreement with the Steering Committee of commercial banks are described in the staff report for the first review under the stand-by arrangement. 1/ All payments to these creditors were made on schedule. The Agreed Minute of the Paris Club meeting was signed on September 18, 1985, and all but one of the nine bilateral agreements were signed by end-December 1985, the deadline specified in the Agreed Minute. Negotiations with the remaining creditor are still under way. Payments to the London Club, which were linked to the evolution of copper prices, will amount to US$28.5 million during the second half of 1985, bringing total payments to London Club creditors in 1985 to US$55.6 million, including repayment of US$13.5 million on arrears on interest.

Debt service payments effected through the special payments mechanisms of SNEL (the electricity company) were also rescheduled as required under the Paris Club Agreed Minute. Two loans to SNEL by two different consortia of foreign creditors are secured by such special payments mechanisms which provide for automatic payment of debt service from GECAMINES's export receipts into two escrow accounts administered by a U.S. bank and an Italian bank. GECAMINES, in turn, is reimbursed by OGEDEP, the external public debt office. Scheduled obligations under the agreements covering the special payment mechanisms amounted to SDR 33 million for 1985. Since the agreements require a provisioning of the escrow accounts starting some eight months before the scheduled obligations fall due, the scheduled amounts for 1985 had already been paid before the start of bilateral rescheduling negotiations. Moreover, since the Treasury has assumed the external debt service obligations of SNEL, the local currency counterpart of the external payments made into the escrow accounts of the special payments mechanisms has been debited to the Treasury.

In the case of the special payments mechanism administered by a U.S. bank, which dates from 1976 and which had been modified in 1983 to include payments on a technical assistance contract for maintenance of the Inga-Shaba line, rescheduling was obtained on Paris Club terms (except for one creditor participating in the loan) for the debt service portion of the payments effected. The rescheduling contract also provides that the escrow account need not be provisioned further as long as there are sufficient funds for payments of the technical assistance contract. Regarding the special payments mechanism administered by an Italian bank, which dates from 1979, bilateral negotiations are still under way, but an understanding has been reached to reschedule the amounts due and to apply the funds remaining in the escrow account after payment of debt service due after rescheduling to a new maintenance contract with SNEL covering the two-year period 1985-86 and to imports

1/ EBS/85/207, pp. 19-20.

of related goods. If the terms of the final rescheduling are comparable with Paris Club terms, actual debt service payments through the special payments mechanisms will amount to SDR 2.4 million for debt relief of SDR 33.6 million.

Regarding other non-multilateral creditors, however, the initially envisaged debt relief of SDR 32 million was not obtained. Less attention was devoted to the rescheduling of these debts, which are individually small and owed to a relatively large number of creditors. In order to secure comparable debt relief from these creditors, the authorities have decided to negotiate in a more organized and systematic way the rescheduling of eligible 1985 maturities which were not yet effected at the end of November 1985 and of payments falling due during the first quarter of 1986. All concerned creditors have been invited to attend the first meeting of the Kinshasa Club, to be held February 17-19, 1986, in Kinshasa. In order to ensure uniformity of treatment among the creditors of Zaire, it is expected that eligible payments will be rescheduled at terms broadly similar to those obtained from the Paris and London Clubs.

At the end of June 1985, a number of external debt payments totaling nearly US$10 million had not yet been effected. These payments were made before the end of September 1985. Due to a change in control procedures relating to external debt payments, however, some US$7.8 million of external debt payments due by end-September could not be effected on schedule, most of which were due to other non-multilateral creditors. Of these payments due, about US$2 million were maturities eligible for rescheduling at the Kinshasa Club. The remaining maturities not eligible for rescheduling were paid before December 31, 1985. The authorities have implemented appropriate measures so that the change in control procedures of external debt payments will not entail delays in payments in the future.

c. Foreign exchange market

Given the increased pressures on the balance of payments, the depreciation of the exchange rate was significantly sharper than originally anticipated. Compared with an initially assumed depreciation for 1985 of 23 percent against the U.S. dollar, the zaire depreciated from December 1984 to December 1985 by 38.4 percent against the U.S. dollar, 70.0 percent against the Belgian franc, and 54.6 percent against the SDR (Chart). Over the same period, the effective exchange rate depreciated by 29.8 percent in nominal terms and 18.4 percent in real terms.

The Bank of Zaire intervened on the interbank market, both during and outside fixing sessions, in order to contain the depreciation of the zaire. As commercial banks took mostly a buying position during the first nine months of the year, intervention by the Bank of Zaire reached US$41 million by the end of September 1985, compared with US$58 million initially projected for the year as a whole. This intervention, however, did not lead to a deterioration of the foreign exchange position of the Bank of Zaire because payments of petroleum imports, which, prior to the liberalization of petroleum imports in June 1985, were made by the Bank of Zaire, have been shifted to the private sector, which obtained letters of credit from abroad. In fact, the foreign exchange position of the Bank of Zaire (excluding net liabilities to the Fund), as reflected in its Foreign Exchange Budget, improved by US$23 million during the first nine months of 1985, due to the repayments of petroleum credit lines and of various swap arrangements with foreign commercial banks.

The foreign exchange position of the Bank of Zaire is, however, expected to deteriorate sharply during the last quarter, as payments on the letters of credit related to petroleum imports fall due. These payments have been guaranteed by the Bank of Zaire. Hence the amount of intervention by the Bank of Zaire during the last quarter is projected to reach about US$65 million, and its net foreign exchange position is expected to deteriorate by SDR 7 million for the year as a whole, compared with a targeted improvement of SDR 15 million. Since the projected decline in the net foreign exchange position was expected to result from the use of credit lines with foreign banks, the gross reserves position of the Bank of Zaire is projected to remain unchanged from the end-1984 level of US$137 million (excluding gold, most of which is pledged) or more than five weeks of estimated 1985 imports.

During the months of October and November, the U.S. dollar rate in the interbank market outside the fixing sessions consistently exceeded the fixing rate by approximately 5 percent. Moreover, the premium in the parallel market rate reached about 15 percent in the month of November, up from about 12 percent in June. To the extent that transactions in the parallel market reflect smuggling and tax evasion, the premium in the parallel market would be expected to remain in the range of 7 to 10 percent. Hence, the increase in the premium signalled an overvaluation of the official rate. The staff, therefore, recommended that the intervention policy by the Bank of Zaire be adjusted in order to significantly reduce the spread between the parallel and official market rates before the end of December 1985, and to ensure that, in the interbank market, no consistent discrepancy occurs between the fixing rates and the rate at which daily transactions are effected. A first step in this direction was taken at the fixing session of December 6, when the fixing rate became equal to the interbank market rate outside the fixing.

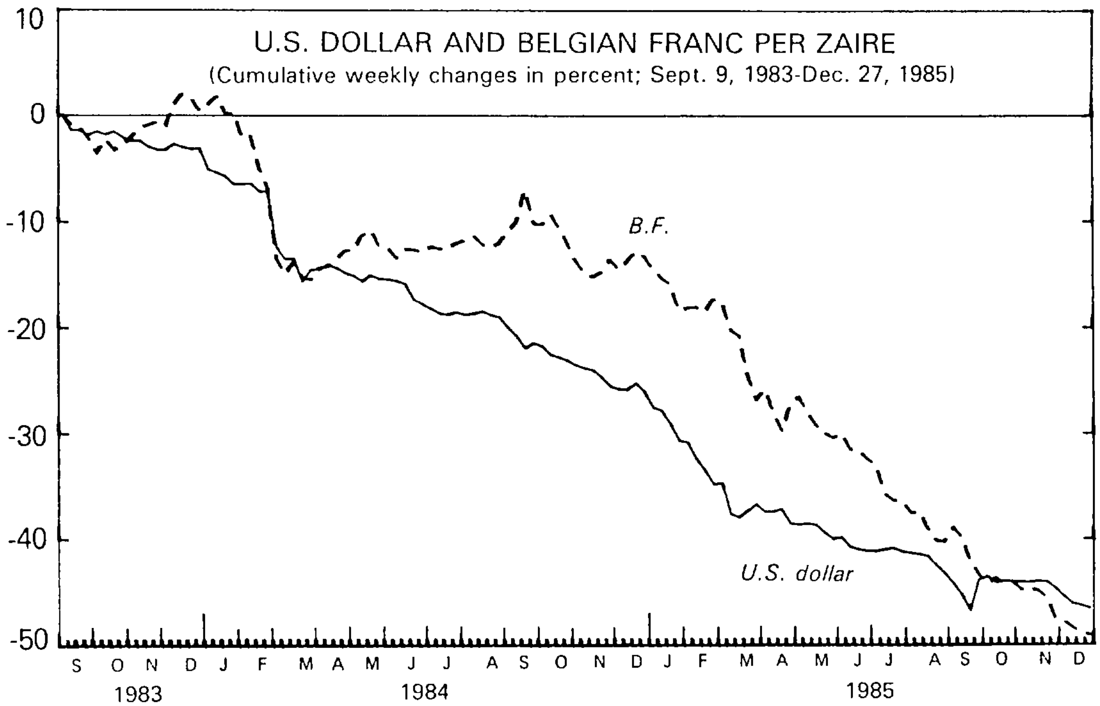
2. Public finance

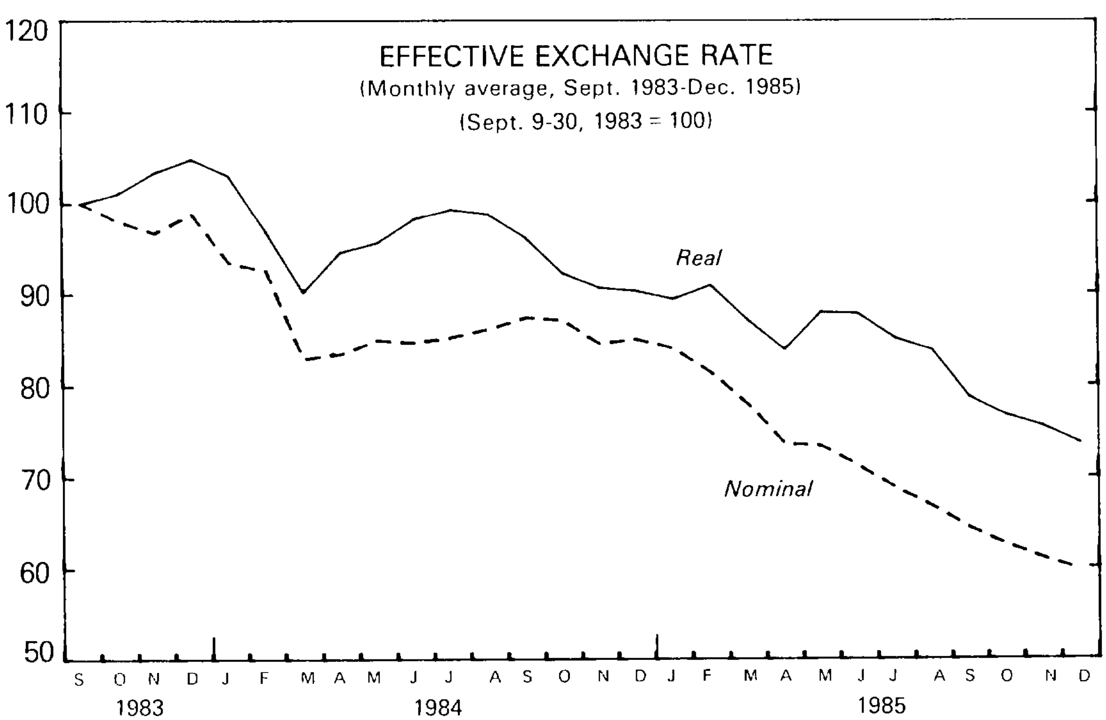
Following the disappointing fiscal performance during the first quarter, the authorities implemented a number of additional fiscal measures during the course of the second quarter aimed at containing expenditures and at improving revenue collection. As a result of these

CHART

ZAIRE

EXCHANGE RATE DEVELOPMENTS





Sources: Bank of Zaire; and IMF staff estimates.

measures and the liquidation of some assets, the overall budget surplus 1/ for the first half of the year reached Z 1.9 billion, equivalent to 86 percent of the target set for the year as a whole, and the Government's recourse to domestic bank financing remained Z 909 million below the subceiling at end-June (Table 3). This substantial margin was eroded, however, during the third quarter due to a slowdown in the growth of revenue combined with an acceleration of the pace of expenditures; by end-September, the cumulative surplus declined to Z 1.5 billion and recourse to domestic bank financing reached Z 2.15 billion, which reduced the margin under the subceiling to Z 309 million.

Budgetary revenue declined from Z 11.3 billion in the second quarter to Z 10.3 billion in the third quarter largely as a consequence of a decline in oil prices and the impact on tax revenue of the slower-than-anticipated growth in economic activity which was only partially offset by increases in tax payments by GECAMINES and improvements in customs duty collection. Nontax revenue also declined due to the nonrecurring nature of the sale of assets during the second quarter. Over the same period, budgetary expenditure increased by 22.3 percent to Z 10.7 billion, mainly on account of increases in payments on the public debt as well as expenditure overruns on personnel and on goods and services. Disbursements from the investment budget almost doubled during the third quarter, but fell short of the Z 950 million for the first nine months that had been envisaged in the first review. The overall increase in these expenditure categories was, however, in part offset by the improved control over disbursements from the treasury sub-accounts.

Budgetary estimates based for 1985 on the performance for the first nine months indicated that the fiscal position would come under increasing pressure for the remainder of the year, largely as the result of increases in payments on the external debt, and that a substantial financing gap was emerging unless additional adjustment measures were undertaken. In light of these perspectives for the last quarter, the authorities decided to strengthen revenue performance and to maintain strict controls over expenditures, especially expenditures through the treasury sub-accounts, with a view to attaining the target for the overall budgetary surplus of Z 2.25 million (1.0 percent of GDP) which is required to keep recourse to domestic bank financing in line with the initial program ceiling (Z 2.15 billion or 14.4 percent of the beginning money stock).

Total revenue is now expected to slightly exceed the original program target since the negative impact of lower economic activity on revenue will be more than offset by higher budgetary contributions of GECAMINES. In particular, GECAMINES will make an advance payment of Z 1.2 billion on its projected 1985 profits which have been bolstered by the faster depreciation of the exchange rate. This change in the timing of payments will reduce the lag between the accrual of profits

1/ On a cash basis, excluding foreign-financed investment and after rescheduling.

Table 3. Zaire: Fiscal Performance, 1983-85 1/

(In millions of zaires)

	1983	1984	1985 Actuals		1985		
			Jan.- June	Jan.- Sept.	Original program EBS/85/74 (1)	Revised estimates (2)	Difference (3)=(2)-(1)
Total revenue	10,998	25,994	18,657	28,990	39,665	39,750	85
Of which: GECAMINES	(2,036)	(5,009)	(3,900)	(6,575)	(7,930)	(9,900)	(1,970)
oil companies	(1,915)	(5,455)	(3,581)	(5,285)	(8,500)	(6,800)	(-1,700)
Income and profit taxes	3,787	8,122	6,610	9,252	11,200	12,750	1,550
Taxes on goods and services	3,108	7,365	4,490	6,997	11,535	10,040	-1,495
Import duties	2,158	5,268	3,130	5,322	7,240	7,375	135
Export duties	1,123	3,430	2,450	4,158	4,850	5,135	285
Other revenue	822	1,809	1,977	3,261	4,840	4,450	-390
Administrative revenue	(383)	(584)	(237)	(439)	(1,890)	(600)	(-1,290)
BPO	(439)	(1,047)	(210)	(344)	(1,450)	(650)	(-800)
Other 2/	(--)	(178)	(1,530)	(2,488)	(1,500)	(3,200)	(1,700)
Total expenditures	12,106	27,212	16,735	27,456	37,715	37,500	-215
Personnel 3/	3,264	5,063	2,700	4,612	6,000	6,500	500
Goods and services	3,754	5,071	3,867	5,858	6,650	7,300	650
Public debt	1,754	9,031	7,056	13,293	15,200	17,300	2,100
Domestic 4/	(243)	(1,121)	(1,966)	(3,403)	(3,450)	(4,300)	(850)
External 5/ 6/	(1,511)	(7,910)	(5,090)	(9,860)	(11,750)	(13,000)	(1,250)
Transfers and subsidies	941	875	1,904	2,106	950	2,250	1,300
Subsidies	(941)	(875)	(286)	(488)	(950)	(600)	(-350)
Inga-Shaba 6/	(--)	(--)	(1,618)	(1,618)	(--)	(1,650)	(1,650)
Investment budget 7/	647	1,019	209	535	2,000	1,200	-800
Repayment of arrears	1,210	2,351	1,744	2,408	3,965	3,300	-665
GECAMINES	(434)	(1,222)	(132)	(132)	(1,500)	(600)	(-900)
Other domestic	(354)	(199)	(959)	(1,359)	(1,500)	(1,500)	(--)
External	(422)	(930)	(653)	917	(965)	(1,200)	(235)
BPO	446	955	186	292	1,450	600	-850
Unclassified	--	521	--	--	1,000	--	-1,000
Treasury sub-accounts (net drawings)	90	2,326	-931	-1,648	500	-950	-1,450
Overall surplus/Deficit (-)	-1,108	-1,218	1,922	1,534	1,950	2,250	300
Financing	1,108	1,218	-1,922	-1,534	-1,950	-2,250	-300
Domestic	2,364	3,814	725	2,066	2,650	2,650	--
Banking system	(2,364)	(3,197)	(497)	(1,720)	(2,150)	(2,150)	(--)
Treasury bills 8/	(--)	(617)	(228)	(346)	(500)	(500)	(--)
Amortization of external debt 5/	-1,256	-2,596	-2,647	-3,600	-4,600	-4,900	(-300)
Memorandum items:							
Total outlays (including amortization)	(13,362)	(29,808)	(19,382)	(31,056)	(42,315)	(42,400)	(85)
Total external debt payments (interest plus amortization)	(2,767)	(10,506)	(7,737)	(13,460)	(16,350)	(17,900)	(1,550)

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

1/ Includes central government operations, but excludes foreign-financed outlays and the outlays of autonomous agencies.
2/ Consists, in 1985, largely of revenue obtained from the liquidation of assets.
3/ Includes wages and salaries, pensions, and scholarships.
4/ Includes interest on central bank advances, on treasury bills, and Fund charges (for 1985).
5/ After rescheduling, total external debt payments for 1985 (interest plus amortization) are estimated at US$350 million. The breakdown between interest shown above the line and amortization below the line is subject to errors.
6/ Includes part of the payments made through the SNEL payment mechanism for maintenance which was classified under external debt prior to 1985.
7/ Includes only projects fully financed by the Treasury and the local counterpart of foreign-financed investment outlays.
8/ Increase in the amount of treasury bills outstanding at face value during the period.

by the company and payments to the Treasury. Total expenditures are estimated to be about Z 200 million lower than in the original program with major shifts among expenditure categories. Wages and salaries are expected to exceed the original program estimates by some Z 500 million which reflects in large part a more precise classification. Expenditures on goods and services will exceed the original budget by Z 650 million, despite the continuing efforts to contain centralized expenditures, mainly because of the more rapid inflation. External debt service payments are now projected to exceed the initial estimates by some Z 1.6 billion as a consequence of the faster depreciation of the zaire combined with a shortfall in debt relief from creditors outside the Paris and London Clubs. In addition, the Treasury has made payments of Z 1.6 billion which had previously been classified as external debt service payments on account of SNEL (the electricity company) for maintenance of the Inga-Shaba line during 1985 in the case of the American-Swedish contractors, and for both 1985 and 1986 in the case of the Italian company. These payments correspond to the nondebt service portion of payments effected through the SNEL special mechanisms. These expenditure overruns will be compensated for by the use of Z 1.0 billion in contingency funds, 1/ a reduction in capital expenditure from budgetary sources to Z 1.2 billion, 2/ and an expected positive balance in the treasury sub-accounts.

As regards arrears by the Treasury, repayments of external nondebt arrears are expected to reach US$23 million by end-December, exceeding the minimum reduction under the program, which constitutes a performance criterion, by US$3 million, but below the US$28 million reduction envisaged during the first review. The reduction in domestic arrears is estimated to reach the program target of Z 1.5 billion. The stock of domestic arrears outstanding, however, at the end of 1985 will be higher than initially programmed because of the upward revision from Z 2.2 billion to Z 3.2 billion of the initially estimated stock at end-1984. The schedule of arrears repayments to GECAMINES on account of uncompensated sales was renegotiated between the Treasury and GECAMINES, and payments in 1985 will be 60 percent lower than originally envisaged.

3. Public enterprises

Regarding public enterprises, considerable improvements were achieved in the course of 1985. GECAMINES, which registered an after-tax profit of US$45 million in 1984 for the first time in many years, is expected to make substantially higher profits in 1985, partly as the result of the faster depreciation of the zaire. Moreover, GECAMINES obtained commitments of some US$250 million in financing for its medium-term investment plan at a meeting of major donors and creditors which took place in

1/ Shown as unclassified expenditure in Table 3.
2/ Excluding Z 400 million of disbursements from the administratively independent Road Fund.

September 1985 under the aegis of the World Bank. The financial situation of CMZ, the Zairian shipping company, has started to improve under new management largely provided by a Belgian shipping company. A management contract between Air Zaire and a foreign airline has been signed and a lease-back arrangement for the DC-10 has been concluded, which brought some US$22 million to provide Air Zaire with the required working capital and enable the company to substantially reduce its external arrears. The financial situation of SNEL, the electricity company, remains weak, and payments on account of SNEL have been a very heavy burden on the budget as the Treasury made payments not only on account of the external debt of SNEL, which accounts for about one half of the debt owed to Paris creditors, but also contributed some Z 1.6 billion to maintenance charges. The first increase in electricity tariffs was put into effect in October and further increases will be announced shortly, which should enable the company to function without operating subsidies from the budget and to take over part of the payments on its external debt in 1986.

The new national trading corporation, SONATRAD, which was established in March 1985 in order to improve purchasing procedures for the inputs and materials of the major public enterprises, has started its operations. The World Bank has provided assistance in drawing up a convention between SONATRAD and its clients with the aim of ensuring that SONATRAD's operations increase the efficiency of public enterprises and that accounting procedures between the enterprises remain transparent.

4. Monetary and credit policies

During the third quarter of 1985, the expansion of net domestic assets was kept to Z 1.7 billion or 8.1 percent, and the stock at end-September remained some Z 2.1 billion below the program ceiling. Recourse to domestic bank financing of the Government was kept in line with the program targets, following a restrictive policy toward the private sector, and containing the growth of other net domestic assets (Table 4). Given the unfavorable external developments and the credit overruns earlier in the year, the restrictive credit policy during the third quarter helped to contain the rate of depreciation of the zaire and inflationary pressures. Over the first nine months of the year, total net domestic assets expanded by Z 3.2 billion (16.8 percent of the beginning money stock, compared with 28.1 percent under the program); net credit to Government increased by Z 1.7 billion (9.2 percent of the beginning money stock, compared with 10.9 percent under the program); and credit to the private sector increased by Z 1.35 billion (7.2 percent of beginning money, compared with 11.9 percent under the program) (Table 5). Over the same period, the expansion of broad money amounted to Z 4.6 billion or 24.6 percent.

The implementation of a high penalty rate for excesses over the credit ceilings in August has helped in restraining the expansion of private sector credit. The stop-and-go policy with respect to private sector credit was much less pronounced at the end of the third quarter

Table 4. Monetary Survey, 1984-86

(In millions of zaires; end of period)

	1984	1985							1986
	Dec.	March		June		September		December	April
	Actual	Program	Actual	Program	Actual	Program	Actual	Revised estimate 1/	Target 2/
Net foreign assets (broad)	-24,324	-27,554	-31,300	-29,038	-31,134	-34,454	-32,701	-40,854	-45,859
Net foreign assets (narrow)	-21,532	-23,310	-28,083	-24,598	-28,140	-31,244	-29,965	-38,087	-42,815
Foreign assets	10,728	12,076	11,315	11,388	12,768	18,244	15,941	13,456	15,496
Bank of Zaire 3/	7,709	...	8,184	...	8,568	...	11,482 4/	...	...
Deposit money banks	3,019	...	3,131	...	4,200	...	4,459	...	...
Foreign liabilities	-32,260	-35,386	-39,398	-35,986	-40,908	-49,488	-45,906	-51,543	-58,309
Bank of Zaire	-31,749	...	-38,206	...	-40,104	...	-44,798 4/	...	...
Deposit money banks	-511	...	-1,192	...	-804	...	-1,108	...	...
Foreign currency deposits and provisions for import financing	-2,792	-4,244	-3,217	-4,440	-2,994	-3,210	-2,736	-2,767	-3,044
Net domestic assets	19,343	22,234	23,439	23,384	20,831	24,634	22,508	25,384	27,252
Net credit to Government	13,396	14,652	15,212	14,802	13,893	15,452	15,117	15,602	16,840
Credit to enterprises and households	4,493	5,582	5,041	6,232	5,409	6,732	5,843	7,282	8,245
Other net domestic assets	1,454	2,000	3,186	2,350	1,529	2,450	1,548	2,500	2,167
Money and quasi-money	18,792	20,280	20,159	21,980	21,220	22,780	23,421	24,847	25,835
Currency in circulation	8,802	...	9,768	...	10,743	...	11,613	...	...
Deposits	9,990	...	10,391	...	10,477	...	11,808	...	...
Revaluation accounts and adjustments 5/	-27,201	-29,310	-32,042	-31,518	-35,886	-37,201	-38,507	-45,624	-50,280
SDR allocation counterpart	3,428	3,710	4,022	3,884	4,363	4,601	4,893	5,307	5,838

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

1/ The revisions take into account revised balance of payments and exchange rate estimates. The program ceilings for net domestic assets remain unchanged.

2/ Targets for end-April 1986. The program targets for net domestic assets and net credit to Government have been defined as the arithmetic average of net domestic assets and net credit to Government outstanding at the end of each month during the period December 1985-April 1986. As specified in Table 6, the target averages are Z 26,318 for net domestic assets and Z 16,221 for net credit to Government.

3/ Includes provisions by OGEDEP (the external public debt office) for payments to Paris Club creditors in the special account with the Federal Reserve Bank of New York. Excluding these provisions, the foreign assets of the Bank of Zaire amounted to Z 5,008 million at end-December 1984, Z 6,133 million at end-March, Z 7,711 million at end-June, and Z 7,757 million at end-September of 1985.

4/ Includes the IMF purchase effected on October 1, 1985.

5/ Includes the counterpart of provisions by OGEDEP for payments to Paris Club creditors.

Table 5. Zaire: Net Domestic Assets of the Banking System, 1984-1985

(Changes in millions of zaires)

	First quarter				Second quarter				
	Program	Actual	Margin	Margin (percent of program)	Program	Available under program	Actual	Margin	Margin (percent of program)
	(2)-(1)	(3)-(1)	(3)-(2)	(3)/(2)	(4)-(2)	(4)-(3)	(5)-(3)	(5)-(4)	(5)/(4)
Net domestic assets	2,891	4,096	1,205	5.4	1,150	-55	-2,608	-2,553	-10.9
Net credit to Government	1,256	1,816	560	3.8	150	-410	-1,319	-909	-6.1
Credit to enterprises and households	1,089	548	-541	-9.7	650	1,191	368	-823	-13.2
Other net domestic assets	546	1,732	1,186	59.3	350	-836	-1,657	-821	-34.9

	Third quarter					Fourth quarter	
	Program	Available under program	Actual	Margin	Margin (percent of program)	Program	Available under program
	(6)-(4)	(6)-(5)	(7)-(5)	(7)-(6)	(7)/(6)	(8)-(6)	(8)-(7)
Net domestic assets	1,250	3,803	-1,677	-2,126	-8.6	750	2,876
Net credit to Government	650	1,559	1,224	-335	-2.2	150	485
Credit to enterprises and households	500	1,323	434	-889	-13.2	550	1,439
Other net domestic assets	100	921	19	-902	-36.8	50	952

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

than it had been at the end of the previous quarter: at the end of September, private sector credit was 3 percent below the quarterly average compared with 8 percent for the second quarter, and the reduction during the last month of the quarter, which had reached over 17 percent in June, amounted to less than 7 percent in September. Given the improved control over monthly changes in private sector credit expansion, an end-quarter cutback in credit is not expected at the end of December.

Inflation, as measured by the consumer price index in Kinshasa, has been running at an annual rate of about 30 percent, significantly higher than in 1984. With nominal interest rates in the range of 35-40 percent, real interest rates have remained positive when compared to the actual rate of inflation. Nominal interest rates were, however, lower than the rate of depreciation of the zaire in 1985, while they had been higher in 1984. This swing in real depreciation-adjusted interest rates has contributed to the pressure in the foreign exchange market. During the last quarter, the Bank of Zaire took several measures to ensure compliance with the original program targets and to reduce the pressure on the foreign exchange market. In late November, reserve requirements were raised from 37 percent to 40 percent, and interest rates on crop credits and rediscount rates were raised by two percentage points. In addition, interest rates on treasury bills, which were increased in steps from a range of 28 to 38 percent in May to a range of 32 to 42 percent in early September, have been raised in early January.

In light of the likely request by Zaire for a new stand-by arrangement and the probable timing of this request, program targets for the expansion of net domestic assets and for net credit to Government were set for April 1986. In line with the position taken in the staff paper on the first review of the stand-by arrangement, program targets were defined in terms of averages rather than as end-of-period point-targets. In particular, the program targets for April 1986 are expressed as the arithmetic average of net domestic assets and net credit to Government outstanding at the end of each of the five months during the period December 1985 to April 1986. This definition of program targets should allow for a more flexible policy and a more timely response to unforeseen disturbances while providing a more useful measurement of actual performance. Based on expected developments during the last quarter of 1985 and projections for the first few months of 1986, the targets for end-April 1986 are lower than those set for end-March 1986 in the first review.

5. Performance criteria

The performance criteria specified in the stand-by arrangement approved by the Fund on April 24, 1985 remain unchanged. They include the following: (a) quarterly ceilings on net domestic assets of the banking system and on net credit of the banking system to the Government; (b) a net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange; (c) a net cumulative reduction of external nondebt arrears of the Treasury; (d) ceilings on new commitments by the Government or guaranteed by the Government on nonconcessional loans in the maturity ranges of 1-12 and 1-5 years (excluding commitments under rescheduling arrangements); (e) a ceiling on the stock of outstanding short-term debt of the Bank of Zaire; and (f) the standard clauses regarding the exchange and trade system. The quantitative performance criteria for March, June, September, and December 1985 and program targets for April 1986 are contained in Table 6.

III. Staff Appraisal

Since the last review of the current stand-by arrangement, the implementation of the program continues on track despite an unfavorable external environment. The growth of exports has remained significantly below original program estimates, disbursements from bilateral sources were lower than initially programmed, and debt relief from creditors other than creditors in the Paris and London Clubs was not on the scale envisaged at the time of the first review. This tightening of the foreign exchange position resulted in lower imports of goods and services, which adversely affected real economic growth and has brought about a considerably sharper depreciation of the exchange rate, which was reflected in an acceleration of the rate of inflation.

These developments had a particularly strong impact on the fiscal side. Following the implementation of strong measures in the second quarter to correct for the slippages that occurred earlier in the year, additional adjustment efforts became necessary in order to compensate for the revenue effect of lower economic activity as well as the effect of lower debt relief and a faster depreciation on external debt service payments. The authorities are to be commended for taking a series of measures which succeeded in reaching the budgetary objectives of the initial program. While some of the measures, such as the liquidation of assets, had but a temporary impact, other measures such as taxation of petroleum products, increases in various tax rates on goods and services, and the reorganization of the customs department will improve revenue performance. Nonetheless, the budgetary situation will continue to be tight, and a sustained improvement of the fiscal position will require a change in the structure of budgetary receipts in order to make central government operations less vulnerable to external disturbances. The authorities are committed to move in this direction and have requested Fund and World Bank assistance in the formulation of new revenue measures. The joint Fund-Bank mission visiting Kinshasa in the second half of January 1986 will overlap with the use of Fund resources mission in the first half of February. On the expenditure side, the authorities were encouraged to further improve their controls over centralized expenditures. While progress has been made with respect to domestic arrears, the authorities were urged to take further steps to survey and monitor more completely the arrears situation.

Table 6. Zaire: Ceilings Under the Program for 1985-86

	1984	1985				1986
	Dec. 1/	Mar. 2/	June 2/	Sept. 2/	Dec. 2/	April 3/
			(In millions of zaires)			
Net domestic assets of the banking system (at end of month)	20,234	22,234 4/	23,384 4/	24,634 4/	25,384 4/	26,318 5/
Net credit of the banking system to the Government (at end of month)	13,452	14,652 4/	14,802 4/	15,452 4/	15,602 4/	16,221 5/
			(In millions of SDRs)			
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange (by end of month)	40	10	20	30	40	10
Net cumulative reduction in external nondebt arrears of the Treasury (for applicable calendar year)	24	5	10	15	20	5
New external borrowing by the Government or against government guarantee through end of period						
1-12 years' maturity	--	150	150	150	150	150
1-5 years' maturity	--	40	40	40	40	40
Less than 1 year 6/	--	40	40	40	40	40

1/ 1984-85 program ceilings.
2/ Performance criteria.
3/ Targets.
4/ These amounts are based on the assumptions that (a) external debt service payments by the Treasury which amounted to the zaire equivalent of SDR 89.85 million at end-March 1985 and SDR 155.6 million at end-June 1985 will amount to SDR 238.4 million at end-September 1985, and SDR 321.4 million at end-December 1985; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US$85 million at end-December 1984, were reduced by US$18 million by end-June 1985, and will be reduced by a minimum of SDR 23 million by end-September 1985 and SDR 28 million by end-December 1985; (c) the outstanding stock of treasury bills will not exceed Z 900 million at end-March 1985, Z 1,000 million at end-June 1985, Z 1,100 million at end-September 1985, and Z 1,200 million at end-December 1985. Should actual payments fall short of the amounts indicated in (a) and (b), the ceilings and subceilings will be reduced by equivalent amounts. The ceilings and subceilings will also be adjusted downward by the zaire equivalent of any net disbursements from short-term external loans contracted by the Executive Council. Should the outstanding stock of treasury bills exceed the amounts indicated in (c), the excess amount will be used to reduce the advances of the Bank of Zaire to the Treasury; however, the ceilings on net domestic assets for end-March, end-June, end-September, and end-December 1985 will not be reduced unless the outstanding stock of Treasury bills exceeds Z 1,000 million, Z 1,150 million, Z 1,300 million, and Z 1,350 million, respectively.
5/ The targets are defined as the arithmetic average of net domestic assets and net credit to Government outstanding at the end of each month during the period December 1985-April 1986.
6/ Refers to increases in the stock of outstanding and disbursed short-term debt of the Bank of Zaire.

The financial position of the major public enterprises continues to improve, in particular as regards GECAMINES, which has benefited from both higher export earnings and the depreciation of the exchange rate. However, with the exception of GECAMINES, the major enterprises continue to be a heavy drain on the budget if account is taken of the subsidies implicit in the payments on external debt effected by the Treasury. These payments are especially large in the case of SNEL, which has also required budgetary assistance for its maintenance charges. While a first increase in electricity tariffs has been implemented, additional increases will have to be put into place for SNEL to cover all its operating costs in the future and to make some contribution to the payment of the external debt. The authorities will undertake a thorough review of the structure of the relationships among public enterprises and between the enterprises and the budget with the assistance of the World Bank in the context of the preparations for a World Bank structural adjustment credit.

The authorities have pursued a more restrictive monetary and credit policy during the third quarter, which was appropriate in light of overall economic developments, and have improved their control over the expansion of private sector credit. To facilitate the monitoring of the credit aggregates while allowing for a more timely response to disturbances in the future, the program targets for the expansion of net domestic assets and for net credit to Government will be formulated in terms of the arithmetic average of end-of-month data. In addition, the authorities intend to pursue a more flexible monetary policy with greater reliance on interest rates and the reserve requirement and are committed to keep domestic interest rates in line with developments in the foreign exchange market.

The Bank of Zaire had attempted recently to keep the rate at the weekly fixing above the rates quoted during the week in the interbank market in order to ease the burden of external debt service payments by the Treasury. This intervention policy had led to a widening gap between the official rate and the parallel market rate which is a source of concern. In December, however, the Bank of Zaire allowed the fixing rate to depreciate to the level in the interbank market, and the authorities will pursue a realistic exchange rate policy with a view to keeping a unified official rate while further reducing the spread between the official and the parallel market rates.

The foreign exchange situation continues to be very tight and remains a major source of concern, in particular as regards capital inflows. The authorities are committed to removing the administrative and bureaucratic constraints, including the timely release of local currency counterpart funds, which have in the past at times delayed disbursements from foreign loans and grants. The authorities are also determined to obtain comparable debt relief from all creditors. Their intention to negotiate with creditors outside the Paris and London Clubs in a more systematic way through the Club of Kinshasa is a welcome step in this direction. The authorities have established a new five-year investment plan which will be presented to the Consultative Group meeting scheduled for April 1986. The authorities also intend to pursue policies designed to facilitate the inflow of equity capital and the repatriation of capital held abroad. Greater financial support from abroad is clearly necessary to improve Zaire's foreign exchange situation and to reduce reliance on monetary capital while allowing for some increase in net reserves.

The staff considers that the authorities have implemented difficult measures, especially in the fiscal field, to keep the program on track through 1985. Moreover, the staff believes that the authorities are ready to pursue their adjustment efforts in cooperation with the Fund.

IV. Proposed Decision

Accordingly, the following draft decision is proposed for adoption by the Executive Board.

1. Zaire has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Zaire (EBS/85/74), Supplement 3) and paragraph 4 of the letter of the President of Zaire of March 25, 1985 with annexed memorandum, attached to the stand-by arrangement, in order to review the progress made in the implementation of the program.

2. The Fund finds that no additional understandings are necessary, and decides that the review is completed.

Zaire - Relations with the Fund

(As cf December 31, 1985)

I. Membership Status

(a) Date of membership: September 28, 1963
(b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 291 million

(b) Total Fund holdings of Zaire's currency: SDR 947.4 million, 325.6 percent of quota

(c) Fund credit: SDR 656.4 million, 225.5 percent of quota

Credit tranche:	SDR 218.0 million, 74.9 percent of quota
EFF:	SDR 64.9 million, 22.3 percent of quota
EAR:	SDR 192.1 million, 66.0 percent of quota
CFF:	SDR 181.3 million, 62.3 percent of quota

III. Current Stand-By or Extended Arrangement and Special Facilities

(a) Current stand-by arrangement:
  (i) Duration: April 1985-April 1986
  (ii) Amount: SDR 162 million
  (iii) Utilization: SDR 129 million
  (iv) Undrawn balance: SDR 33 million

(b) Previous stand-by and extended arrangements:
  (i) SBA; December 27, 1983-March 26, 1985; SDR 228 million; Amount drawn: SDR 198 million
  (ii) EFF; June 22, 1981-June 21, 1984; SDR 912 million; Amount drawn: SDR 175 million; canceled June 21, 1982
  (iii) SBA; August 27, 1979-February 26, 1981; SDR 118 million; Amount drawn: SDR 118 million
  (iv) SBA; April 25, 1977-April 24, 1978; SDR 45 million; Amount drawn: SDR 5 million
  (v) SBA; March 22, 1976-March 21, 1977; SDR 40.96 million; Amount drawn: SDR 40.96 million

(c) Special facilities:
  (i) CFF; December 16, 1983; SDR 114.5 million
  (ii) CFF; March 19, 1982; SDR 106.9 million
  (iii) CFF; April 25, 1977; SDR 28.25 million
  (iv) CFF; March 22, 1976; SDR 56.5 million

Zaire - Relations with the Fund (continued)

IV. SDR Department

(a) Net cumulative allocation: SDR 86.3 million
(b) Holdings: SDR 0.185 million, equivalent to 0.21 percent of net cumulative allocation

V. Administered Accounts

Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 78.73 million

B. Nonfinancial Relations

VI. Exchange Rate Arrangement: 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 dual floating exchange rate system was introduced, and the first weekly official rate was set at the equivalent of Z 1 = SDR 0.03542. As of February 24, 1984, the official rate was unified with the free market rate at Z 1 = SDR 0.02869. On December 15, 1985 the exchange rate was Z 1 = SDR 0.0167.

VII. Last Article IV Consultation: Discussions were initiated in Kinshasa during the period November 20-December 2, 1984. Subsequently, in connection with negotiations on an adjustment program for 1985-86, discussions were concluded during the period January 8-18, 1985. The Executive Board discussed the staff report for the 1984 Article IV consultation and request for stand-by arrangement on April 24, 1985. The Executive Board adopted the following decisions:

I. 1984 Consultation

1. The Fund takes this decision relating to Zaire's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article IV consultation with Zaire, in the light of the 1984 Article IV consultation with Zaire conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zaire maintains a restriction on payments and transfers for current international transactions giving rise to external payments arrears and a multiple currency practice resulting from the minimum mandatory deposit requirement, which is to be eliminated by end-June 1985. The Fund welcomes the liberalization of the exchange and trade system of Zaire and urges the authorities to remove the remaining restrictions on payments and transfers

Zaire - Relations with the Fund (concluded)

for current international transactions as soon as possible. In the meantime, in light of Zaire's adoption of comprehensive policies for balance of payments adjustment supported by the stand-by arrangement in EBS/85/74, the Fund grants approval for the maintenance of the multiple currency practice resulting from the minimum mandatory deposit requirement until end-June 1985; the Fund also grants approval for the retention of the exchange restriction giving rise to external payments arrears until December 31, 1985, or the completion of the 1985 Article IV consultation with Zaire, whichever is earlier. The Fund urges Zaire to terminate the bilateral payments agreements with Fund members as soon as possible.

II. Stand-By Arrangement

1. The Government of Zaire has requested a stand-by arrangement for a period of 12 months from April 24, 1985 in an amount equivalent to SDR 162 million.

2. The Fund approves the stand-by arrangement attached to EBS/85/74.

3. The Fund waives the limitation of Article V, Section 3(b)(iii) of the Articles of Agreement.

VIII. Technical Assistance:

1. A resident representative has been posted in Kinshasa since October 20, 1984.

2. Three CBD experts, including a Principal Manager, are currently serving in the Bank of Zaire.

Zaire: Relations with the World Bank Group

(In millions of U.S. dollars; as of August 31, 1985)

Amounts outstanding as of August 31, 1985	Original principal	Less cancellation	Disbursed	Effective undisbursed	Effective credits/loans
Completed projects			391.93		391.93
IBRD	220.00	28.42	191.58	--	191.58
IDA	220.00	19.66	200.35	--	200.35
Projects in execution (IDA)	450.00	--	145.25	199.72	345.92
Transportation	195.50	--	55.42	77.21	133.37
Agriculture and rural development	98.10	--	30.28	34.24	63.79
Industry and DFC	83.00	--	31.20	48.92	80.52
Power and utilities	56.50	--	22.35	29.40	52.19
Technical assistance	16.90	--	5.98	9.95	16.04
Total	890.00	48.08	537.18	199.72	737.85
Of which: IBRD	220.00	28.42	(191.58)	(--)	(191.58)
IDA	670.00	19.66	(345.60)	(199.72)	(546.27)
Repayments					
Total					142.97
Of which: IBRD					(140.12)
IDA					(2.85)
Debt outstanding					594.88
Of which: IBRD					(51.47)
IDA					(543.41)
IFC net holdings 1/					1.3

Source: World Bank.

1/ Does not include increases for operations scheduled for approval by the IFC's Board in the latter part of fiscal year 1985, amounting to new commitments of US$21.25 million in loans, and US$628,000 in equity participation.

Table I. Zaire: Exports, 1984 and 1985

(Value in millions of SDRs, volume and unit prices as indicated)

	1984	1985		
		Original program	Revised program	Difference
Copper				
Value	659	655	697	42
GECAMINES	(618)	(608)	(654)	(46)
SODIMIZA	(41)	(47)	(43)	(-4)
Volume ('000 tons)	490.4	487.3	490.0	2.7
GECAMINES	(460.0)	(452.3)	(460.0)	(7.7)
SODIMIZA	(30.4)	(35.0)	(30.0)	(-5.0)
Unit price (US¢/lb)	62.5	61.0	64.5	3.5
Cobalt				
Value	220	230	249	19
Volume ('000 tons)	10.0	11.2	10.0	-1.2
Unit price (US$/lb)	10.2	9.3	11.3	2.0
Zinc				
Value	59	53	52	-1
Volume ('000 tons)	67.8	63.5	65.0	1.5
Unit price (US¢/lb)	40.0	38.0	37.0	-1.0
Silver				
Value	8	18	7	-11
Volume ('000 kg)	32.9	50.8	32.9	-17.9
Unit price (US$/t.oz)	8.0	10.9	6.2	-4.7
Gold				
Value	37	44	17	-27
Volume ('000 kg)	3.3	4.2	1.7	-2.5
Unit price (US$/t.oz)	360.4	330.0	317.5	-12.5
Diamonds				
Value	215	240	222	-18
Volume ('000 carats)	18.85	19.47	21.80	-2.07
Unit price (US$/k)	11.7	12.3	10.2	-2.1
Coffee				
Value	207	234	188	-46
Volume ('000 tons)	79.6	85.0	69.4	-15.6
Unit price (US$/lb)	1.21	1.25	1.23	-0.2
Rubber				
Value	10	15	9	-6
Volume ('000 tons)	10.00	15.3	9.80	-5.5
Unit price (US$/lb)	0.46	0.46	0.42	-0.4
Crude oil				
Value	315	413	309	-104
Volume (million bbl)	11.8	14.8	12.0	-2.8
Unit price (US$/bbl)	27.4	27.9	25.7	-2.2
Other exports (value)	115	147	139	-8
Total exports, f.o.b. 1/	1,846	2,049	1,889	-160

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

1/ Amounts may not correspond to those appearing in the balance of payments because of rounding errors.

Table II. Zaire: External Debt Service and Debt Rescheduling, 1985 1/

(In millions of U.S. dollars)

Creditors	Debt service due 2/			Rescheduled amounts			Debt service effected		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Paris Club	270.5	244.3 3/	514.8	232.4	86.9	319.3	38.1	157.4	195.5
London Club	60.8	55.6 4/	116.4	60.8	--	60.8	--	55.6	55.6 2/
Multilaterals 5/	47.8	18.4	66.2	--	--	--	47.8	18.4	66.2
SNEL special payment mechanism	23.2	12.8	36.0	21.7	11.9	33.6	1.5	0.9	2.4
Other creditors	43.6	9.0	52.6	--	--	--	43.6	9.0	52.6
Other 6/	--	5.1	5.1	--	--	--	--	5.1	5.1
All creditors	445.9	309.3	755.2	314.9	98.8	413.7	131.0	210.5	341.5
Total	445.9	345.2	791.1	314.9	98.8	413.7	131.0	246.4	377.4

Source: OGEDEP.

1/ Refers to debt service and debt relief in calendar year 1985.
2/ On the basis of external debt outstanding at the end of 1984, including estimated payments due as a result of 1985 rescheduling.
3/ Includes US$17.3 million in moratorium interest on 1985 rescheduling.
4/ Includes the repayment of US$13.5 million of interest arrears.
5/ Includes IMF Trust Fund and Trust GECAMINES.
6/ Interest payments on debt contracted during 1985.

Table III. Zaire: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983	1984		1985	
			Actual	Original program	Revised projections	Original program	Revised Program
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	2.8	-2.2	1.0	2.0	2.8	4.0	2.5
GDP deflator	35.2	34.4	83.0	47.0	81.4	25.0	30.0
Consumer prices (year-to-year average)	35.4	37.2	76.0	47.0	52.1 1/	20.0	30.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	-19.9	7.2	5.6	10.8	23.6	13.6	2.3
Copper exports, f.o.b.	-20.1	14.0	4.4	7.5	-10.5	-0.6	--
Imports, c.i.f.	-2.7	-4.4	-1.3	6.3	15.0	10.6	5.0
Non-oil imports, f.o.b.	-8.5	-2.3	-2.7	5.6	25.9	7.7	-6.4
Export volume	-16.3	16.5	7.4	4.5	4.9	9.2	-0.2
Import volume (including oil)	-14.3	-10.5	-4.6	1.6	10.5	9.0	3.0
Terms of trade (deterioration -)	-15.6	-13.8	-5.0	1.7	13.2	-0.9	0.6
Nominal effective exchange rate (depreciation -) 2/	-34.5	10.1	-75.9	...	-13.9	...	-29.8
Real effective exchange rate (depreciation -) 2/	-13.4	37.5	-58.1	...	-11.0	...	-18.4
Government budget							
Total revenue	30.0	28.8	75.7	84.4	136.4	52.6	52.9
Total expenditure (excluding amortization)	68.8	44.6	34.0	66.5	124.8	38.6	37.8
Money and credit							
Net domestic assets (end of period)	40.3	66.8	48.6	34.6	36.7	31.2	31.2
Government	62.4	86.6	45.3	27.5	30.7	16.5	16.5
Enterprises and households	32.3	46.7	46.3	58.1	55.9	62.1	62.1
Money and quasi-money (end of period)	37.9	72.6	74.8	35.1	34.2	24.3	32.2
Interest rates (end of period)							
Bank of Zaire basic rediscount rate	15.0	15.0	20.0	...	20.0	...	26.0
Commercial banks							
Rediscountable short-term loan rate for noncoffee agricultural production	11.0	11.0	15.0	...	15.0	...	24.0
Rediscountable short-term loan rate for other productive activities	11.0	11.0		freely negotiable			
6-12 months' time deposit rate	20.0	20.0	20.0	...	...	...	...
12-24 months' time deposit rate	30.0	30.0	30.0	...	...	...	...
Treasury bills (average)	...	...	...	...	36.0	...	34.7
	(In percent of GDP 3/)						
Government budget surplus or deficit (-) 4/	-3.6	-6.0	-2.1	0.2	-0.7	1.0	1.0
Domestic bank financing (net)	3.6	6.9	2.4	2.5	2.2	1.1	1.1
Foreign financing (net)	--	-0.9	-0.4	-2.7	-1.5	-2.2	-2.2
External current account deficit (-)							
Before rescheduling							
Including official transfers	-14.2	-16.5	-9.1	-6.5	-8.4	-6.6	-7.0
After rescheduling							
Including official transfers	-11.3	-15.5	-4.1	...	-4.5	...	-4.8
External medium- and long-term debt inclusive of use of Fund credit	90.5	104.4	137.4 5/	...	124.6	...	109.6
Debt service ratio (in percent of exports of goods and services) 6/	19.6	13.8	14.3	...	26.4	...	27.1
	(In millions of SDRs, unless otherwise specified)						
External current account deficit (-)							
Before rescheduling	-596	-645	-287	-316	-342	-339	-311
After rescheduling	-475	-606	-130	...	-182	...	-212
Overall balance of payments deficit (-)							
Before rescheduling	-612	-598	-526	-400	-529	-408	-432
After rescheduling	-327	-480	-97	...	-63	...	-18
Gross official reserves 7/ (weeks of imports, c.i.f.)	6	2	4	5	5	5	5
External payments arrears, end of period	530	848	372	...	...	...	...
Of which: commercial and invisible	(383)	(207)	(183)	(143)	(126)	(86)	(70)

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

1/ From January through December 1984, consumer prices increased by 20 percent.
2/ *December to December changes.*
3/ To adjust for the overvaluation of the exchange rate before September 1983, the following shadow exchange rates have been used for the conversion of GDP into SDR terms (in zaires per SDR, yearly averages): 9.5 for 1981, 13.3 for 1982, and 24.7 for 1983.
4/ Excluding foreign-financed expenditure.
5/ Including rescheduled and capitalized moratorium interest under the December 1983 Paris Club rescheduling.
6/ Based on actual payments; includes reduction of commercial arrears by cash payments and Fund *charges and repurchases.* After taking into account the effects of the December 1983 and May 1985 Paris Club reschedulings.
7/ Excluding gold, most of which is pledged.