

FOR
AGENDA

EBS/86/76

CONFIDENTIAL

April 2, 1986

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zaire - Staff Report for the 1985 Article IV Consultation
and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Zaïre and its request for a stand-by arrangement equivalent to SDR 214.2 million, which will be brought to the agenda for discussion on a date to be announced. Draft decisions appear on page 30.

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)

INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the 1985 Article IV Consultation
and Request for 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 S.J. Anjaria

April 1, 1986

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I. Introduction

The 1985 Article IV consultation discussions with Zaire were initiated in Kinshasa during the period November 11-23, 1985 and were concluded during the period February 2-16, 1986 in conjunction with the negotiations on an adjustment program for 1986-88. ^{1/} In the attached letter dated March 28, 1986 (Appendix II), the Executive Council of Zaire requests a 22-month stand-by arrangement for the period April 1986 to February 1988 in an amount equivalent to SDR 214.2 million (73.6 percent of quota, corresponding to access of 40.1 percent of quota on an annual basis). Zaire has made all purchases under the current 12-month stand-by arrangement for SDR 162 million which expires on April 23, 1986. The last review under the stand-by arrangement took place on February 21, 1986 (EBS/86/19, and Supplement 1).

As of February 28, 1986, the Fund's holdings of Zaire's currency subject to repurchase amounted to SDR 679.3 million, or 233.4 percent of quota; excluding holdings under special facilities, they amounted to SDR 498.0 million or 171.1 percent of quota. As is shown in Table 1, if the full amount of the requested stand-by arrangement is purchased and after taking into account scheduled repurchases, the Fund's holdings of Zaire's currency subject to repurchase would amount to SDR 661.2 million or 227.2 percent of quota by the end of February 1988; excluding holdings under the compensatory financing facility, they would be equivalent to SDR 603.8 million or 207.5 percent of quota.

The stand-by arrangement will be financed from both ordinary resources (SDR 42.4 million) and borrowed resources (SDR 171.8 million). According to the proposed phasing, each purchase would amount to SDR 23.8 million. A first purchase would be available upon approval of the arrangement; a second purchase after June 15, 1986, upon observance of the performance criteria for end-April 1986; a third purchase after August 15, 1986, upon observance of the end-June 1986 performance criteria; and a fourth purchase after October 15, 1986, upon observance of the end-September 1986 performance criteria and the completion of the first review. The remaining five purchases would be available upon observance of the end-quarter performance criteria for end-December 1986 to end-December 1987, with the final purchase available after

^{1/} The Zairian representatives included Mr. Pay Pay, Governor of the Bank of Zaire; Mr. Djamboleka, Commissioner of State for Finance, Budget, and the Portfolio; Mr. Sambwa, Commissioner of State for the Plan; and other senior officials concerned with economic and financial matters. Members of the staff missions also had discussions with President Mobutu and with Prime Minister Kengo. The staff representatives on the two missions were Mr. L.M.Goreux (head-AFR), Mr. M.G. Kuhn (AFR), Mr. B.J. Nivollet (ETR), Mr. B.A. Sarr (FAD), and Mr. O. Kaba (AFR), with Mrs. I. Klotz (AFR) and Mrs. S. Ymar (ADM) as secretaries); the missions were assisted by Mr. R. Blin, Fund resident representative in Zaire. Mr. Mawakani Samba, Alternate Executive Director for Zaire, also participated in the discussions.

Table 1. Zaire: Fund Position During Period of Stand-By Arrangement,
April 1986-February 1987

	Mar. 31 1986 <u>1/</u>	1986			1987				1988
		April- June	July- Sept.	Oct.- Dec.	Jan.- Mar.	April- June	July- Sept.	Oct.- Dec.	Jan.- Feb.
(In millions of SDRs)									
Transactions under tranche policies (net) <u>2/</u>		37.3	15.0	13.5	15.0	12.8	7.9	5.1	0.4
Purchases		47.6	23.8	23.8	23.8	23.8	23.8	23.8	23.8
Ordinary resources		23.8	11.9	6.7	--	--	--	--	--
Borrowed resources		23.8	11.9	17.1	23.8	23.8	23.8	23.8	23.8
Repurchases		-10.3	-8.8	-10.3	-8.8	-11.0	-15.9	-18.7	-23.4
Ordinary resources		-5.6	--	-5.6	--	-6.3	-3.3	-11.4	-8.3
Borrowed resources		-4.7	-8.8	-4.7	-8.8	-4.7	-12.6	-7.3	-15.1
Transactions under special facilities (net) <u>3/</u>		-13.4	-13.4	-13.4	-27.7	-14.3	-14.3	-14.3	--
Purchases		--	--	--	--	--	--	--	--
Repurchases		-13.4	-13.4	-13.4	-27.7	-14.3	-14.3	-14.3	--
Total Fund credit out- standing (end of period)	664.8	688.7	690.4	690.5	677.9	676.4	670.0	660.7	661.2
Under tranche policies	496.8	534.1	549.1	562.6	577.7	590.5	598.4	603.4	603.8
Special facilities	168.0	154.6	141.3	127.9	100.2	85.9	71.6	57.3	57.3
(As percent of quota)									
Total Fund credit outstanding (end of period)	228.4	236.6	237.2	237.3	232.9	232.4	230.2	227.1	227.2
Under tranche policies	170.7	183.5	188.7	193.3	198.5	202.9	205.6	207.4	207.5
Special facilities	57.7	53.1	48.5	44.0	34.4	29.5	24.6	19.7	19.7

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.

February 15, 1988. The purchases contingent on the performance criteria for end-March 1987 and end-September 1987 would not be available before completion of the second and third review of the stand-by arrangement, respectively.

The last Article IV consultation discussions with Zaire, along with the negotiations of an adjustment program, were held in Kinshasa during the periods November 20-December 2, 1984 and January 8-18, 1985. The staff report for the consultation and the request for stand-by arrangement (EBS/85/74), together with the report on recent economic developments (SM/85/107), were discussed by the Executive Board on April 24, 1985. There were two reviews of the 1985-86 program. The first review was completed on September 20, 1986 (EBS/85/207), together with consideration of the Managing Director's Report on Non-complying Purchase (EBS/85/206 and Supplements 1 to 3). The second review was completed by the Executive Board on February 21, 1986 (EBS/86/19 and Supplement 1).

Zaire continues to avail itself of the transitional arrangements of Article XIV. Summary statements on Zaire's relations with the Fund and the World Bank Group are provided in Appendices III and V, respectively; basic economic and financial data are contained in Appendix VI.

Zaire's performance under the 1985 program has been extensively discussed in the staff papers on the first and second review of the stand-by arrangement. Given the detailed analyses and reports on the discussions with the authorities already presented in these papers, and in light of the short time since the last discussion of Zaire's performance by the Executive Board on February 21, 1986, the present report summarizes economic and financial developments during 1985 (section II) before proceeding to a detailed presentation of the new program for 1986 and projections for 1987 (section III). The assesment of the medium-term perspectives (section IV) is followed by the staff appraisal and proposed decisions (section V)

II. Performance Under the 1985 Program

1. Overview

The main objective of the 1985 adjustment program was to consolidate the progress achieved under the previous 15-month stand-by arrangement, which became effective in December 1983 after the implementation of far-reaching reforms. The 1985 program aimed at further reducing external and internal imbalances and stimulating private sector activity.

The performance criteria set for end-March 1985 were not observed, largely due to unfavorable external developments and delays in the implementation of adequate policy responses. However, as a result of strong adjustment efforts, Zaire succeeded in observing all the

performance criteria which had been set for the remainder of the program period. The main objectives of the program were achieved. The convertibility of the zaire was preserved and the exchange rate was allowed to depreciate in line with external and internal developments; the main budgetary targets were met; further progress was made in the rehabilitation of public enterprises; the process of liberalization was continued; and external creditors were paid on schedule.

The balance of payments remained under great pressures throughout 1985 for three main reasons. First, the growth of export earnings fell from 17 percent in 1984 to less than 2 percent, far short of the 11 percent target. Second, disbursements from foreign loans and debt relief from creditors not participating in the Paris and London Clubs were lower than expected. Third, the stance of fiscal and monetary policies was more expansionary than programmed during the first five months of the year. As a result, the rate of depreciation of the currency and the rate of inflation were higher than had been anticipated, while the growth of imports and goods and services was lower, which adversely affected the growth of economic activity.

With higher-than-foreseen debt service payments in foreign currency terms and a greater depreciation of the domestic currency, the burden of external debt service on the budget was much heavier than had been anticipated and the growth of other expenditures had to be curtailed. In addition, a number of exceptional revenue measures--including the sale of assets--had to be taken in June and in December in order to keep the Government's recourse to domestic financing within the original program ceilings.

The additional fiscal measures were supported by a tightening of monetary policy in the second half of 1985. The minimum reserve requirement was raised in steps from 22 percent in early June to 40 percent in December 1985 in order to reduce excess liquidity in the banking system. Interest rates were also raised in steps as the rate of inflation accelerated, while credit expansion by commercial banks was closely monitored. With the combination of these measures, the expansion of net domestic assets remained within the original program limits, but real GDP growth was lower than in the preceding year and fell short of the program target.

2. External Sector

The objectives of the program were to reduce the current account deficit to 7.0 percent of GDP in 1985 from 7.5 percent of GDP in 1984, to cut the overall balance of payments deficit to SDR 408 million from SDR 529 million, and to improve the net reserve position of the Bank of Zaire (Table 2). These objectives were consistent with a 15 percent increase in disbursements from foreign loans and grants, a 11 percent growth in export earnings, and a 9 percent growth in the volume of imports.

Table 2. Zaire: Balance of Payments, 1980-87

(In millions of SDRs)

	1980	1981	1982	1983	1984	1985		1986	1987
						Prog.	Prel.	Prog.	Proj.
Trade balance	390	35	149	333	558	624	510	488	506
Exports, f.o.b.	1,743	1,423	1,450	1,577	1,847	2,049	1,879	1,842	1,879
Imports, c.i.f.	-1,353	-1,388	-1,301	-1,244	-1,289	-1,425	-1,369	-1,354	-1,373
Services	-758	-754	-821	-825	-980	-1,069	-917	-875	-916
Receipts	104	128	76	108	138	114	155	149	155
Expenditure	-862	-882	-897	-933	-1,118	-1,183	-1,072	-1,025	-1,072
IMF charges	(-11)	(-10)	(-24)	(-42)	(-48)	(-55)	(-56)	(-59)	(-57)
Interest ^{1/}	(-218)	(-269)	(-285)	(-272)	(-367)	(-331)	(-328)	(-331)	(-348)
Other payments	(-633)	(-603)	(-588)	(-619)	(-703)	(-797)	(-688)	(-635)	(-667)
Unrequited transfers	144	207	137	165	81	106	108	108	116
Public	205	210	145	162	170	172	169	168	178
Private	-61	-3	-8	3	-89	-66	-61	-59	-62
Current account (deficit -)	-224	-512	-535	-328	-341	-339	-299	-279	-295
Public capital	-17	-143	-162	-184	-288	-267	-298	-221	-166
Disbursements	292	213	172	136	132	174	148	190	243
Amortization ^{1/}	-309	-356	-334	-320	-420	-441	-446	-411	-409
Private capital and errors and omissions ^{2/}	61	43	99	-14	100	198	174	134	153
Overall balance (deficit -)	-180	-612	-598	-526	-529	-408	-423	-366	-308
Financing items	180	612	598	526	529	408	423	366	308
Arrears	-1,035	110	345	-480	-74	-54	-51	-47	-51
Of which: cash payments ^{3/}	(-50)	(-35)	(-22)	(-12)	(-40)	(-40)	(-40)	(-24)	(-41)
Net Fund credit	13	91	85	105	104	65	65	34	-30
Purchases	(78)	(195)	(107)	(115)	(158)	(169)	(169)	(128)	(95)
Repurchases	(-65)	(-104)	(-22)	(-10)	(-54)	(-104)	(-104)	(-94)	(-125)
Other reserve movements (increase -)	-37	96	32	-8	33	-15	-2	-28	-20
Debt rescheduling and other assistance	1,239	315	136	909	466	...	411	...	...
Financing gap	--	--	--	--	--	412	--	407	409
Memorandum item:									
Overall balance after rescheduling and other assistance (deficit -)	1,059	-297	-462	383	-63	...	-12	...	...
Overall balance after rescheduling of current maturities (deficit -)	74	-297	-462	-142	-63	...	-12	...	...

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

^{1/} Contractual amounts falling due each year.

^{2/} Includes SDR allocation of SDR 16 million in 1980, 1981, and 1982.

^{3/} Cash payments by the Bank of Zaire on commercial and invisible arrears.

Export earnings actually grew by less than 2 percent in 1985, falling SDR 170 million short of target; the volume of oil exports, which was expected to increase substantially, stagnated and, apart from copper and cobalt, export prices were lower than expected (Appendix VI, Table I). The export shortfall was, however, more than offset by a reduction in the growth of imports of goods and services, and, for this reason, the current account deficit was SDR 40 million lower than had been projected. Disbursements of public loans and grants fell SDR 29 million short of target, partly because of various administrative difficulties, but also because of a lower pace of disbursements by creditors. Moreover, while debt relief obtained from Paris and London Clubs creditors was in line with program projections, debt relief from other creditors was SDR 32 million lower than projected. As a result, the overall balance of payments deficit was some SDR 15 million higher than originally programmed and the improvement in the net reserve position of the Bank of Zaire fell SDR 13 million short of the program target.

The tightening of the foreign exchange constraint contributed to a sharper-than-anticipated depreciation of the currency. In relation to the SDR, the rate of depreciation more than doubled from 26 percent in 1984 to 55 percent in 1985, despite large interventions by the Bank of Zaire. Similarly, the nominal effective exchange rate depreciated by nearly 30 percent in 1985 compared to 14 percent in 1984 (Chart). However, since the inflation rate ^{1/} increased sharply to 39 percent from less than 20 percent in the preceding year, the depreciation of the real effective exchange rate was only marginally larger in 1985 than in 1984 (16.4 percent compared with 14.0).

3. Government finance

The fiscal program required a tightening of fiscal policies in order to turn the budgetary deficit ^{2/} of Z 1.2 billion in 1984 (0.7 percent of GDP) into a surplus of Z 1.9 billion in 1985 (0.8 percent of GDP) (Table 3). With amortization payments after debt relief estimated at Z 4.6 billion and a projected Z 0.5 billion increase in the outstanding value of treasury bills to the nonbank sector, recourse to domestic bank financing was to be limited to Z 2.1 billion (12 percent of the beginning money stock). The budgetary target was to be achieved by implementing a package of revenue measures with a programmed yield of 4.9 million, thus raising total revenue by 53 percent from 1984. The new measures included a broadening of the base for the turnover tax, sale of assets, selective increases in import duties, and stronger measures to prevent customs fraud. The increase in budgetary outlays was to be contained to 39 percent, despite a sharp increase in interest payments on the public debt and in the settlement of domestic and external arrears.

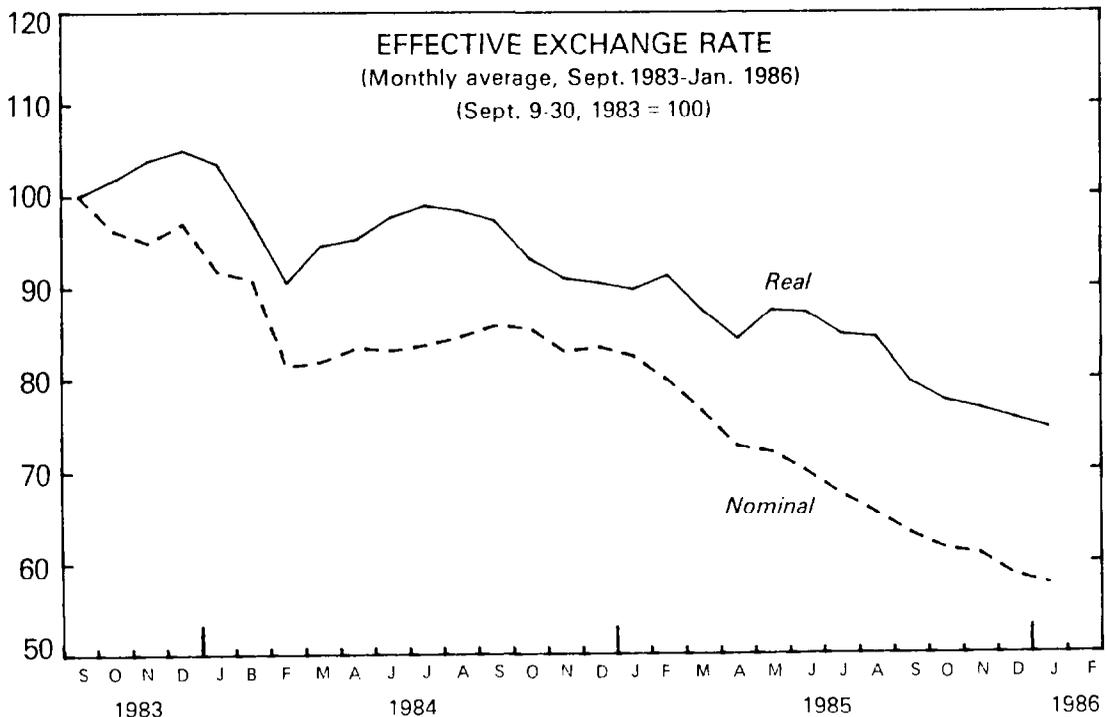
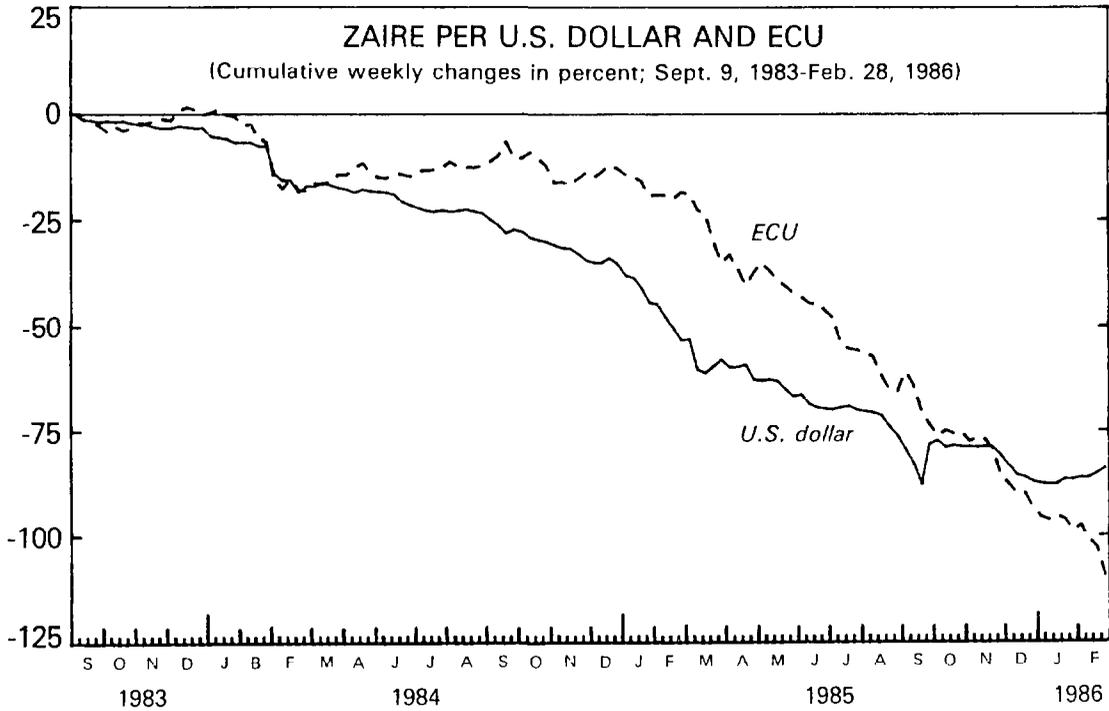
^{1/} As measured by the cost of living index in Kinshasa.

^{2/} Excluding foreign-financed outlays on a cash and after debt rescheduling basis.





CHART
ZAIRE
EXCHANGE RATE DEVELOPMENTS



Sources: Bank of Zaire, and IMF staff estimates



Table 3. Zaire: Budgetary Operations, 1/ 1983-85

	1983	1984	1985	
			Orig. program	Prel. actual
(In millions of zaires)				
Revenue	10,998	25,994	39,665	41,350
Income and profit taxes	3,787	8,122	11,200	13,794
Taxes on goods and services	3,108	7,365	11,535	9,415
Import duties	2,158	5,268	7,240	8,697
Export duties	1,123	3,430	4,850	5,258
Other revenue	822	1,809	4,840	4,186
Expenditure	12,106	27,212	37,715	38,610
Personnel	3,264	5,063	6,000	6,615
Goods and services	3,754	5,071	6,650	8,839
Public debt	1,754	9,031	15,200	19,734
Domestic <u>2/</u>	(243)	(1,121)	(3,450)	(4,846)
External <u>3/4/</u>	(1,511)	(7,910)	(11,750)	(14,888)
Transfers and subsidies	941	875	950	693
Investment budget	647	1,019	2,000	956
Repayment of arrears (reduction -)	1,210	2,351	3,965	3,462
GECAMINES	(434)	(1,222)	(1,500)	(732)
Other domestic	(354)	(199)	(1,500)	(1,237)
External	(422)	(930)	(965)	(1,493)
Other expenditure	446	1,476	2,450	1,086
Treasury subaccounts	90	2,326	500	-2,775
Overall surplus/Deficit (-)	-1,108	-1,218	1,950	2,740
Financing	1,108	1,218	-1,950	2,740
Net domestic financing	2,364	3,814	2,650	2,165
Banking system (net)	(2,364)	(3,197)	(2,150)	(1,451)
Short term treasury bills	(--)	(617)	(500)	(714)
Foreign financing (net)	-1,256	-2,596	-4,600	-4,905
Disbursements	(--)	(--)	(--)	(--)
Amortization <u>4/</u>	(-1,256)	(-2,596)	(-4,600)	(-4,905)
<u>Memorandum items:</u>				
Revenue from GECAMINES	2,036	5,009	7,930	9,677
Revenue from oil exporting companies	1,915	5,455	8,500	7,037
(In percent of GDP)				
Revenue	11.1	15.5	17.0	18.6
Expenditure	13.8	18.0	16.0	16.5
Overall surplus/Deficit (-)	-1.1	-0.7	0.8	1.2
Domestic bank financing	2.4	1.9	0.9	0.7

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

1/ Budgetary operations exclude extrabudgetary outlays financed by foreign grants and loans which do not pass through the Treasury.

2/ Domestic interest includes for 1985 SDR 58 million of transfers to the Bank of Zaire in respect of the domestic counterpart of IMF charges.

3/ External debt includes payment made for the SNEL maintenance contract. The breakdown between interest above the line and amortization below the line is subject to errors.

4/ Interest and amortization are on an after-rescheduling basis. Debt relief amounted to Z 5.0 billion in 1983, Z 17.5 billion in 1984. In the 1985 program, debt relief which was estimated at Z 20.7 billion (SDR 431.2 million) amounted to Z 21.2 billion (SDR 411.2 million).

According to preliminary data, the budget surplus amounted to Z 2.7 billion in 1985, exceeding the program target by Z 0.8 billion, as higher-than-projected revenue more than offset an overrun on the expenditure side. With net nonbank financing broadly in line with the program estimate, recourse to domestic bank financing was limited to Z 1.4 billion (8 percent of the beginning money stock), or Z 0.7 billion below the end-December ceiling.

Revenue actually increased by 59 percent, thus exceeding the program estimate by some Z 1.7 billion. This better-than-expected performance reflected, however, the implementation of additional measures not provided for in the original program which yielded Z 3.6 billion. They included the transfer of PETROZAIRE's working capital to the Treasury following the elimination of its import monopoly (Z 1.6 billion), advanced payments on profits by GECAMINES (Z 1.0 billion) and the advanced collection of import duties due in 1986 (Z 1.0 billion). Excluding the receipts from these exceptional measures, revenue increased by 45 percent from 1984; the increase was mainly due to higher tax payments by GECAMINES, improved collections of income and profit taxes, a broadening of the base for the turnover tax, and increases in various excise duty rates.

Budgetary outlays rose by 42 percent and exceeded the program estimate by Z 0.9 billion. The major overrun was a Z 3.1 billion excess in interest payments on the external debt, of which one third resulted from lower debt relief in foreign currency terms and the balance from a larger-than-projected depreciation of the domestic currency. Expenditures on goods and services exceeded the program estimate by almost Z 2.2 billion, on account of higher payments for imports, petroleum and utilities. This excess was, however, partly offset by lower-than-programmed outlays in the category "other expenditure". ^{1/} Personnel expenditures were Z 0.6 billion above the program estimate because of a sharp increase in the minimum wage (from Z 250 to Z 750 per month) and new military recruitments. These various expenditure overruns were to a large extent offset by lower investment expenditures which were hardly half the amount originally budgeted, and lower transfers and subsidies. There was also a sizable surplus in the treasury subaccounts of Z 2.8 billion compared to the projected deficit of 0.5 billion. Finally, while repayment of external arrears exceeded the program estimate, this was more than offset by a lower-than-projected reduction in domestic arrears, including arrears to GECAMINES.

4. Public enterprises

In the course of 1985, considerable progress was achieved in the rehabilitation of public enterprises, as the authorities concentrated their efforts on the restructuring of those enterprises which

^{1/} In the original program contingency funds of Z 1.0 billion were included in the item "other expenditure". The uses of these funds, however, are recorded under the respective categories.

experienced the most serious financial difficulties; namely, Air Zaire, CMZ (the Zairian shipping company), PETROZAIRE (the company which held the import monopoly for petroleum products), and SNEL (the electricity company). A management contract between Air Zaire and a foreign airline was signed in January 1986 and a lease-back arrangement for the remaining DC-10 has been concluded which brought some US\$22 million (Z 1.2 billion) thus enabling the company to eliminate part of its external arrears while providing it with the minimum working capital required. The financial position of CMZ has started to improve under a new management, largely provided by a Belgian company. In the context of the liberalization of the petroleum sector, the import monopoly of PETROZAIRE was eliminated in June 1985. Petroleum prices were raised twice, in September and in December 1985. Prices at the pump have been adjusted to reflect transportation costs and the shortages of petroleum products, which had been severe outside Kinshasa, have now virtually disappeared. The financial situation of SNEL remains very weak, however. The Treasury serviced the external debt incurred in the construction of Inga (the hydroelectric power plant) and the Inga-Shaba line, which together account for almost half of Zaire's total external debt; in addition, the Treasury contributed some Z 1.6 billion to maintenance charges. A first increase in electricity tariffs was put into effect in October and further increases will be announced shortly, with a view to eliminating all operating subsidies in 1987.

Since GECAMINES was restructured in July 1984, no uncompensated sales have occurred and the financial situation of the company has improved. An after-tax profit of US\$45 million was recorded in 1984 and a substantially higher profit is expected for 1985.

The new national trading corporation, SONATRAD, which was established in March 1985 in order to improve the purchasing procedures of the major public enterprises, has started operations. Conventions defining procedures for procurement and the respective responsibilities of SONATRAD and the importing enterprises have now been drawn up with the assistance of the World Bank. Disbursements from the US\$ 250 million in commitments obtained in September 1985 for financing GECAMINES' medium-term investment plan, which had been temporarily frozen pending satisfactory arrangements between GECAMINES and SONATRAD, have been released in March 1986.

5. Monetary and credit policies

The program aimed at containing the rate of depreciation within 24 percent and the rate of inflation within 20 percent. This was to be achieved by curtailing the growth of net domestic assets to 31 percent in 1985 from 37 percent in 1984 and cutting the growth of net credit to Government to 17 percent from 31 percent, while allowing credit to the private sector to increase by 62 percent, slightly above the growth rate in the preceding year.

The credit targets set for the year as a whole were observed. Net domestic assets increased by 27 percent; net credit to government by 11 percent; credit to the private sector by 56 percent; and broad money increased by 27.3 percent (compared with a projection of 24.3 percent) (Table 4). Reflecting these developments, the change in the net foreign asset position of the banking system (excluding valuation changes) was broadly in line with the original program estimates. However, its distribution differed somewhat from the projections: the increase in the net foreign asset position of the Bank of Zaire and the decline in the net foreign asset position of the commercial banks were both smaller than projected, while the reduction in foreign currency deposits and provisions for import payments was larger.

Although the yearly targets for money and credit expansion were achieved, the rates of currency depreciation and the rate of inflation were considerably higher than targeted. These unfavorable developments mainly reflected a lower-than-anticipated growth in export earnings, but also more expansionary monetary policies during the first five months of the year. In June, the authorities took a series of measures to tighten monetary policy. Excess liquidities in the banking system were reduced by raising the minimum reserve requirement progressively from 22 percent in early June to 40 percent in December. Interest rates under the control of the Bank of Zaire, including rates on treasury bills, were raised in steps by 6 percentage points, which induced commercial banks to raise their rate of remuneration to a range of 30-36 percent in December from a range of 20-25 percent at the beginning of the year. A high penalty rate for weekly excesses over the credit ceilings was also introduced in August in order to discourage banks of expanding credit sharply after the test date at the end of the quarter and reducing it before the following test date in order to observe the quarterly credit ceilings. This penalty had the effect of reducing the "stop and go" pattern of credit to the private sector which had been very pronounced in previous quarters.

III. The Adjustment Program for 1986-87

1. Overview and main objectives

During the past two years, Zaire has made considerable progress in reducing external and internal imbalances. The economy remains, however, very vulnerable to external disturbances and sustained adjustment efforts will be required for several consecutive years before a viable balance of payments position can be achieved. The main objective of the new program is, therefore, to consolidate the progress made during the last two years while setting the stage for sustainable economic growth. A revival of economic growth--which is required to strengthen Zaire's future repayment capability--will have to originate essentially from the private sector. It will be made possible by a progressive rehabilitation of the infrastructure and appropriate macroeconomic and structural policies, notably, a further liberalization

Table 4. Zaire: Monetary Survey, 1984-86

(In millions of zaires; end of period)

	1984	1985				1986			
	Dec. Actual	March	June	Sept.	Dec.	April End of period	June	Sept.	Dec. program targets
Net foreign assets (broad)	-24,324	-31,300	-31,134	-32,701	-38,539	-43,313	-44,683	-45,915	-46,656
Net foreign assets (narrow)	-21,532	-28,083	-28,140	-29,965	-36,168	-40,714	-41,987	-43,106	-43,748
Foreign assets	10,728	11,315	12,768	15,941	13,212	16,685	16,825	17,316	17,698
Bank of Zaire ^{1/}	7,709	8,184	8,568	11,482	2/ 8,889	12,169	12,256	12,738	13,146
Deposit money banks	3,019	3,131	4,200	4,459	4,323	4,516	4,569	4,578	4,552
Foreign liabilities	-32,260	-39,398	-40,908	-45,906	-49,380	-57,399	-58,812	-60,422	-61,446
Bank of Zaire	-31,749	-38,206	-40,104	-44,798	2/ -48,378	-56,301	-57,672	-59,235	-60,217
Deposit money banks	-511	-1,192	-804	-1,108	-1,002	-1,098	-1,140	-1,187	-1,229
Foreign currency deposits and provisions for import financing	-2,792	-3,217	-2,994	-2,736	-2,371	-2,599	-2,696	-2,809	-2,908
Net domestic assets	19,343	23,439	20,831	22,508	24,534	27,450	28,237	29,217	30,044
Net credit to Government Credit to enterprises and households	13,396	15,212	13,893	15,117	14,847	16,447	16,847	15,982	14,808
Of which: IBRD credit	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(1,065)	(2,539)
Other net domestic assets	1,454	3,186	1,529	1,548	2,702	2,869	2,952	3,077	3,202
Money and quasi-money	18,792	20,159	21,220	23,421	23,925	25,821	26,856	28,453	30,145
Currency in circulation	8,802	9,768	10,743	11,613	12,294	13,268	13,800	14,621	15,490
Deposits	9,990	10,391	10,477	11,808	11,631	12,553	13,056	13,832	14,655
Revaluation accounts and adjustments ^{3/}	-27,201	-32,042	-35,886	-38,507	-43,207	-47,469	-49,304	-51,403	-53,230
SDR allocation counterpart	3,428	4,022	4,363	4,893	5,277	5,785	6,002	6,252	6,473

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

^{1/} 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, Z 7,757 million at end-September, and Z 8,642 million at end-December 1985.

^{2/} Includes the IMF purchase effected on October 1, 1985.

^{3/} Includes the counterpart of provisions by OGEDEP for payments to Paris Club creditors.

of the economic system. In view of the unfavorable world market prospects for Zaire's major export commodities, the emphasis will be placed on the expansion of new exports and of efficient import substitution activities by the private sector.

This strategy of adjustment with growth has been designed in the context of the new Five-Year Plan 1986-90 and the three-year core investment program which were drawn in close collaboration with the World Bank and will be presented to the Consultative Group scheduled to meet in Paris on April 21-22, 1986. As indicated at the high-level concertation meeting of Zaire's main creditors held in Brussels on March 11, 1986, the authorities will take appropriate measures to improve the climate in which private enterprises operate and to protect private investment by both nationals and foreigners. On their side, the partner countries intend to accelerate disbursements of grants and loans and to consider the possibility of providing debt relief on generous terms. Provided concerted efforts are made by Zaire and its partners, real GDP growth could be raised to 4 percent a year in both 1986 and 1987, which is the minimum required to significantly improve GDP per capita. The program described below for 1986 and the projections for 1987 are based, however, on levels of external assistance which can be considered now as reasonably firm. On this basis, it is unlikely that a 4 percent rate of GDP growth could be attained in 1987.

For 1986, the program targets are to reduce the external current account deficit to SDR 278 million (6.4 percent of GDP) from SDR 299 million (6.9 percent of GDP) and the overall balance of payments deficit to SDR 366 million from SDR 423 million, which is consistent with an improvement in the capital account reflecting expected disbursements from the World Bank Sector Adjustment Credit to the industrial sector. Assuming a rate of depreciation of 25 percent vis-à-vis the SDR and a rate of inflation of 20 percent, broad money would be expected to increase by 26 percent. In order to attain the balance of payments objectives, the expansion of net domestic assets should be limited to 22.5 percent. This increase of some Z 5 billion will almost entirely benefit the private sector. Net credit to the Government by the domestic banking system should remain virtually unchanged for the year as a whole, since the Government's domestic bank financing requirements will be essentially covered by counterpart funds to the World Bank's Sector Adjustment Credit.

2. External sector

The balance of payments objectives are consistent with a 2 percent decline in the SDR value of exports and a 7 percent increase in the volume of exports. The projected decline in average export unit value reflects the fall in the price of oil to US\$15 per barrel and the decline in the SDR prices of most other export commodities, except coffee. The 60 percent fall in export earnings from crude oil is expected to be approximately offset by a doubling of export earnings from coffee resulting from the combination of higher coffee prices and





sales of carryover stocks made possible by the elimination of the ICO export quotas. This shift in the composition of exports will have the effect of raising the foreign exchange passing directly through the commercial banks--which include coffee earnings--and reducing the foreign exchange available to the Bank of Zaire--which include oil earnings--; it will, therefore, affect the intervention policy of the Bank of Zaire on the foreign exchange market.

Total imports are projected to decline by 1 percent in SDR terms. But, in view of the expected sharp fall in the SDR value of oil imports, the volume of total imports could increase by almost 10 percent. Taking into account a substantial increase of imports by GECAMINES in connection with its medium-term rehabilitation plan, the volume of non-GECAMINES imports could increase by 7 percent, including imports financed from the World Bank's Industrial Sector Credit in the second half of 1986.

The slight decline in the trade surplus will be more than offset by a reduction in expenditures on services other than interest payments resulting from lower dividend to the foreign oil-exporting companies. With unrequited transfers essentially unchanged, the current account deficit could decline by some SDR 20 million.

The deficit of the public capital account is expected to decline by SDR 77 million, on account of disbursements from the Industrial Sector Credit (SDR 35 million) and of lower amortization payments (SDR 42 million) reflecting essentially the depreciation of the U.S. dollar vis-à-vis the SDR. A major part of the improvement in the public capital account is, however, expected to be offset by a reduction of the surplus in the private capital account because of net repayments for the prefinancing of coffee exports. Consequently, the SDR 366 million overall balance of payments deficit projected for 1986 shows an improvement of SDR 57 million from the preceding year.

Taking into account the targets set for the increase in the Bank of Zaire's net reserves (SDR 28 million), the reduction in arrears (SDR 47 million, of which SDR 24 million for commercial arrears which constitutes a performance criterion), and net purchases from the Fund (SDR 34 million), the financing gap would amount to SDR 407 million. It could be filled by debt relief from Zaire's creditors on terms comparable to those obtained in 1985 from Paris Club creditors, provided that maturities under the SNEL Special Payments Mechanisms as well as maturities due to the nonguaranteed creditors participating in the Kinshasa Club are rescheduled. Negotiations are being held with creditors participating in the Kinshasa Club regarding the rescheduling of arrears accumulated during 1985 and of maturities falling due in 1986. The authorities intend to submit a request to Paris Club creditors for the rescheduling of payments falling due in 1986, leaving the June 1983 cutoff date unchanged. The authorities also intend to negotiate a new payment schedule with the Steering Committee of the London Club banks.

Zaire's external arrears amounted to SDR 151 million at the end of 1985. Commercial and invisible arrears, which amounted to SDR 64.8 million at the end of 1985, will be reduced by, at least, SDR 24 million in 1986 through cash payments in foreign currency by the Bank of Zaire. External debt arrears to nonguaranteed creditors outstanding at the end of 1985, which amounted to SDR 7 million, will be eliminated in 1986, either through cash payments or through rescheduling. External nondebt arrears of the Treasury, estimated at SDR 50 million at the end of 1985, will be reduced by at least SDR 20 million in 1986.

In view of Zaire's large foreign indebtedness, the authorities will limit new public or publicly-guaranteed commitments on nonconcessional terms to SDR 150 million for loans with original maturities of 1 to 12 years and to SDR 40 million for those with original maturities of 1 to 5 years. In addition, the Treasury will not engage in any external borrowing with a maturity of less than one year.

The authorities will continue to implement a flexible exchange rate policy with a view to insuring an adequate return to domestic producers and to promoting export diversification. During 1985, the amount of intervention by the Bank of Zaire on the foreign exchange market substantially exceeded the target implicit in the adjustment program. In view of the change in the structure of the flow of foreign exchange receipts from the Bank of Zaire to the commercial banks, the authorities intend to reduce their intervention both during and outside fixing sessions, and to induce commercial banks to sell the foreign exchange available to them either to the Bank of Zaire or to other banks, which would lead to a more active interbank market for foreign exchange. In addition, during the period April to December 1986 the Bank of Zaire will not increase its stock of short-term external debt by more than SDR 50 million above the stock outstanding at the end of 1985.

3. Government finance

The coverage of fiscal operations by the Central Government has been expanded to include expenditures financed from foreign loans and grants, and the overall central government fiscal deficit is now defined on a prerescheduling basis (Table 5). With this new presentation, which is similar to that of the balance of payments, the overall deficit on a commitment basis before grants increases from 6.0 percent of GDP in 1985 to 6.6 percent in 1986. This slight deterioration from 1985 is due to the fact that the deficit in that year had been lowered by exceptional revenue measures as discussed above. With the targeted reduction in arrears of Z 4.3 billion, the overall deficit on a cash basis also widens from 7.6 percent of GDP in 1985 to 8.0 percent of GDP in 1986. The principal sources of financing of the overall deficit (Z 24.2 billion on a cash basis) are foreign grants, estimated at Z 11.6 billion, and foreign loans, estimated at Z 12.0 billion, including Z 2.5 billion from the IBRD Sector Adjustment Credit. Net domestic nonbank financing in the form of treasury bills and bonds is projected at Z 0.9 billion.

Table 5. Zaïre: Central Government Fiscal Operations, 1/ 1983-87

	1983	1984	1985 Prel. actuals	1986 Program	1987 Proj.
(In millions of zaires)					
Revenue	10,998	25,994	41,350	52,100	63,118
Income and profit taxes	3,787	8,122	13,794	16,000	19,643
Taxes on goods and services	3,108	7,365	9,415	14,015	16,300
Import duties	2,158	5,268	8,697	11,110	13,900
Export duties	1,123	3,430	5,258	8,175	9,875
Other revenue	822	1,809	4,186	2,800	3,400
Total expenditure	17,101	41,140	54,807	72,017	87,415
Personnel	3,264	5,063	6,615	8,500	9,700
Goods and services	3,754	5,071	8,839	9,000	10,500
Interest on public debt	3,853	14,311	23,170	28,039	32,770
Domestic	(243)	(1,121)	(4,846)2/	(5,800)	(4,600)
External 3/4/	(3,610)	(13,190)	(18,324)	(22,239)	(28,170)
Transfers and subsidies	941	875	693	1,550	1,150
Investment budget	647	1,019	956	2,100	4,100
Other expenditure	446	1,476	1,086	1,800	2,200
Treasury subaccounts	90	2,326	-2,775	--	--
Extrabudgetary expenditure 5/	4,106	10,999	16,223	21,028	26,994
Overall deficit (-) (commitment basis before debt relief)	-6,100	-15,146	-13,457	-19,917	-24,297
Net change in arrears (reduction -)	-1,210	-2,351	-3,462	-4,250	-3,300
GECAMINES	-434	-1,222	-732	-1,400	-500
Other domestic	-354	-199	-1,237	-1,600	--
External	-422	-930	-1,493	-1,250	-2,800
Overall deficit (-) (cash basis before debt relief)	-7,313	-17,497	-16,919	-24,167	-27,597
Domestic bank financing (net)	2,364	3,197	1,451	-39	-1,500
Domestic nonbank financing (net)	--	617	714	900	1,000
Foreign grants	2,231	6,295	8,704	11,575	14,589
Foreign borrowing (net)	-2,287	-10,132	-15,115	-16,436	-14,791
Disbursement	(1,874)	(4,703)	(7,519)	(11,992)	(17,588)
Of which: World Bank loans	--	--	--	(2,539)	(5,182)
Amortization (-) 4/	(-4,161)	(-14,835)	(-22,634)	(-28,428)	(-32,379)
Debt relief	5,005	17,519	21,165	...	...
Financing gap	...	...	...	28,167	28,299
Memorandum items:					
Overall deficit (after debt relief) (Commitment basis)	-4,004	-9,866	-10,021	...	...
(Cash basis)	-5,214	-12,217	-13,483	...	...
Debt relief	5,005	17,519	21,165	...	...
Interest	(2,099)	(5,280)	(3,436)	(...)	(...)
Amortization	(2,906)	(12,239)	(17,729)	(...)	(...)
(In percent of GDP)					
Revenue	11.1	15.5	18.6	17.3	16.8
Total expenditure	17.2	24.6	24.6	23.9	23.3
Of which: extrabudgetary expenditure	(4.1)	(6.6)	(7.3)	(7.0)	(7.2)
Overall deficit (before debt relief) (Commitment basis)	-6.1	-9.1	-6.0	-6.6	-6.5
(Cash basis)	-7.4	-10.5	-7.6	-8.0	-7.4
Overall deficit (after debt relief) (Commitment basis)	-4.0	-5.9	-4.5	...	...
(Cash basis)	-5.2	-7.3	-6.1	...	...
Foreign grants	2.2	3.8	3.9	3.8	3.9

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

1/ Central government operations consist of budgetary transactions and extrabudgetary outlays financed by foreign grants and loans. The extrabudgetary outlays have been estimated from public sector grants and loans in the balance of payments.

2/ Includes government transfers to the Bank of Zaïre in respect of IMF charges of SDR 58 million.

3/ External debt includes payment made for the SNEL maintenance contract.

4/ Interest and amortization of external debt are on a before-rescheduling basis.

5/ Expenditure financed from foreign loans and grants.

With scheduled amortization payments on the external debt of Z 28.4 billion, a financing gap of Z 28.2 billion is projected, which is expected to be filled through debt relief.

Budgetary revenue is projected to increase by 26.0 percent but to decline in terms of GDP from 18.6 percent in 1985 to 17.3 percent in 1986. This decline in the revenue ratio reflects the nonrecurrence of exceptional revenue measures taken in 1985 which amounted to about 1.7 percent of GDP. It also reflects a 22 percent fall in oil royalties and a relatively slow increase in revenues from GECAMINES. New revenue measures are expected to yield Z 5.5 billion (or 1.8 percent of GDP). An amount of Z 3.4 billion will be gained by maintaining retail prices of petroleum products at their present level, which will offset the loss in royalties from crude oil. An additional amount of Z 1.6 billion will be gained from coffee exports by replacing the flat tax rate by a progressive schedule rising from 4 percent at last year's prices to 12 percent at the price level recorded in the first quarter of 1986. The modification of the income tax schedule and an increase in motor vehicle taxes are also expected to generate additional revenue of Z 0.4 billion and Z 0.1 billion, respectively. Taking into account the above factors, taxes on goods and services will increase by 49 percent. The projected increase in taxes on international trade by 39 percent reflects both increased trade volumes and the impact of the expected depreciation of the currency. However, income and profit taxes are expected to increase only modestly (16 percent), while other revenues, which in 1985 consisted largely of exceptional receipts, will decline by 33 percent.

The authorities intend to improve further the tax yield by implementing the recommendations of the fiscal technical assistance mission that visited Kinshasa in January 1986, notably by broadening the coverage of taxpayers, improving audit procedures and reducing tax exemptions. In addition, the authorities intend to increase considerably the yield of real estate tax--which is now extremely low--and to improve collection procedures for special levies which are now being collected by Government departments and agencies rather than directly by the Treasury; progress in these areas, which should affect essentially the 1987 budget, will be examined during the first review. Complementary measures needed to implement customs duties collection through the banking system were put in place in late March.

Total budgetary expenditures are expected to increase by 30 percent if treasury subaccounts are included, but by only 21 percent if they are excluded. Expenditures on goods and services and personnel are projected to increase by only 13 percent. Most of the increase will be for personnel expenditures reflecting the full-year impact of the increase in the minimum wage and new recruitment of military personnel which were made in 1985 as well as the targeted wage increases in 1986, which will be limited to 10 percent in the second quarter and 15 percent in the fourth quarter. Moreover, in 1986 all personnel expenditures previously classified under goods and services will be paid from the budgeted

personnel allocation of Z 8.5 billion. Expenditures on goods and other services will hardly increase from their recorded 1985 level because of a reclassification of some expenditure items to the personnel categories, the nonrecurrence of certain exceptional expenditures in 1985, and a tightening of expenditure control through improved procedures for committing expenditures and awarding government contracts. In particular, as regards consumption of petroleum products, quotas will be allocated to each user and the oil companies will be informed that the Treasury will not pay for deliveries above quotas without prior authorization of the First State Commissioner. Transfers and subsidies, however, are projected to nearly double on account of a one-time provision for the rehabilitation of schools and hospitals outside the Kinshasa region. The projected increase in the category of "other expenditure" of 64 percent largely reflects expenditure financed through the drawings from the BPO (counterpart funds). The treasury subaccounts are expected to be in balance in 1986.

Domestically financed investment expenditures are programmed at Z 2.1 billion, of which Z 1.1 billion represents the counterpart funds required for projects financed mainly by external sources. This budgetary provision is considered insufficient by World Bank staff because of the urgent need to rehabilitate the infrastructure. Following an exhaustive review of investment projects by the World Bank, the budgetary allocation will be reassessed during the course of the first review in the light of the results of the Consultative Group meeting and of the debt relief obtained from Paris Club and other creditors.

Expenditures financed by foreign loans and grants are estimated at Z 21 billion, which represents an increase of 30 percent, roughly equivalent to the expected currency depreciation. Grants, which account for half of total external assistance, are mainly used to finance technical assistance from bilateral and multilateral sources; foreign loans and about the remaining third of foreign grants are used to finance projects in the fields of transportation, water, energy, and in the agricultural and forestry sectors. In order to accelerate the disbursement of foreign loans and grants, the authorities are committed to ensure the timely availability of counterpart funds and to eliminate the various administrative bottlenecks.

The program provides for a Z 4.2 billion reduction in arrears of the Treasury, of which Z 1.25 billion for nondebt external arrears. Regarding the latter, minimum quarterly reductions have been set as a performance criterion under the program. As regards domestic arrears, including arrears to GECAMINES, the program assumes an evenly spread reduction throughout the year; the actual phasing will be examined during the course of the program reviews.

4. Public enterprises and private sector

The Government will pursue its efforts to improve the management of public enterprises. GECAMINES will accelerate its rehabilitation program with a view to maintaining its output at about the 1985 level and reducing production costs. MIBA (the diamond mining company) will aim at a modest production increase, while KILOMOTO (the gold mining company) intends to launch a major investment program in a joint venture with foreign partners. Sizable expenditures for rehabilitation are required for the two major transport companies: ONATRA--which is responsible for rail and river transport and the Matadi-Kinshasa railroad--and, especially, SNCZ--which is responsible for the rest of the railroad network. Possible ways of improving productivity in the main public enterprises are now being assessed in a systematic manner by the World Bank in the context of a possible Structural Adjustment Credit which could become effective in 1987.

Although the public enterprises sector will remain important, the authorities now believe that the major production increase should originate from the private sector. The liberalization of agricultural prices has already contributed to the expansion of production, but the commercial sector has been strained by the lack of appropriate transport facilities. As regards industrial production, which is essentially in the hands of the private sector, the rate of capacity utilization could be raised by providing additional medium-term credit for the imports of raw materials, spare parts, and light equipment, and this could be done without generating balance of payments pressures in the second half of 1986, when the World Bank Industrial Sector Credit (possibly supported by other donors) becomes effective. This credit will be allocated to small- and medium-size enterprises in the industrial and agro-industrial sectors by commercial banks which have developed good working relationships with potential borrowers and will have to carry the commercial risk. A separate IDA line of credit is expected to be made available through SOFIDE (the Zairian development bank) for the imports of capital goods and equipment. The interest rates charged by commercial banks on credits expressed in local currency will be comparable to those charged by SOFIDE for extending credits in foreign currencies. In the former case, the foreign exchange risk premium will be reflected in the rates paid by commercial banks to the Bank of Zaire. In the context of the proposed Industrial Adjustment Program, the authorities intend to restructure import tariffs with a view to reducing differences in the rates of effective protection among subsectors and to eliminating hindrances to exports.

5. Monetary and credit policies

With a 20 percent inflation rate and a 26 percent increase in broad money, the balance of payments objectives can be achieved by limiting the expansion of net domestic assets of the banking system to 22.5 percent in 1986 (as compared with 31 percent under the 1985 program), which represents an increase of Z 5.1 billion. Of this amount, Z 2.5 billion

would have been required to finance the budget deficit without disbursements under the World Bank Sector Adjustment Credit, which would have left Z 2.1 billion for the expansion of credit to the private sector and Z 0.5 billion for other net domestic assets. With disbursements under the Sector Adjustment Credit close to SDR 35 million, the account of the Treasury with the Bank of Zaire would be credited by the counterpart equivalent to some Z 2.5 billion and net credit to Government would not need to increase in 1986. By contrast, credit to the private sector would need to rise by Z 2.5 billion to provide entrepreneurs with the zaire counterpart of the foreign exchange cost of the imported goods financed by the World Bank Credit. The overall balance of payments deficit and, consequently, the ceiling on net domestic assets of the banking system will not be affected by variations in the level of disbursements from the World Bank Credit, but the subceiling on net credit to Government would need to be adjusted for such variations. For this reason, performance criteria are defined, in terms of flows, as the sum of the increases in net credit to Government by the banking system and counterpart funds of drawings from the World Bank Sector Adjustment Credit.

With a view to avoiding the "stop and go" credit policy, ceilings and subceilings are defined in the proposed program as arithmetic averages of the stocks of net domestic assets and net credit to Government outstanding at the end of each month during the period and at the end of the last month of the preceding period. Thus, performance criteria for the period January through April are defined as the five-month averages of credit outstanding at end-December, end-January, end-February, end-March, and end-April. In calculating this average, the end-April target for net credit to Government remains the target shown in the supplement to the second review. 1/ This target is about Z 400 million lower than both the April target shown in the second review paper 2/ and the March target included in the original program 3/ which was retained in the first review paper. 4/ The five-month average proposed for net credit to Government as a performance criterion coincides with the target shown in the second review paper issued in January 1986, but is Z 574 million higher than the target shown in the supplement to the second review, because of differences in the interpolation for the intermediate months. For net domestic assets, the original target for end-March 1986, which had been retained in the first review, was reduced by Z 1.1 billion in the second review in view of the higher-than-expected rate of inflation. The five-month average proposed as performance criterion for net domestic assets exceeds the target shown in the supplement to the second review by Z 149 million, which partly reflects the increase in the five-month average for net credit to Government. The performance criteria for June 1986 are defined as the three-month averages for the period April-June 1986,

1/ EBS/86/19, Supplement 1, February 20, 1986.

2/ EBS/86/19, January 28, 1986.

3/ EBS/85/74, March 26, 1985.

4/ EBS/85/207, August 30, 1985.

and the performance criteria for September as the four-month averages for the period June-September 1986. Indicative targets have also been set for the four-month averages for the period September-December 1986; they will be replaced by performance criteria during the first review of the program.

While the Bank of Zaire has started to make more active use of its instruments of monetary policy, in particular, the minimum reserve requirement, the quantitative ceilings for the expansion of credit set by the Bank of Zaire for the expansion of credit by each commercial bank remain the main instrument of control. In order to allow for a more flexible and less direct control of credit to the economy, the Bank of Zaire will put into place the basic structure of a domestic money market among commercial banks. A Fund expert in this field has recently taken up a six-month assignment, and progress made in this respect will be assessed during the first review. The Bank of Zaire will also take account of the need to adjust interest rates in line with the rate of inflation and the rate of depreciation of the zaire. In light of recent developments, the Bank of Zaire has raised, effective February 24, the structure of interest rates under its control by 2 percentage points, except for interest rates on agricultural loans and the related discount rate which were raised by 4 percentage points in order to reduce the differential between these loans and the freely determined rates on other loans.

The face value of treasury bills outstanding, which more than doubled during 1985 to Z 1,406 million, is expected to reach Z 1,806 million by end-1986. This lower increase was considered appropriate in light of the comparatively high cost to the Treasury of this kind of borrowing and, more importantly, of the sharp increase in commercial bank's deposit rates which are now in line with the remuneration of treasury bills. The authorities will also introduce long-term treasury bonds in the course of 1986. The sale of such bonds is expected to reach Z 500 million by the end of the year.

The authorities recognize that the depreciation of the exchange rate and the resurgence of inflation in 1985 was in large part due to more expansionary monetary policies than was warranted during the first half of the year and during the periods between test dates. They will attempt to contain inflationary pressures by limiting credit expansion to a path consistent with the inflation target, but will not introduce restrictions designed to sustain the exchange rate artificially.

6. Projections for 1987

Preliminary balance of payments projections indicate that the current account deficit would remain at a level equivalent to 6.4 percent of GDP, while the overall balance of payments would decline by SDR 58 million to SDR 308 million. The value of exports is projected to increase by only 2 percent and the volume of exports to decline slightly because increases in exports of crude oil and diamonds are not

expected to offset the decrease in coffee exports. With higher scheduled interest payments, an increase in the trade surplus would be required to achieve the current account target. Hence, imports could grow by only 1.4 percent and would decline in volume terms. The decline in the volume of imports, however, reflects mainly the return to more normal levels of imports by GECAMINES following a sharp increase in 1986. The volume of non-GECAMINES imports, which is projected to grow by 7 percent in 1986, would increase by almost 2 percent in 1987. Nevertheless, in view of the expected increase in disbursements by multilateral agencies (notably, the World Bank), a larger share of imports could be devoted to productive investments.

Taking into account the need to eliminate the remaining commercial arrears of SDR 51 million, to further increase net reserves by SDR 20 million, and to make net repurchases of SDR 30 million, the financing gap would amount to SDR 409 million. With debt relief on terms comparable to those assumed for 1986, a residual gap of some SDR 60 million would remain. The possibilities of filling this gap will be explored with the authorities during the course of the first and the second reviews of the program.

In order to stimulate export and import substitution activities, a further real depreciation of the currency would be needed. It was assumed that the rate of depreciation could be reduced to 20 percent and the rate of inflation to 15 percent. This will continue to exert pressure on the budget, and strong fiscal discipline will need to be pursued in 1987. It is expected that a number of recommendations made by the joint Fund/Bank technical assistance mission will start to have an impact on revenue. However, since the 1987 budget will be established only in the course of the second review, the fiscal operations assume a continuation of existing policies. On this basis, the overall fiscal deficit (on a cash basis and before rescheduling) would decline to 7.4 percent in 1987 from 8.0 percent of GDP in 1986. If the counterpart of disbursements under the Sector Adjustment Credit and a new Structural Adjustment Credit were to reach Z 5.2 billion, net credit to Government should decline by Z 1.5 billion. Understandings on the fiscal program for 1987 will be reached at the time of the second review.

7. Performance criteria

The proposed stand-by arrangement contains the following performance criteria: (a) ceilings on net domestic assets of the banking system and net credit to Government by the banking system (including the counterparts to drawings from the IBRD Industrial Sector Credit); (b) floors for the net cumulative reduction of commercial arrears and arrears of invisibles through cash payment in foreign exchange; (c) floors for the net cumulative reduction of the Treasury's nondebt external arrears; (d) ceilings on commitments of public and publicly-guaranteed debt on nonconcessional terms in the maturity ranges of 1 to 12 years and 1 to 5 years; (e) ceilings on the net increase in

short-term external debt by the Bank of Zaire, and the understanding that the Treasury will not engage in any external borrowing with a maturity of less than one year; and (f) the standard clauses regarding the exchange and trade system. The figures for net credit to Government will be adjusted, if necessary, as indicated in footnote 6 to Table 6. The other performance criteria include the nonaccumulation of external arrears and of new domestic arrears. The quantitative performance criteria for April, June, and September 1986, together with indicative targets for December 1986, are presented in Table 6.

The progress made under the program will be examined during the course of three reviews which will constitute performance criteria. During the first review, to be completed by end-September 1986, the adequacy of the financing of the program will be examined in the light of commitments made by the Consultative Group and of debt relief obtained from external creditors, performance criteria will be established for the remainder of 1986, and indicative targets will be set for end-March 1987. During the second review, to be completed before end-March 1987, understandings will be reached on the 1987 fiscal program and performance criteria will be established for the remainder of the program period. The third review, to be completed before end-September 1987, will examine progress in the implementation of the program.

IV. Medium-term Scenarios 1988-94

Despite Zaire's sustained adjustment efforts and the substantial improvements achieved since 1983, the country's external situation will remain difficult for a number of years to come if, as currently forecast, prices of its mineral exports remain weak in SDR terms. Substantial increases in the trade surplus will be required to meet external debt service obligations as payments of principal related to Zaire's 1983 rescheduling agreement with Paris Club creditors will fall due and Fund exposure progressively declines. However, since the prospects for a significant growth in the volume of Zaire's mineral exports are not favorable, the needed improvement in the trade balance can only come from an extensive and rapid diversification of the export base and the development of activities allowing for efficient import substitution. Prospects are favorable for increasing agricultural and industrial production for exports and for reducing the country's dependence on imports of foodstuffs, meat, and fish. In order to realize this potential, however, fundamental improvements in the domestic economic environment and infrastructure are needed which will require substantial investments.

Zaire's external debt of about US\$ 5.5 billion (including Fund credit), about half of which has been incurred to finance projects which do not have a positive rate of return, carries an average interest rate of 7.8 percent in 1986. The necessary strengthening of Zaire's future debt servicing capacity will require the pursuit of strong adjustment

Table 6. Zaire: Quantitative Performance Criteria Under the Program for 1986

	1985	1986			
	Dec. <u>1/</u>	April <u>2/</u>	June <u>2/</u>	Sept. <u>2/</u>	Dec. <u>3/</u>
	(In millions of zaires; period averages) <u>4/</u>				
Net domestic assets of the banking system	25,384 <u>5/</u>	26,566	27,843	28,727	29,630
Net domestic credit to the Government (including the counterparts to drawings from the IBRD credit) <u>6/</u>	14,847 <u>5/</u>	16,221	16,647	16,972	17,197
	(In millions of SDRs)				
Net cumulative reduction of commercial arrears and arrears on invisibles through cash payment in foreign exchange (end of period)	64.8 <u>5/</u>	8	12	18	24
Net cumulative reduction of external nondebt arrears of the Treasury (end of period)	50.2 <u>5/</u>	5	10	15	20
New external borrowing contracted or guaranteed by the Government through end of period <u>7/</u>					
1 to 12 years' maturity		150	150	150	150
1 to 5 years' maturity		40	40	40	40
Net cumulative increase in Bank of Zaire short-term external debt through end of period	146.5 <u>5/</u>	50	50	50	50

1/ Actuals.

2/ Performance criteria.

3/ Indicative.

4/ Arithmetical average of end-of-month figures for the period, including the last month of the preceding period.

5/ Stock at end of period.

6/ These amounts are based on the assumption that the stock of treasury bills and long-term treasury bonds outstanding which amounted to Z 1,406 million at end-December 1985 will not exceed Z 1,706 million during the period through end-April, Z 1,906 million through end-June, Z 2,156 million through end-September, and Z 2,306 million through end-December 1986. Whenever the amount of treasury bills and long-term bonds outstanding at the end of a month during the indicated periods exceeds the amounts indicated for that period, the excess will be added to net credit to Government at the end of this month for the purpose of calculating the arithmetical average.

7/ Applies to borrowing on nonconcessional terms and excludes rescheduling/ refinancing operations.

policies and a careful selection of investment projects. The growth path of Zaire's economy will be strongly influenced by the amount and the terms of future external assistance and, in view of the uncertainty regarding the availability of such assistance, two scenarios are presented.

In both scenarios, Zaire's terms of trade improve by a cumulative 5 percentage points over the projection period, and the volume of exports by GECAMINES (which accounted for about half of Zaire's export earnings in 1985) remains virtually unchanged. Policies are designed to eliminate external arrears by 1988, to progressively increase international reserves, and to eliminate the financing gap by 1992 through a progressive increase in the rate of domestic savings and cautious borrowing, especially as regards borrowing on commercial terms.

In the baseline scenario (Table 7 and Appendix VI, Table IV.A), the gap is financed on commercial terms. Disbursements from grants and public loans, which declined from SDR 500 million in 1980 to SDR 317 million in 1985, increase progressively to SDR 653 million in 1994, implying a small increase in real terms from 1985. The interest rate charged for financing the gap declines to 9 percent in 1988 and remains at this level thereafter, but the average interest rate on Zaire's debt steadily declines to 5.6 percent on account of the increasing share of concessional financing. From 1987 to 1994, the SDR value of export earnings increases, on average, by 7 percent a year and that of imports by 6 percent. This would represent an increase of less than 2 percent in the volume of imports, which precludes any improvement in real income per capita since population is increasing by 3 percent a year.

In the alternative scenario (Appendix VI, Table IV.B), disbursements from grants and public loans on concessional terms rise to SDR 953 million in 1994 (instead of SDR 653 million); in real terms, this implies a substantial increase from 1985 but only a return to the 1980 level. The interest rate on gap financing falls to 8 percent from 1988 onwards, and the average interest rate on Zaire's public debt steadily declines from 7.8 percent in 1986 to 5.0 percent in 1994. Export earnings increase faster than in the baseline scenario (8.2 percent a year instead of 7 percent) on account of higher growth in the volume of nontraditional exports made possible by larger investments. The share of nontraditional exports rises from 6 percent in 1988 to 15 percent in 1994, compared with only 10 percent in the first scenario. The volume of imports increases by 5 percent a year, which, after taking into account rehabilitation needs, allows real GDP to rise by 4 percent a year. This second scenario is similar to the one presented by the World Bank to the Consultative Group.

The projections are very sensitive to variations in interest rates, as illustrated by the comparison between the two scenarios; they are, however, even more sensitive to variations in the terms of trade. In relation to the first scenario, a one percentage point increase in the interest rate on gap financing would raise the cumulative gap by SDR

Table 7. Zaire: Medium-Term Balance of Payments Outlook, 1984-94

Baseline Scenario

(In millions of SDRs)

	1985	1986	1987	1988	1989	1990	1991	1992
Trade balance	510	488	506	566	632	702	767	841
Exports, f.o.b.	1,879	1,842	1,879	2,007	2,171	2,344	2,524	2,727
Imports, c.i.f.	-1,369	-1,354	-1,373	-1,441	-1,539	-1,642	-1,757	-1,881
Services	-917	-875	-917	-957	-964	-963	-958	-955
Receipts	155	149	155	162	171	180	189	195
Expenditures	-1,072	-1,025	-1,072	-1,119	-1,135	-1,143	-1,147	-1,158
Non-interest	-688	-635	-667	-692	-717	-744	-774	-802
Interest	-384	-390	-405	-427	-418	-399	-373	-354
Unrequited transfers (net)	108	108	116	123	132	140	150	160
Public	169	168	178	189	201	214	228	243
Private	-61	-59	-62	-66	-69	-74	-78	-83
Current account balance	-299	-279	-295	-268	-200	-121	-41	46
Public capital	-298	-221	-166	-168	-193	-149	-227	-232
Disbursements	148	190	243	259	276	293	313	333
Amortization	-446	-411	-409	-427	-469	-443	-540	-565
Private capital and errors and omissions	173	134	153	161	170	182	195	208
Overall balance	-423	-366	-308	-275	-223	-88	-73	22
Financing items	423	366	308	275	223	88	73	-22
Arrears	-51	-47	-51	--	--	--	--	--
Other reserves	-2	-28	-20	-20	-13	-27	-16	-33
Net Fund credit	65	34	-30	-194	-178	-143	-71	-39
Purchases	(169)	(128)	(95)	(24)	(--)	(--)	(--)	(--)
Repurchases	(-104)	(-94)	(-125)	(-217)	(-178)	(-143)	(-71)	(-39)
Debt relief	411	...	...	...	...	...	...	..
Financing gap	--	407	409	489	414	258	160	50

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

120 million over the 1988-94 period, while a decline of 1 percent per year in Zaire's terms of trade would increase the cumulative gap by SDR 750 million.

V. Staff Appraisal and Proposed Decisions

Since the major exchange rate depreciation of September 1983, Zaire has pursued strong adjustment efforts and has succeeded in reducing its external and internal imbalances. The convertibility of the currency has been preserved through a flexible exchange rate policy. The share of credit available to the private sector has greatly increased, and external debt service payments have been made on schedule.

In 1984, recorded export earnings increased by 17 percent, inflation fell to below 20 percent, and real GDP grew by nearly 3 percent. In 1985, however, developments were not as favorable: export earnings rose by only 2 percent, the exchange rate depreciated by 55 percent in local currency terms vis-à-vis the SDR, inflation reached almost 40 percent, and real GDP increased by only 2.5 percent.

The difficulties started in early 1985 when it became clear that the large expected increase in the volume of oil exports would not materialize. The authorities did not respond rapidly enough to the shortfall in oil royalties, delays occurred in the implementation of some of the fiscal measures which had been programmed, and the ceiling on net domestic assets and subceiling on net credit to Government were not observed at end-March. Realizing the seriousness of the problem, the authorities took strong measures in the second quarter of 1985, and all the original performance criteria were observed for the remainder of the program period. This was achieved by exceptional revenue measures which cannot be repeated and by cutting sharply nondebt expenditures in real terms.

In spite of delays in implementing fiscal measures in the early part of 1985, the staff considers that Zaire has made strong efforts in adjusting to an environment which has been less favorable than anticipated when the program was designed. Although progress was made in expenditure control, government expenditures on petroleum products and a number of other imported goods exceeded substantially the program targets. Credit policies remained too expansionary in the first five months of the year, which led to a higher-than-anticipated depreciation of the currency in spite of sizable interventions of the Bank of Zaire on the foreign exchange market. Nevertheless, substantial progress was made in strengthening fiscal discipline, improving the management of public enterprises, and liberalizing the economy.

In the context of the program to be supported by the proposed 22-month stand-by arrangement, a fiscal program has been drawn up for calendar year 1986 and performance criteria have been set for end-April, end-June, and end-September 1986. The targets for end-December will be replaced by performance criteria during the first program review which





will be completed by end-September and, at the same time, indicative targets will be set for end-March 1987. The 1987 budget will be established and performance criteria will be set for the remainder of the program period during the course of the second program review which will be completed by end-March 1987. The last review will be completed by end-September 1987, and each review will constitute a performance criterion under the program.

The program for 1986 aims at reducing the external current account deficit to 6.4 percent of GDP and the rate of inflation to 20 percent. The coverage of fiscal operations by the Central Government was expanded to include expenditures financed from foreign loans and grants, and the overall budgetary deficit is now defined on a pre-rescheduling basis. With this new presentation, which is similar to the one used for the balance of payments, the overall fiscal deficit on a cash basis widens slightly (from 7.6 percent of GDP in 1985 to 8.0 percent in 1986), but the 1985 deficit was low due to the exceptional revenue measures, such as the sale of assets. Possible ways of increasing the underlying trend of government revenues have been explored by a joint Fund/Bank technical assistance mission, and the recommendations of the mission are being progressively implemented. The budgetary deficit in 1986 and the amortization payments on the public debt will be fully financed, assuming debt relief comparable to that obtained in 1985, without recourse to the banking system, assuming that the counterpart funds from drawings under the World Bank Sector Adjustment Credit reach Z 2.5 billion (about US\$35 million). In view of the uncertainty regarding the exact amount which will be disbursed under this credit during the second half of 1986, the government subceiling is defined as net credit to Government plus disbursements from the World Bank Credit. The ceiling on net domestic assets of the banking system will remain unaffected by disbursements under the World Bank Credit; consequently, credit to the private sector will be allowed to expand by the zaire counterpart of disbursements under the World Bank credit. This mechanism was established with a view to raising the rate of capacity utilization in the industrial sector (which is almost entirely in private hands) in the context of a drive to stimulate production by the private sector. The authorities will also take measures to encourage the inflow of equity capital and they intend to promptly ratify the statutes of MIGA, the multilateral agency for investment guarantees, expected to be established shortly. A slight decline is projected for the SDR value of imports, but the volume of non-GECAMINES imports could increase by 7 percent, including imports financed by the Sector Adjustment Credit referred to above. Although the overall balance of payments deficit is projected to decline substantially in 1986, the financing gap would remain about the same as in 1985.

In 1987, given the presently projected level of disbursements which may be considered as reasonably firm, the financial situation will be tight. With a small decline in the volume of imports, the external current account deficit would remain at about 6.4 percent of GDP. However, in spite of a further substantial decline in the overall

deficit, the financing gap would still remain at about its 1985 level; this partly reflects the fact that Zaire will start to make net repurchases to the Fund in 1987.

The staff believes that the financing gap projected for 1986 can be filled through debt restructuring. Without change in the cutoff date, the amount rescheduled by Paris Club creditors would be slightly lower than in 1985 but this reduction could be offset by larger rescheduling from other creditors. Progress has been made in obtaining greater debt relief from nonguaranteed creditors at the first meeting of the Kinshasa Club held on February 17-18, 1986, and the problems which had been encountered in rescheduling part of the maturities due under the SNEL Special Payments Mechanisms were discussed with Paris Club creditors on March 5, 1986. In 1987, after debt rescheduling on terms comparable to those assumed for 1986, a financing gap of about SDR 60 million would remain; one of the potential sources for closing this gap would be disbursements from the SAF. Since consideration of the Zairian request to the Paris Club creditors is expected to follow shortly the Board discussion on Zaire, the staff considers that outright approval by the Executive Board would be justified.

The medium-term projections suggest that Zaire can attain balance of payments viability by 1992, provided strong adjustment policies are pursued. Since Zaire's balance of payments is very sensitive to variations in the terms of trade, it is essential to increase international reserves and to preserve exchange rate flexibility so as to enable the country to fulfill its external obligations, in particular those to the Fund which will be particularly heavy in the period 1988 through 1990. The authorities are well aware that a deterioration in Zaire's terms of trade would require stronger adjustment efforts than assumed in the medium-term scenarios.

The growth path attainable by Zaire will be strongly influenced by the amounts and the terms external assistance. On the one hand, if the gaps are financed at commercial terms (as in the past two years) and if disbursements under grants and concessional loans increase modestly and remain in 1994 substantially lower in real terms than they were in 1980, the volume of imports will remain severely constrained and real per capita GDP will decline further. On the other hand, if the interest rate on gap financing was reduced by one percentage point and if disbursements from grants and concessional loans increased more rapidly to reach their 1980 level in real terms in 1994, the volume of imports could increase by about 5 percent a year, which would permit a faster rehabilitation of the infrastructure and higher investments in export-oriented activities, thus leading to a growth in real GDP per capita without impeding attainment of balance of payments viability.

Since December 1983, Zaire has purchased SDR 474 million from the Fund, or 60 percent of total disbursements from all foreign loans and grants. Multilateral agencies are now considering to raise substantially their commitments; in particular, a Sector Adjustment Credit for

industry and a SAC are expected to be considered by the World Bank Board in mid-1986 and early 1987, respectively. Bilateral creditors will also consider the possibility of raising their financial assistance in the context of the Consultative Group scheduled to meet in Paris on April 21 and 22. In these circumstances, the staff considers it appropriate for Fund exposure not to exceed its present level at the end of the proposed arrangement. The staff also considers that the proposed access (40 percent of quota on an annual basis) is justified by the adjustment measures outlined in the program, and that this level would allow adequate support for the 1986-88 program while permitting the possibility of further access in subsequent years.

It is recommended that the next Article IV consultation with Zaire be held on the standard twelve-month cycle.

Proposed Decisions

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

A. 1985 Consultation

1. The Fund takes this decision relating to Zaire's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1985 Article XIV consultation with Zaire, and in light of the 1985 Article IV consultation with Zaire conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Polices).

2. Zaire maintains a restriction on payments and transfers for current international transactions evidenced by external payments arrears subject to to Article VIII, Section 2(a). Zaire also has bilateral payments agreements which are inconsistent with Article VIII. The Fund urges Zaire to terminate the bilateral payments agreements as soon as possible. The Fund grants approval for the retention of the exchange restriction evidenced by external payments arrears until March 30, 1987, or the completion of the next Article IV consultation with Zaire, whichever is earlier.

B. Request for Stand-By Arrangement

1. The Government of Zaire has requested a stand-by arrangement for the period from ----- 1986 to ----- 1987, in an amount equivalent to SDR 214.2 million.

2. The Fund approves the stand-by arrangement attached to EBS/86/76.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Zaire - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated March 28, 1986 from the President of the Republic of Zaire requesting a stand-by arrangement and setting forth: (a) the objectives and policies that the authorities of Zaire intend to pursue for the period of the stand-by arrangement; and (b) understandings of Zaire with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and the policies and measures that the authorities of Zaire will pursue for the remainder of the period of this arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For the period from April --, 1986 to ----- 1988, Zaire will have the right to make purchases from the Fund in an amount equivalent to SDR 214.2 million subject to paragraphs 2, 3, 4, 5, and 6, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of:

SDR 23.8 million until June 15, 1986

SDR 47.6 million until August 15, 1986

SDR 71.4 million until October 15, 1986

SDR 95.2 million until February 15, 1987

SDR 119.0 million until May 15, 1987

SDR 142.8 million until August 15, 1987

SDR 166.6 million until October 15, 1987

SDR 190.4 million until February 15, 1988

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Zaire's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota.

3. Purchases under this arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1 until purchases from ordinary resources under this arrangement reach the equivalent of SDR 42.4 million and thereafter each purchase shall be made from borrowed resources only, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Zaire will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Zaire's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

- (i) the ceiling on net domestic assets of the banking system, or
- (ii) the ceiling on net credit to the Government by the domestic banking system (including drawings from the IBRD Sector Adjustment Credit), or
- (iii) the net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange, or
- (iv) the net cumulative reduction in external nondebt arrears of the Treasury, or
- (v) the ceiling on new external borrowing contracted or guaranteed by the Government in the maturity ranges of 1 to 12 years and 1 to 5 years (with the exception of concessional loans and the refinancing of loans under debt rescheduling agreements), or
- (vi) the ceiling on the net cumulative increase in Bank of Zaire short-term external debt

described in paragraph 30 of the annexed memorandum is not observed; or

(b) during any period in which the data at the end of the preceding period indicate that:

- (i) the Government has accumulated any new external debt or nondebt arrears, or
- (ii) the Government has accumulated any new domestic arrears, or

- (iii) the Treasury has engaged in any external borrowing with a maturity of less than one year, or

(c) after September 30, 1986, March 31, 1987, and September 30, 1987, respectively, until the reviews contemplated in paragraph 30 of the annexed memorandum have been completed and suitable performance criteria have been established, or after such performance criteria have been established, while they are not being observed; or

(d) during the entire period of the stand-by arrangement, if Zaire:

- (i) imposes or intensifies restrictions on payments and transfers for current international transactions, or
- (ii) introduces multiple currency practices, or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When Zaire is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Zaire and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Zaire will not make purchases under this stand-by arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Zaire's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Zaire. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Zaire and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and

procedures of the Fund, and may be made in SDRs if, on the request of Zaire, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's rules and regulations. Zaire will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Zaire shall pay a charge for this arrangement in accordance with the decisions of the Fund.

10. (a) Zaire shall repurchase the amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Zaire's balance of payments and reserve position improves.

(b) Any reductions in Zaire's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

11. During the period of the stand-by arrangement, Zaire shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Zaire or of representatives of Zaire to the Fund. Zaire shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Zaire in achieving the objectives and policies set forth in the attached letter and annexed memorandum.

12. In accordance with paragraph 30 of the annexed memorandum, Zaire will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of this stand-by arrangement and while Zaire has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Zaire's balance of payments policies.

Kinshasa, March 28, 1986

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosiere,

1. The Executive Council of the Republic of Zaire has now been pursuing rigorous adjustment policies for more than three years; these policies have been supported, since December 1983, by two successive stand-by arrangements with the Fund. The progress during the present stand-by arrangement, due to expire on April 23, 1986 has been closely monitored by the Fund and, as shown by the recently completed second review, the basic objectives of the program for 1985 have been met.

2. The free convertibility of the zaire has been maintained throughout the past two years at a realistic exchange rate and Zaire has fulfilled its external obligations despite the slowdown in the growth of export earnings. This resulted in a sharp depreciation of the zaire and a resurgence of inflation despite fiscal and monetary restraint. In 1985, external debt service payments have exceeded disbursements from foreign loans and grants which has contributed to a slowdown in imports and in economic growth. The burden of external debt service payments has been particularly heavy for the budget, and the fiscal targets for 1985 could only be attained because of exceptional budgetary revenue, including the liquidation of assets, and tight controls over expenditures which resulted in a marked reduction of public investment.

3. The Executive Council will pursue rigorous financial policies, but also believes that the efforts of Zaire should be supported by efforts of its creditors in order to allow for an increase in economic activity which will have the effect of increasing Zaire's repayment capacity. To this end, the Executive Council has established a Five-Year Plan and a minimum three-year investment plan in close collaboration with the World Bank for presentation to the Consultative Group for Zaire which will meet in Paris in April.

4. In support of the adjustment program which is described in the attached Memorandum, Zaire requests a 22-month stand-by arrangement from the International Monetary Fund for an amount equivalent to SDR 214.2 million and will seek a substantial rescheduling of its debt service due in 1986. The Executive Council believes that the policies and measures set forth in the attached Memorandum are adequate to achieve the objectives and performance criteria specified in that Memorandum, and is committed to take any further measures that might be required to this end. Zaire will consult with the Fund in accordance

with the policies of the Fund, and will provide the Fund staff with all relevant information in connection with the progress being made toward achieving the program's objectives. In this connection, the Zairian authorities intend to discuss with the Fund staff the progress made in the implementation of the program before the end of September 1986, before the end of March 1987, and before the end of September 1987.

5. It is understood that full and rigorous application of all the measures specified or to be taken later in no way implies any renunciation by Zaire to its prerogatives as a sovereign state.

Sincerely yours,

The President and Founder of
the Popular Movement of the Revolution
President of the Republic
Mobutu Sese Seko Kuku Ngbendu Wa Za Banga
Marshal

Attachment

Memorandum on the Economic and Financial Policies
of the Executive Council of Zaire

1. After a three-year period of economic and financial stabilization, the Executive Council has set a target rate of economic growth of 4 percent--the minimum required to improve per capita income--for the period of the 1986-90 Five-Year Plan. To realize the economy's full productive potential during this period, a five-year public investment plan has been drawn up in close collaboration with the World Bank, and a core program for the 1986-89 period will be determined with the World Bank in March 1986 for submission to the Consultative Group of Creditors at its Paris meeting scheduled for April 21, 1986. This plan places great emphasis on the rehabilitation of the infrastructure, which is required for the growth of economic activity. The Executive Council has also decided to stimulate the development of private enterprises and to facilitate the inflow of foreign equity capital for productive investments, especially in the export-oriented sectors and in the subsectors with a potential for efficient import substitution. For this purpose, the Executive Council will take a series of measures aiming at protecting private investments by both nationals and foreigners. It intends to ratify promptly the articles of the Multilateral Agency for Investment Guarantees, which is expected to be established in the near future under World Bank auspices. It has also taken measures to simplify the administrative procedures required for the disbursement of foreign assistance and to ensure the timely availability of counterpart funds. More generally, the Executive Council is determined to take the measures necessary to improve the investment climate and preserve the convertibility of the currency, which is a prerequisite for economic growth.

2. Zaire has exerted considerable effort since 1983 to reduce the overall balance of payments deficit, which declined from SDR 598 million in 1982 to SDR 423 million in 1985. The balance of payments target for 1986 is to reduce the deficit by about SDR 60 million while at the same time creating the conditions for a revival of import growth, which is necessary if the country is to realize its productive potential; this, in turn, will largely determine Zaire's future ability to meet its external financial obligations. The target for the reduction of the overall deficit in 1986 also takes into account the need to improve the central bank's net reserve position, so that it can cope with its foreign exchange expenditures without significantly disturbing the operations of the interbank market. The growth target of the net reserves of the Bank of Zaire, exclusive of net indebtedness to the IMF, is SDR 28 million.

3. The possibilities for growth of the Zairian economy in 1986 will be shaped by the net inflow of foreign exchange, whether through net receipts from foreign trade, spontaneous external financing, or debt relief granted by Zaire's various creditors. As regards foreign trade, recent trends in raw material prices on world markets suggest

that the prices of Zaire's exports will move in opposite directions. According to current forecasts, the impact of falling oil prices on export receipts will be offset by a marked rise in coffee prices, whose effect may be intensified by the decision to eliminate quotas for ICO members in February 1986. However, the prices of the other raw materials exported by Zaire are falling in SDR terms, so that export receipts will be SDR 40 million lower in 1986 than in 1985. The impact of the decline in export receipts on the current account balance will be in part offset by the decrease in the cost of imported petroleum products and in the service outlays for repatriation of dividends by the companies extracting crude oil in Zaire. This will make it possible to reduce the current account deficit (including official transfers) from 6.9 percent of GDP in 1985 to 6.4 percent of GDP in 1986, while allowing imports to rise to a level compatible with the GDP growth target for 1986. About one quarter of these imports will be financed by external grants and loans. Total drawings on external loans are estimated at SDR 190 million in 1986. The overall balance of payments deficit will decline to SDR 366 million.

4. Given the targeted improvement in the Bank of Zaire's reserve position, net purchases of SDR 34 million from the IMF, an SDR 24 million reduction in commercial arrears, and an SDR 23 million reduction in external debt arrears, Zaire will need to obtain relief on its external debt service in the amount of SDR 406 million in order to achieve the balance of payments target. The amount of external commercial arrears was estimated at SDR 64.8 million on December 31, 1985. These arrears will be completely eliminated by December 31, 1987. A performance criterion under the program calls for the reduction in arrears at a rate of SDR 6 million per quarter for the first three quarters in 1986.

5. The debt service relief necessary to finance the anticipated balance of payments deficit could be obtained on the basis of rescheduling terms similar to those granted by Zaire's creditors in 1985. To secure equal treatment of all its creditors in accordance with the commitments made in the Paris Club rescheduling agreement of May 1985, Zaire will try to obtain debt relief on terms comparable to those granted by the Paris Club and London Club creditors from all other creditors having claims eligible for rescheduling. For this purpose, Zaire will negotiate with all creditors not participating in either the Paris or the London Club within the context of the Kinshasa Club, whose initial meeting took place on February 17, 1986.

6. The zaire depreciated rapidly during 1985, in part reflecting the severe decline in the growth rate of export earnings and the increase by 15.7 percent in external debt service payments, and despite interventions by the Bank of Zaire on the interbank market, the limits placed by the Bank of Zaire on the net exchange position of the commercial banks, and the banks' imposition on their customers of a high deposit requirement for the opening of documentary credits. However, the situation on the interbank market eased in December 1985 and the

early weeks of 1986 as the demand of the commercial banks' customers for foreign exchange declined and the Bank of Zaire maintained a steady level of intervention. As a result of these interventions, the zaire's exchange rate has remained relatively stable against the SDR since mid-December 1985, but at the cost of rapid growth of the Bank of Zaire's short-term indebtedness.

7. The expected change in the structure of export receipts in 1986 has major implications for the Bank of Zaire's exchange policy during the first year of the program. In view of the anticipated increase in coffee export receipts, which do not pass through the Bank of Zaire, and the decline in oil export receipts, which do pass through the Bank of Zaire, the commercial banks' foreign exchange requirements should be much lower than in 1985, while the net foreign exchange receipts of the Bank of Zaire will be considerably reduced. To preserve its ability to make timely payments on the external debt and meet its target for replenishment of reserves, the Bank of Zaire intends to limit the cumulative net amount of its interventions on the interbank market, both during and outside the fixing, to the equivalent of SDR 65 million from end-December 1985 to end-April 1986 and of SDR 25 million from end-April to end-June 1986, after which the Bank of Zaire may become a net buyer of foreign exchange on the interbank market. The changing volume of the Bank of Zaire's actual intervention on the interbank market, as it relates to the planned level of intervention, will be regularly examined during the periodic consultations with the IMF called for in the program.

8. Execution of the national budget encountered difficulties at the start of 1985 that caused the authorities to implement a number of measures to bring exceptional receipts into the Treasury. With these receipts the budgetary situation was improved during the year, and 1985 closed with an overall budgetary surplus (excluding foreign-financed expenditure) on a cash basis (and after rescheduling) of Z 2.7 billion, or Z 490 million above the revised budgetary surplus target. Taking into account amortization payments on the external debt of 24.9 billion, this result made it possible to limit domestic bank financing of the Treasury to Z 1.5 billion, or about Z 700 million below the ceiling authorized by the program. However, the stock of treasury bills outstanding was Z 206 million higher than provided for by the program, and, with the adjustment to be made, 1985 ended with a margin of about Z 500 million below the program ceiling.

9. The improvement in the budgetary outcome results from higher-than-projected revenue of about Z 1.6 billion compared with expenditure overruns of Z 1.1 billion. The higher revenue resulted from GECAMINES' advance payment on its 1985 income tax, from the impact of tax measures taken during the year, and from the introduction of a new procedure for collecting customs revenue. The expenditure overruns are partly due to a higher-than-expected exchange rate depreciation and inflation rate, whose impact on expenditure exceeded the savings obtained through the improved control over the Treasury's subaccounts.

10. The change in customs collection procedures consists of requiring banks, when they open documentary credits for imports, to collect a portion of the duties that will be payable when the imported goods are cleared through customs. The sums thus collected by the banks are turned over to OFIDA, enabling the Treasury to benefit from advance payments of import duties pending the passage of the imports themselves through customs. This new procedure, applicable since December 2, 1985, which is being implemented, will enable OFIDA to strengthen the monitoring of import duty payments and to improve the duty collection rate.

11. The program performance criteria relating to the reduction of the Treasury's payments arrears in 1985 were met. Nondebt external arrears were reduced by SDR 29 million and domestic arrears by Z 1.5 billion. In addition, an agreement was reached with GECAMINES on a schedule for the payment of the Treasury's arrears to GECAMINES, which calls for the total elimination of those arrears by the end of 1987.

12. The national budget for 1986 was predicated on revenue assumptions which had to be revised downward soon after its adoption by the Parliament to take into account the lower projected export price mainly of crude oil and the slowdown in the exports of cobalt which will seriously affect tax revenue. In an effort to maintain the rigorous management of government finance pursued since 1983, the authorities developed a package of measures designed to offset the anticipated revenue shortfall with respect to the initial budget. Some of them took effect in February 1986. The combined revenue yield of these measures is estimated at Z 5.5 billion, or 1.9 percent of GDP, in 1986.

13. Beginning in February, the Treasury will retain a portion of the windfall profits of the coffee sector resulting from the increase in world prices by modifying the coffee export duty rate from a flat rate of 4 percent to a progressive schedule rising from 4 percent to 12 percent, which will take into account the rise in the standard value of coffee export prices. This tax should boost government revenues by some Z 1.6 billion in 1986.

14. The present structure of domestic prices for petroleum products was established in December 1985 when the cost of a barrel was US\$25. By not lowering prices at the pump, the Treasury could collect more than Z 3 billion in additional revenue in 1986 if the price of a barrel fell to US\$15 and the zaire did not depreciate by more than 25 percent against the dollar. This gain would offset the losses on account of royalties from oil exporting companies.

15. In addition, the quintupling of taxes and fees on motor vehicles should increase revenue by Z 170 million, and the change in the proportion of provisional payments of corporation taxes that is payable in the same fiscal year from 67 percent to 80 percent should result in a Z 400 million gain in 1986.

16. Pursuant to the recommendations of the joint fiscal technical mission of the Fund and the World Bank, steps will be taken to improve tax administration through improved control procedures, regular audits of taxpayers and reductions of tax exemptions. The authorities will also examine ways to raise substantially the yield of the property tax; progress in implementing a property tax reform will be examined with the Fund staff during the first program review. No additional revenue has been programmed for these measures.

17. The authorities are now aware of the dangers entailed in the growth of parafiscal levies (e.g. taxes and fees collected by various departments and agencies), and in the diversion of resources due to the multiplicity of government agencies which collect resources of their own but are inadequately supervised. Steps will be taken to incorporate some of these agencies in the national budget and oversee their spending starting in 1987. Progress in this area will be assessed at the time of the first review.

18. With respect to expenditure, the authorities have strengthened the control system, particularly the procedures for committing expenditures and awarding government contracts. For centralized expenditures (water, electricity, fuel), the consumption of the various government units is now better controlled. The work done by REGIDESO has made it possible to reduce consumption considerably without inconveniencing users. In the case of fuels, quotas will be allocated to each user, and the oil companies will be informed that the Treasury will no longer pay for deliveries above the quotas without the prior authorization of the First State Commissioner. The wage bill, which now includes all wage outlays, will be limited in 1986 to Z 8.5 billion, with wage increases limited to 10 percent in the second quarter and to 15 percent in the fourth quarter. The combined expenditure on goods and services and on personnel is targeted to increase by only 13 percent in nominal terms in 1986.

19. With respect to the investment budget, the local currency counterpart funds required for projects largely financed through external resources total approximately Z 1.1 billion. One twelfth of this amount will be released in regular monthly installments to avoid delays in project execution. An additional Z 1 billion has been provided for, for a total of Z 2.1 billion.

20. The estimates of external debt payments assume a rescheduling on terms similar to those obtained in 1985. Total external debt service payments (interest and principal) are estimated at Z 22.5 billion. To the extent that the concessions obtained through debt rescheduling are greater than anticipated, the use of the additional resources thus obtained will be discussed during the first review of the program. In the meantime, these resources will not be used for additional spending.

21. The authorities will take the steps needed to reduce the level of payments arrears by a total of Z 4.2 billion, including the equivalent of at least SDR 20 million in nondebt external arrears, the latter being a performance criterion. The remaining domestic arrears will be entirely eliminated in 1986, and the authorities undertake to accumulate no new payments arrears during the period of program execution. An even reduction of domestic arrears and arrears to GECAMINES has been assumed throughout 1986; actual phasing of these reductions will be examined in the course of the program reviews.

22. The implementation of all these measures will result in an overall budgetary surplus on a cash basis and after debt relief projected at Z 1.8 billion in 1986. Taking into account the need to cover amortization payments of Z 5.2 billion, domestic financing will be limited to the issue of treasury bills and long-term treasury bonds amounting to Z 0.4 billion and Z 0.5 billion, respectively. The remaining financing will be limited to Z 2.5 billion and will come essentially from the counterpart funds of drawings from the World Bank structural adjustment credit.

23. The analysis of the full impact of central government fiscal operations on the economy is hampered by the exclusion of extrabudgetary expenditure financed by grants and loans which do not pass through the Treasury. If these operations are included, the overall deficit on a commitment basis and before grants and rescheduling will widen from 6.0 percent of GDP in 1985 to 6.6 percent of GDP in 1986.

24. Important progress has been made in rehabilitating the public enterprise sector. GECAMINES' performance improved substantially in 1985, and the rehabilitation of SNCZ (railway company), the CMZ (the shipping company), and Air Zaire (air transport company) is well under way. In 1985, tariff increases were made for electricity and road and railway transport in order to improve the viability of these companies. Also, private companies have been allowed to compete with public enterprises in the transport sector. However, the overall improvement in the public enterprises necessary to increase their contribution to the budget and to pay a greater share of the external debt service payments will involve a tariff structure which will allow them to cover their costs. The measures taken to introduce cost accounting in various public enterprises is a step in the right direction. The authorities have also requested World Bank assistance in improving the operation of public enterprises, and a World Bank mission in March 1986 will be examining these issues. The results of the discussions will be examined with the Fund staff during the next review.

25. In 1986, monetary and credit policy will be directed at reducing the inflation rate from 39 percent to 20 percent and slowing the depreciation of the zaire while permitting the economy to grow 4 percent in real terms. The growth of net domestic assets of the banking system, derived from the balance of payments targets and a

projection of a 26 percent expansion of the money supply, will be limited to Z 5,510 million, or a growth rate of 22.6 percent. Considering the Treasury's financing requirement from the domestic banking system in the amount of Z 2,500 million (including counterparts to drawings from the IBRD loan) and the anticipated Z 500 million expansion of the other net domestic assets of the banking system, the volume of credit to the private sector could only grow by Z 2,510 million (excluding the IBRD loan).

26. The growth of credit to the private sector will, however, be supplemented by drawings on the World Bank's sector adjustment credit for the industrial sector to purchase spare parts and inputs. A separate IDA line of credit to SOFIDE will be used to finance equipment and capital goods. The drawings on the adjustment credit, which should begin in July, could total Z 2.5 billion by end-December 1986. Intended primarily for small- and medium-sized enterprises, this quick-disbursing credit will seek to stimulate a revival of the industrial sector so that this sector can contribute effectively to a recovery of economic growth. The counterpart funds will be posted to the Government's account, thus reducing the financing of the Treasury by the Bank of Zaire during the second half of the year. Hence, assuming full disbursement of Z 2,539 million, outstanding net credit to the Government at the end of 1986 will be slightly lower than at the end of 1985. An equivalent increase in credit will thus be available to the private sector through the commercial banking system, with the Bank of Zaire playing a coordinating role. The drawings on this World Bank credit will not affect the aggregate amount of net domestic assets, but will alter the distribution of total credit between the Government and the rest of the economy. However, the sum of monetary financing of the Treasury and of these counterpart funds will not exceed Z 2,500 million. The ceiling on net domestic assets of the banking system, the subceiling on bank financing of the Treasury, plus counterpart funds, constitute program performance criteria.

27. In 1985 the Bank of Zaire made more active use of the monetary policy instruments available to it, especially the minimum reserve requirement, in an effort to mop up excess liquidity in the banking system. This is a first step in the progressive reduction of the role of credit controls in monetary policy. Nevertheless, the average amount of credit outstanding generally exceeded the end-of-quarter targets of the program, and this additional credit contributed to raise the rate of inflation and the rate of depreciation of the zaire. The large amount of lending during the quarter sometimes led the monetary authorities to reduce abruptly the amount of credit outstanding at the end of the quarter in order to respect the performance criteria. To allow for steadier credit growth and an automatic compensation of the impact of random disturbances during the period, credit ceilings are defined in the present program as arithmetical averages of the end-of-month credit stocks during the period. The Bank of Zaire will put into place the basic structure of a domestic money market, which will permit a more flexible and less direct control of

credit to the economy with a view to eliminating credit controls as the chief instrument of monetary policy. The progress made in this area will be evaluated during the first program review.

28. Interest rates rose markedly during 1985. But real interest rates (as measured against the consumer price index in Kinshasa) declined. The Bank of Zaire's monetary policy will take account of the need to adjust interest rates to the inflation rate and the rate of the zaire's depreciation. In addition, the preferential rate on agricultural loans was raised from 26 percent to 30 percent effective February 26, 1986.

29. During the entire period of the stand-by arrangement, the Executive Council does not intend to introduce any multiple currency practices, or impose new or intensify existing restrictions on payments and transfers for current international transactions, or conclude any bilateral payments agreements with Fund members, or impose new or intensify existing restrictions on imports for balance of payments reasons.

30. The quantitative performance criteria for the period ending September 30, 1986 and the targets for the fourth quarter of 1986 are shown in Table 1 below. They refer (a) to the ceilings on net domestic assets of the banking system and on the system's net credit to Government (including the counterpart fund to drawings from the IBRD industrial sector credit); (b) to the floors for net cumulative reduction of commercial arrears and arrears on invisibles by means of cash payments in foreign exchange; (c) to the floors for net cumulative reduction of the Treasury's external nondebt arrears; (d) to the ceilings on commitments of public and publicly-guaranteed debt on nonconcessional terms in the maturity ranges of 1 to 12 years and 1 to 5 years; and (e) to the ceilings on the net increase in short-term debt of the Bank of Zaire, with the understanding that the Treasury will not engage in any external borrowing with a maturity of less than one year. The overall expansion of net domestic assets of the banking system will be limited to Z 5,510 million in 1986, in accordance with the ceilings shown in Table 1; financing of the Government by the banking system, including the counterpart funds for the World Bank's Sector Adjustment Credit, will not exceed Z 2,500 million. The figures on net credit to Government will be adjusted, if necessary, as indicated in footnote 6 to Table 1. The other performance criteria include the nonaccumulation of external arrears and of new domestic arrears of the Government and the measures concerning the exchange and trade system set forth in the above paragraph. In addition, progress made under the program will be examined, and performance criteria will be established during three program reviews with the Fund. The first review will be completed by end-September 1986. During this review, performance criteria for the quarter ending December 31, 1986 and indicative targets for the quarter ending March 31, 1987 will be established. The second review will be completed by end-March 1987. During this review,

understandings will be reached on the fiscal program for 1987 and performance criteria will be established for the remainder of the program period. The third review, to be completed by end-September 1987, will examine progress in the implementation of the program.

Table 1. Zaire: Proposed Ceilings Under the Program for 1986

	1985	1986			
	Dec. <u>1/</u>	April <u>2/</u>	June <u>2/</u>	Sept. <u>2/</u>	Dec. <u>3/</u>
	(In millions of zaires; period averages) <u>4/</u>				
Net domestic assets of the banking system	25,384 <u>5/</u>	26,566	27,843	28,727	29,630
Net domestic credit to the Government (including the counterparts to drawings from the IBRD credit) <u>6/</u>	14,847 <u>5/</u>	16,221	16,647	16,972	17,197
	(In millions of SDRs)				
Net cumulative reduction of commercial arrears and arrears on invisibles through cash payment in foreign exchange (end of period)	64.8 <u>5/</u>	8	12	18	24
Net cumulative reduction of external nondebt arrears of the Treasury (end of period)	50.2 <u>5/</u>	5	10	15	20
New external borrowing contracted or guaranteed by the Government through end of period <u>7/</u>					
1 to 12 years' maturity		150	150	150	150
1 to 5 years' maturity		40	40	40	40
Net cumulative increase in Bank of Zaire short-term external debt through end of period	146.5 <u>5/</u>	50	50	50	50

1/ Actuals.

2/ Performance criteria.

3/ Indicative.

4/ Arithmetical average of end-of-month figures for the period, including the last month of the preceding period.

5/ Stock at end of period.

6/ These amounts are based on the assumption that the stock of treasury bills and long-term treasury bonds outstanding which amounted to Z 1,406 million at end-December 1985 will not exceed Z 1,706 million during the period through end-April, Z 1,906 million through end-June, Z 2,156 million through end-September, and Z 2,306 million through end-December 1986. Whenever the amount of treasury bills and long-term bonds outstanding at the end of a month during the indicated periods exceeds the amounts indicated for that period, the excess will be added to net credit to Government at the end of this month for the purpose of calculating the arithmetical average.

7/ Applies to borrowing on nonconcessional terms and excludes rescheduling/refinancing operations.

Zaire - Relations with the Fund

(As of February 28, 1986)

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 970.3 million, 333.4 percent of quota
- (c) Fund credit: SDR 679.3 million, 233.4 percent of quota
 - Credit tranche: SDR 249.7 million, 85.8 percent of quota
 - EFF: SDR 64.9 million, 22.3 percent of quota
 - EAR: SDR 183.4 million, 63.0 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 162 million
 - (iv) Undrawn balance: --
- (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 15.0 million, equivalent to 17.4 percent of net cumulative allocation

V. Administered Accounts

Trust Fund loans

- (i) Disbursed: SDR 110.43 million
- (ii) Outstanding: SDR 72.55 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 February 28, 1986 the exchange rate was Z 1 = SDR 0.0157.

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

Zaire - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The present consumer price index (1969 = 100) which covers only Kinshasa is outdated. The GDP deflator largely based upon price developments in Kinshasa is also in need of revision. In addition, data collection system for agricultural output, in particular food production in rural areas, is either inefficient or inexistent.

b. Government finance

The 1984 Government Finance Statistics Yearbook includes data through 1982 only. In addition, the coverage of data has been limited since extrabudgetary expenditures financed from abroad and taxes collected by some government agencies have not always been included in total expenditures and revenues.

c. Monetary accounts

As a result of the work of two technical assistance missions from the Bureau (in February and May 1984, respectively), (1) the "key" employed by the Zairian authorities to prepare the monetary aggregates used by the Fund to monitor the stand-by program was improved; (2) the classification, by economic sector and by liquidity, of the accounts of the Bank of Zaire and of the commercial banks was refined; (3) revised data on international reserves have been published in IFS; and (4) more current revised monetary aggregates will be published in the IFS, which will be readily reconcilable with the aggregates actually used in Fund staff reports. The missions also recommended the use of a new call report form for collecting more comprehensive and reliable data from the commercial banks, improvements in the procedures for recording the Bank of Zaire's foreign exchange transactions, and the regular reporting of monetary data by those "other financial institutions" that do not report at present or report with considerable delays. The latter recommendations are still in the early stages of implementation.

d. Merchandise trade

Trade data on a customs basis are not current, and there are problems with the quality of the more current trade data on a payments basis collected by the Bank of Zaire.

e. Balance of payments

The Zairian authorities have submitted balance of payments data only until 1983.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Zaire in the March 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Bank of Zaire, which during the past year have been reported on an irregular basis, and data are uncurrent.

Status of IFS Data

Real Sector	- National Accounts	1984
	- Prices	September 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1982
	- Financing	1982
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	March 1985
	- Deposit Money Banks	March 1985
	- Other Financial Institutions	1980
External Sector	- Merchandise Trade:	
	Values - exports	September 1985
	- imports	September 1985
	Unit values	n.a. (except for copper, January 1986)
	- Balance of Payments	1983
	- International Reserves	December 1985
	- Exchange Rates	January 1986

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			<u>391.93</u>		<u>391.93</u>
IBRD	220.00	28.42	191.58	--	191.58
IDA	220.00	19.66	200.35	--	200.35
Projects in execution (IDA)	<u>450.00</u>	<u>--</u>	<u>145.25</u>	<u>199.72</u>	<u>345.92</u>
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	<u>890.00</u>	<u>48.08</u>	<u>537.18</u>	<u>199.72</u>	<u>737.85</u>
Of which: IBRD	(220.00)	(28.42)	(191.58)	(--)	(191.58)
IDA	(670.00)	(19.66)	(345.60)	(199.72)	(546.27)
Repayments					
Total					<u>142.97</u>
Of which: IBRD					(140.12)
IDA					(2.85)
Debt outstanding					<u>594.88</u>
Of which: IBRD					(51.47)
IDA					(543.41)
IFC net holdings <u>1/</u>					<u>1.3</u>

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\$268,000 in equity participation.

Table I. Zaire: Exports, 1983-85

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

	1983	1984	1985		Difference
			Original program	Preliminary Actual	
Copper					
Value	770	659	655	697	42
GECAMINES	(703)	(618)	(608)	(654)	(46)
SODIMIZA	(67)	(41)	(47)	(43)	(-4)
Volume ('000 tons)	525.6	490.4	487.3	490.0	2.7
GECAMINES	(479.8)	(460.0)	(452.3)	(460.0)	(7.7)
SODIMIZA	(45.8)	(30.4)	(35.0)	(30.0)	(-5.0)
Unit price (US\$/lb)	71.0	62.5	61.0	65.0	4.0
Cobalt					
Value	113	220	230	247	17
Volume ('000 tons)	9.5	10.0	11.2	10.0	-1.2
Unit price (US\$/lb)	5.8	10.2	9.3	11.2	1.9
Zinc					
Value	47	59	53	52	-1
Volume ('000 tons)	66.6	67.8	63.5	66.0	2.5
Unit price (US\$/lb)	34.0	40.0	38.0	36.0	-2.0
Silver					
Value	11	8	18	8	-10
Volume ('000 kgs)	33.1	32.9	50.8	35.5	-15.3
Unit price (US\$/t.oz)	11.3	8.0	10.9	7.0	-3.9
Gold					
Value	68	37	44	23	-21
Volume ('000 kgs)	5.3	3.3	4.2	2.2	-2.0
Unit price (US\$/t.oz)	426.7	360.4	330.0	317.5	-12.5
Diamonds					
Value	130	215	240	206	-34
Volume ('000 carats)	11.71	18.85	19.47	19.60	0.13
Unit price (US\$/k)	11.9	11.7	12.3	10.2	-2.1
Coffee					
Value	109	207	234	185	-49
Volume ('000 tons)	69.5	79.6	85.0	64.6	-20.4
Unit price (US\$/lb)	0.76	1.21	1.25	1.30	0.05
Rubber					
Value	14	10	15	8	-7
Volume ('000 tons)	15.89	10.00	15.30	9.00	-6.30
Unit price (US\$/lb)	0.42	0.46	0.46	0.42	-0.4
Crude oil					
Value	221	315	413	313	-100
Volume (million bbl)	8.5	11.8	14.8	12.2	-2.6
Unit price (US\$/bbl)	28.0	27.4	27.9	25.7	-2.2
Other exports (value)	94	116	147	140	-7
Total exports, f.ob. <u>1/</u>	1,577	1,847	2,049	1,879	-170

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: Budgetary Operations, 1/ 1984-87

	1984	1985		1986 Program	1987 Projections
		Orig. program	Prel. actual		
(In millions of zaires)					
Revenue	25,994	39,665	41,350	52,100	63,118
Income and profit taxes	8,122	11,200	13,794	16,000	19,643
Taxes on goods and services	7,365	11,535	9,415	14,015	16,300
Import duties	5,268	7,240	8,697	11,110	13,900
Export duties	3,430	4,850	5,258	8,175	9,875
Other revenue	1,809	4,840	4,186	2,800	3,400
Expenditure	27,212	37,715	38,610	50,240	61,280
Personnel	5,063	6,000	6,615	8,500	9,700
Goods and services	5,071	6,650	8,839	9,000	10,500
Public debt	9,031	15,200	19,734	23,040	30,330
Domestic ^{2/}	(1,121)	(3,450)	(4,846)	(5,800)	(4,600)
External ^{3/4/}	(7,910)	(11,750)	14,888)	(17,240)	(25,730)
Transfers and subsidies	875	950	693	1,550	1,150
Investment budget	1,019	2,000	956	2,100	4,100
Repayment of arrears (reduction -)	2,351	3,965	3,462	4,250	3,300
GECAMINES	(1,222)	(1,500)	(732)	(1,400)	(500)
Other domestic	(199)	(1,500)	(1,237)	(1,600)	(--)
External	(930)	(965)	(1,493)	(1,250)	(2,800)
Other expenditure	1,476	2,450	1,086	1,800	2,200
Treasury subaccounts	2,326	500	-2,775	--	--
Overall deficit (cash)	-1,218	1,950	2,740	1,860	1,838
Financing	1,218	-1,950	2,740	1,860	1,838
Net domestic financing	3,814	2,650	2,165	861	-500
Banking system (net)	(3,197)	(2,150)	(1,451)	(-39)	(-1,500)
Short term treasury bills	(617)	(500)	(714)	(400)	(500)
Long-term bonds	(--)	(--)	(--)	(500)	(500)
Foreign financing (net)	-2,596	-4,600	-4,905	-2,721	-1,338
IBRD loans	(--)	(--)	(--)	(2,539)	(5,182)
Amortization ^{4/}	(-2,596)	(-4,600)	(-4,905)	(-5,260)	(-6,520)
Memorandum items:					
Revenue from GECAMINES	5,009	7,930	9,677	11,300	13,600
Revenue from oil exporting companies	5,455	8,500	7,037	5,500	9,200
(In percent of GDP)					
Revenue	15.5	17.0	18.6	17.3	16.8
Expenditure	18.0	16.0	16.5	16.9	16.1
Overall surplus/Deficit (-)	-0.7	0.8	1.2	0.6	0.5
Domestic bank financing	1.9	0.9	0.7	--	-0.4

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

^{1/} Budgetary operations exclude extrabudgetary outlays financed by grants and loans which do not pass through the Treasury.

^{2/} Domestic interest includes for 1985 SDR 58 million of transfers to the Bank of Zaire in respect of the domestic counterpart of IMF charges.

^{3/} External debt includes payment made for the SNEL maintenance contract. The breakdown between interest above the line and amortization below the line is subject to errors.

^{4/} Interest and amortization are on an after-rescheduling basis. Debt relief amounted to Z 17.5 billion in 1984, and Z 21.2 billion in 1985; for 1986 and 1987, assumed debt relief amounts to Z 28.1 billion and Z 28.3 billion, respectively.

Table III. Zaire: Projections of Exports by Commodity, 1985-94

Baseline Scenario

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

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Copper										
Value	697	675	669	725	792	866	945	1,038	1,090	1,111
Volume ('000 tons)	490	511	495	505	505	510	515	520	520	520
GECAMINES	460	481	465	475	475	480	485	490	490	490
SODIMIZA	30	30	30	30	30	30	30	30	30	30
Unit price (US\$/lb)	65.0	67.5	70.0	74.8	81.5	87.9	94.9	108.0	67.0	109.0
Cobalt										
Value	247	202	231	240	263	276	289	303	306	323
Volume ('000 tons)	11.2	10.0	10.5	10.5	11.0	11.0	11.0	11.0	11.0	11.0
Unit price (US\$/lb)	10.0	10.0	11.0	11.5	12	12.6	13.2	13.9	14.0	14.8
Coffee										
Value	185	373	324	313	328	353	370	388	408	430
Volume ('000 tons)	64.6	100.0	90.0	87.5	87.5	90.0	90.0	90.0	90.0	90.0
Unit price (US\$/lb)	1.30	1.85	1.80	1.80	1.89	1.98	2.07	2.17	2.28	2.41
Diamonds										
Value	206	208	221	234	250	268	286	306	333	365
Volume ('000 carats)	19.60	20.70	21.50	23.80	23.19	24.09	25.02	25.99	26.99	28.04
Unit price (US\$/k)	10.5	11.0	11.3	11.3	12.0	12.3	12.7	13.1	13.7	14.5
Crude Oil										
Value	313	188	216	249	261	274	287	301	316	333
Volume ('000 bbl)	12.2	13.7	14.0	14.0	14.0	14.0	14.0	14.0	13.5	12.3
PETROZAIRE, Shell	3.4	3.7	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Gulf	8.8	10.0	10.0	10.0	10.0	10.0	10.0	10.0	9.5	8.8
Unit price (US\$/bbl)	25.7	15.0	17.0	19.8	20.7	21.7	22.7	23.8	26.15	26.41
Zinc										
Value	52	48	50	52	55	58	61	64	67	71
Volume ('000 tons)	66.0	64.5	65.0	65.0	65.0	65.0	65.0	65.0	65.0	65.0
Unit price (US\$/lb)	0.36	0.37	0.38	0.40	0.42	0.45	0.47	0.50	0.52	0.55
Gold										
Value	23	26	32	45	53	60	67	77	86	97
Volume ('000 kg)	2.2	2.5	3.0	4.0	4.5	4.8	5.1	5.5	5.9	6.3
Unit price (US\$/t. oz)	318.1	355.0	367.2	387.4	408.7	431.2	454.9	480.0	504.0	531.7
Rubber										
Value	8	8	8	9	10	11	12	14	14	15
Volume ('000 tons)	9.00	10.00	10.00	10.00	10.50	11.00	11.50	12.00	12.00	12.00
Unit price (US\$/lb)	0.42	0.40	0.42	0.45	0.48	0.51	0.54	0.57	0.60	0.63
Silver										
Value	8	4	6	7	8	8	8	9	9	10
Volume ('000 kg)	35.5	20.2	26.5	32.9	32.9	32.9	32.9	32.9	32.9	32.9
Unit price (US\$/t. oz)	7.0	7.0	7.2	7.5	7.9	8.3	8.7	9.1	9.6	10.1
Other										
	140	110	122	133	151	170	199	227	263	303
Total exports, f.o.b.	1,879	1,842	1,879	2,007	2,171	2,344	2,524	2,727	2,892	3,058
Memorandum item:										
SDR/U.S. dollar exchange rate	1.00	0.915	0.908	0.900	0.900	0.900	0.900	0.900	0.900	0.900

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

Table IV.A. Zaire: Medium-Term Balance of Payments, 1985-94

Baseline Scenario

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
(In millions of SDRs)										
Summary balance of payments										
Trade surplus	510	488	506	566	632	702	767	845	877	871
Current account deficit (-)	-299	-279	-295	-268	-207	-121	-41	46	107	137
Of which: interest payments	(384)	(390)	(405)	(427)	(418)	(399)	(373)	(354)	(314)	(266)
Overall balance of payments deficit (-)	-423	-366	-308	-275	-223	-88	-73	22	44	98
Financing gap (+)	--	407	409	486	414	258	160	50	--	--
Cumulative financing gap (+)	--	407	816	1,302	1,716	1,974	2,134	2,184	2,184	2,184
Cumulative disbursement of grants	169	337	515	704	905	1,119	1,347	1,590	1,848	2,123
Cumulative disbursement of loans	148	338	581	840	1,116	1,409	1,722	2,055	2,410	2,788
Total cumulative financing	317	1,082	1,912	2,846	3,737	4,502	5,203	5,829	6,442	7,095
(Annual growth rates in percent; unless otherwise specified)										
Export value	1.8	-2.0	2.0	6.8	8.2	8.0	7.7	8.0	6.1	5.7
Export volume	-0.2	7.0	0.1	1.5	2.3	1.9	1.6	1.6	1.4	1.2
Import volume <u>1/</u>	1.8	7.4	1.8	1.5	2.1	2.1	2.1	2.1	2.6	2.6
Debt service ratio <u>2/</u>	45.9	44.9	46.2	49.4	45.5	39.0	36.2	32.7	31.3	28.3
External debt <u>3/</u>	281.1	274.3	278.3	264.6	246.6	226.9	205.3	181.9	161.1	143.1
Gross foreign reserves <u>4/</u>	5.9	6.3	6.4	6.8	6.8	7.3	7.3	7.7	7.8	9.3
(In percent)										
External environment										
Terms of trade changes <u>5/</u>	--	1.8	-0.2	1.5	1.2	0.8	0.8	0.8	--	--
Terms on financing gap:										
Spread over libor	...	8.3	1.8	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Maturity	...	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Grace period	...	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Interest rate on financing gap	...	9.8	9.3	9.0	9.0	9.0	9.0	9.0	9.0	9.0
Average interest rate on external debt	7.8	7.8	7.5	7.4	7.2	7.0	6.8	6.8	6.3	5.6

Source: Staff projections.

1/ Excluding imports by GECAMINES.

2/ Medium- and long-term public debt, scheduled obligations. Ratio in percent of exports of goods and services.

3/ Medium- and long-term public debt, in percent of merchandise exports.

4/ Gross free international reserves of the Bank of Zaire in weeks of current year's imports.

5/ Annual changes in percent, improvement (+).

Table IV.B. Zaire: Medium-Term Balance of Payments, 1985-94

Alternative Scenario

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
(In millions of SDRs)										
Summary balance of payments										
Trade surplus	510	488	506	547	590	638	680	741	747	737
Current account deficit (-)	-299	-279	-295	-275	-219	-152	-83	-2	46	87
Of which: interest payments	(384)	(390)	(405)	(413)	(399)	(378)	(350)	(329)	(289)	(241)
Overall balance of payments deficit (-)	-423	-366	-308	-276	-208	-53	-14	115	164	240
Financing gap (+)	--	407	409	487	418	232	110	--	--	--
Cumulative financing gap (+)	--	407	816	1,303	1,721	1,953	2,063	2,063	2,063	2,063
Cumulative disbursement of grants	169	337	515	704	913	1,144	1,400	1,684	1,998	2,346
Cumulative disbursement of loans	148	338	581	840	1,143	1,496	1,902	2,365	2,889	3,447
Total cumulative financing	317	1,082	1,912	2,847	3,777	4,593	5,365	6,112	6,950	7,856
(Annual growth rates in percent; unless otherwise specified)										
Export value	1.8	-2.0	2.0	7.5	8.8	8.8	8.6	9.3	7.2	6.9
Export volume	-0.2	7.0	0.1	2.2	2.6	2.9	2.8	3.1	1.9	1.5
Import volume <u>1/</u>	1.8	7.4	1.8	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Debt service ratio <u>2/</u>	45.9	44.9	46.2	48.2	44.0	37.3	34.3	30.5	28.8	25.8
External debt <u>3/</u>	281.1	274.3	278.3	264.4	247.9	229.5	209.5	188.8	173.5	160.8
Gross foreign reserves <u>4/</u>	5.9	6.3	6.4	6.6	7.1	7.6	7.6	9.4	11.8	12.5
(In percent)										
External environment										
Terms of trade changes <u>5/</u>	--	1.8	-0.2	1.5	1.2	0.8	0.8	0.8	--	--
Terms on financing gap:										
Spread over libor	...	2.3	1.8	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Maturity	...	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Grace period	...	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Interest rate on financing gap	...	9.8	9.3	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Average interest rate on external debt	7.8	7.8	7.5	7.2	6.9	6.7	6.4	6.3	5.8	5.0

Source: Staff projections.

1/ Excluding imports by GECAMINES.2/ Medium- and long-term public debt, scheduled obligations. Ratio in percent of exports of goods and services.3/ Medium and Long term public debt, in percent of merchandise exports.4/ Gross free international reserves of the Bank of Zaire, in weeks of current year's imports.5/ Annual changes in percent, improvement (+).

Table V.A. Zaire: Medium- and Long-Term External Public and Publicly Guaranteed Debt Disbursed and Outstanding, 1980-85

(In millions of U.S. dollars; end of period)

	1980	1981	1982	1983	1984	1985 <u>1/</u>
Medium- and long-term public debt	<u>4,161.7</u>	<u>4,089.2</u>	<u>4,131.9</u>	<u>4,065.8</u>	<u>4,435.9</u>	<u>4,564.5</u>
Suppliers' credits	339.3	304.5	294.2	163.2	77.4	56.1
Financial institutions	1,216.1	1,195.1	1,058.3	747.4	618.9	608.1
Of which:						
London Club <u>2/</u>	(373.7)	(369.5)	(408.4)	(403.3)	(396.4)	(388.6)
Multilateral loans	468.6	474.3	528.0	583.1	628.2	683.0
Of which:						
Trust Fund	(140.3)	(128.5)	(121.3)	(111.7)	(109.9)	(86.0)
Bilateral loans	2,131.0	2,109.8	2,246.9	2,568.9	3,111.6	3,217.3 <u>3/</u>
Bonds	6.7	5.5	4.5	3.2	...	...
Fund credit <u>4/</u>	<u>233.1</u>	<u>345.7</u>	<u>422.6</u>	<u>510.1</u>	<u>579.5</u>	<u>717.6</u>
CFE	(72.4)	(8.2)	(117.9)	(231.8)	(217.0)	(198.3)
Oil facility	(47.5)	(20.7)	(4.5)	(--)	(--)	(--)
Credit tranches	(113.2)	(113.1)	(107.2)	(95.1)	(191.9)	(...)
EFF	(--)	(203.7)	(193.0)	(183.2)	(171.5)	(...)
Total debt	<u>4,394.8</u>	<u>4,434.9</u>	<u>4,554.5</u>	<u>4,575.9</u>	<u>5,015.4</u>	<u>5,282.1</u>
Memorandum items						
Total debt (millions of SDRs)	3,446.3	3,802.2	4,084.0	4,328.9	5,068.3	4,808.7
Fund credit (millions of SDRs)	182.8	297.0	383.1	487.2	591.2	656.4

Sources: Data provided by the Zairian authorities (OGEDP and Bank of Zaire); World Bank (DRS); IMF; and staff estimates.

- 1/ Preliminary.
2/ Including interest in arrears.
3/ Includes consolidation of maturities falling due during the first quarter of 1986.
4/ Total may exceed components when member's payments in its currency for Fund charges or for gold distributed by the Fund increase Fund holdings of that currency over the member's quota; such excess currency holdings are subject to repurchase.

Table V.B. Zaire: Actual Debt Service Payments on Public and Publicly Guaranteed Medium- and Long-Term External Debt, 1980-85 ^{1/}

(In millions of SDRs)

	1980	1981	1982	1983	1984	1985 ^{2/}
Debt to creditors participating in the Paris Club ^{3/}	60.9	72.2	24.5	35.1	155.8	194.6
Principal	(39.5)	(36.8)	(13.5)	(14.4)	(40.0)	(40.2)
Interest	(21.4)	(35.4)	(11.0)	(20.7)	(115.8)	(154.4)
Debt to creditors not participating in the Paris Club	175.8	123.1	157.4	172.7	164.0	171.9
Principal	(63.5)	(35.3)	(73.7)	(68.8)	(55.5)	(70.0)
Interest	(112.3)	(87.8)	(83.7)	(103.9)	(108.5)	(101.9)
London Club	78.5	64.3	18.1	36.4	46.8	54.3
Principal	(21.8)	(12.0)	(--)	(--)	(--)	(--)
Interest	(56.7)	(52.3)	(18.1)	(33.0)	(46.8)	(54.3)
Special payments mechanisms	33.8	42.4	92.4	70.6	59.6	4.9
Principal	(...)	(13.1)	(32.2)	(39.6)	(41.2)	(1.9)
Interest	(...)	(29.3)	(60.2)	(31.0)	(18.4)	(3.0)
Other	63.5	16.4	46.9 ^{4/}	65.7	110.6	112.7
Principal	(...)	(10.2)	(41.5)	(29.2)	(67.3)	(68.1)
Interest	(...)	(6.2)	(5.4)	(36.5)	(43.3)	(44.6)
Total debt service payments	236.7	195.3	181.9	207.8	319.8	366.5
Principal	(103.0)	(72.1)	(87.2)	(83.2)	(95.5)	(110.2)
Interest	(133.7)	(123.2)	(94.7)	(124.6)	(224.3)	(256.3)

Sources: Data provided by the Zairian authorities (OGEDep and Bank of Zaire); and staff estimates.

^{1/} Including payments on account of arrears on external public debt service but excluding IMF charges and repurchases and cash payments on commercial and invisible arrears.

^{2/} Preliminary.

^{3/} Excluding debt subject to special payments mechanisms.

^{4/} Including interest payments of SDR 4.5 million and amortization of SDR 28.5 million in respect of the SDR 43 million (US\$48 million) medium-term loan contracted by the Bank of Zaire on account of the Treasury.

Table V.C. Zaire: Projected External Debt Service Obligations, 1985-94

Medium- and Long-Term Debt, Public and Publicly-Guaranteed

(In millions of SDRs)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Total debt service obligations	934	895	939	1,071	1,065	985	984	958	971	926
Interest	384	390	405	427	418	399	373	354	314	266
Paris Club and official creditors	518	489	507	537	552	502	595	603	575	562
Interest	247	250	272	293	270	246	219	187	152	110
Trust GECAMINES	30	29	27	27	27	25	4	--	--	--
Interest	9	7	5	3	2	--	--	--	--	--
London Club	103	90	87	83	78	73	68	62	52	--
Interest	42	34	32	29	23	18	13	8	2	--
Multilaterals	37	38	47	46	46	40	36	54	60	67
Interest	10	12	14	16	19	21	21	39	46	53
IMF	160	153	182	260	206	159	79	42	22	6
Interest	56	59	57	43	28	16	8	3	1	--
Other creditors	86	95	86	91	94	88	85	48	52	19
Interest	20	27	22	18	15	9	7	2	1	--
Financing of balance of payments gap	--	--	3	27	68	98	117	149	210	272
Interest	--	--	3	25	61	89	105	115	112	103

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

Table VI. Zaire: Selected Economic and Financial Indicators, 1981-87

	1981	1982	1983	1984	1985 Program	1985 Prel. Program	1986 Program	1987 Proj.
(Annual percentage changes; unless otherwise specified)								
Nominal income and prices								
GDP at constant prices	2.8	-2.2	1.2	2.8	4.0	2.5	4.0	4.0
GDP deflator	35.2	34.4	83.0	81.4	25.0	30.0	30.0	20.0
Consumer prices ^{1/}								
Average annual rate	34.9	36.2	77.1	52.3	16.7	23.8	30.0	20.0
December-December	53.0	41.0	101.0	14.3	20.0	39.2	20.0	15.0
External sector (on the basis of SDRs)								
Exports, f.o.b.	-18.4	1.9	8.8	17.1	10.9	1.7	-2.0	2.0
Copper exports, f.o.b.	-19.3	11.7	7.4	-14.3	-0.6	5.7	-3.1	-0.9
Imports, c.i.f.	2.6	-6.3	-4.4	3.6	10.6	6.2	-1.1	1.4
Export volume	-14.6	10.9	8.8	0.7	9.2	-0.2	7.0	0.1
Import volume	-9.6	-12.2	-7.6	-0.4	9.0	4.2	9.9	-3.2
Terms of trade	-15.7	-13.9	-3.4	11.8	-0.9	--	1.8	-0.2
Exchange rates (December-December)								
Nominal effective	-34.5	10.1	-75.9	-13.9	...	-29.8	...	...
Real effective	-13.4	37.5	-58.1	-14.0	...	-16.4	...	...
Zaire per SDR	66.7	--	396.5	25.8	21.1	54.6	22.4	17.3
Government budget								
Budgetary revenue	30.0	28.8	75.7	136.4	52.6	59.1	26.0	21.1
Budgetary expenditure ^{2/}	68.8	51.0	33.9	124.8	38.6	41.9	30.1	22.0
Money and credit (end of period)								
Net domestic assets	40.3	66.8	48.6	36.7	31.2	26.8	22.5	...
Net credit to Government	62.4	86.6	45.3	30.7	16.5	10.8	-0.3	-10.1
Credit to enterprises and households	32.4	46.7	46.3	55.9	62.1	55.5	72.3	...
Broad money	38.0	72.5	74.8	34.2	24.3	27.3	26.0	21.0
Velocity of broad money	8.6	6.5	7.1	8.9	10.0	9.3	10.0	10.3
Interest rates (end of period)								
Bank of Zaire basic rediscount rate	15.0	15.0	20.0	20.0	...	26.0	...	...
Commercial banks, 6-12 months' deposit rate	20.0	20.0	20.0	26.0	...	34.0	...	...
Treasury bills (average)	...	...	...	36.0	...	34.7	...	...
(In percent of GDP) ^{3/}								
Government budget surplus or deficit (-) ^{2/ 4/}	-2.8	-5.3	-1.1	-0.7	0.8	1.2	0.6	0.5
Domestic bank financing	3.6	6.3	2.4	1.9	0.9	0.7	--	-0.4
Foreign financing (net)	-0.8	-1.0	-1.3	-1.6	-2.0	-2.2	-0.9	-0.4
Government overall fiscal deficit (-) excluding grants								
Commitment basis								
Before rescheduling	...	...	-6.1	-9.1	-6.3	-6.0	-6.6	-6.5
After rescheduling	...	...	-4.0	-5.9	...	-4.5	...	...
Cash basis								
Before rescheduling	...	...	-7.4	-10.5	-8.0	-7.6	-8.0	-7.4
After rescheduling	...	...	-5.2	-7.3	...	-6.1	...	...
Including grants, commitment basis, before rescheduling	...	...	-3.9	-5.3	-2.8	-2.1	-2.8	-2.6
External current account deficit								
Including grants	-12.2	-13.7	-8.1	-7.5	-7.0	-6.9	-6.4	-6.4
Excluding grants	-17.2	-17.4	-12.2	-11.3	-10.5	-10.8	-10.2	-10.3
External medium- and long-term debt								
Excluding Fund credit	83.6	95.7	96.4	100.2	...	96.2	99.2	102.7
Including Fund credit	90.7	105.5	108.5	113.3	...	111.4	115.0	117.0
Debt service ratio ^{5/}								
Scheduled	47.6	43.6	38.2	44.8	43.0	45.9	44.9	46.2
Actual (including arrears)	20.2	12.1	12.8	25.0	...	28.2	...	...

Table VI. Zaire: Selected Economic and Financial Indicators, 1981-87 (concluded)

	1981	1982	1983	1984	<u>1985</u> Program	<u>1985</u> Prel.	<u>1986</u> Program	<u>1987</u> Proj.
(In millions of SDRs; unless otherwise specified)								
External current account deficit (including grants)	-512	-535	-328	-341	-339	-299	-279	-295
Overall balance of payments deficit								
Before rescheduling	-612	-598	-526	-529	-408	-423	-366	-308
After rescheduling	-297	-462	-142	-63	4	-12	...	...
Gross official reserves ^{6/}	4.9	1.4	4.1	5.7	6.0	6.6	...	...
Free official reserves ^{6/ 7/}	4.9	1.4	4.1	2.7	...	3.2	4.4	5.9
External payments arrears (end of period) ^{8/}	530	848	372	181	123	101	51	--
Of which: commercial and invisible	(383)	(207)	(197)	(126)	(86)	(65)	(41)	(--)
Zaire per SDR								
End of period	6.35	6.35	31.65	39.65	48.00	61.28	75.00	88.00
Period average	5.17	6.35	13.77	37.03	48.00	51.50	68.90	81.50

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

^{1/} Cost of living index in Kinshasa.

^{2/} Excluding foreign-financed expenditure, and after rescheduling.

^{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): 9.1 for 1981, 13.3 for 1982, and 24.7 for 1983.

^{4/} On a cash basis.

^{5/} In percent of exports of goods and services.

^{6/} In weeks of imports, c.i.f., excluding gold, most of which is pledged.

^{7/} Excluding the reserves in the special Paris Club debt account with the Federal Reserve Bank of New York.

^{8/} Excluding external nondebt arrears of the Treasury.



