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EBS/85/74

CONFIDENTIAL

March 26, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Zaïre - Staff Report for the 1984 Article IV Consultation and Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Zaïre and its request for a stand-by arrangement equivalent to SDR 162 million. Draft decisions appear on pages 34 and 35.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Goreux (ext. 573802) or Mr. Kuhn (ext. 8397).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the 1984 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 W. A. Beveridge

March 26, 1985

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I. Introduction

The 1984 Article IV consultation discussions with Zaire were initiated in Kinshasa during the period November 20-December 2, 1984. Subsequently, in connection with negotiations on an adjustment program for 1985-86, the discussions were concluded during the period January 8-18, 1985. 1/ In the attached letter dated March 25, 1985 (Appendix II), the Executive Council of Zaire requests a 12-month stand-by arrangement, in an amount equivalent to SDR 162 million representing 55.7 percent of Zaire's quota (Appendix I). Zaire has purchased SDR 198 million under the 15-month stand-by arrangement for SDR 228 million, which expires on March 26, 1985; the last scheduled purchase of SDR 30 million was not made because the end-December 1984 subceiling on net credit to the Government has been exceeded, but all other performance criteria have been satisfied.

As of March 15, 1985, the Fund's holdings of Zaire's currency subject to repurchase amounted to SDR 612.6 million, or 211 percent of quota; excluding holdings resulting from purchases under the compensatory financing facility, they amounted to SDR 391.2 million or 134 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 664.8 million, or 228 percent of quota, by the end of March 1986; they would be equivalent to SDR 496.8 million, or 171 percent of quota, if holdings under the compensatory financing facility are excluded.

The stand-by arrangement will be financed from ordinary resources exclusively. According to the proposed phasing of purchases under the requested stand-by arrangement, an initial purchase of SDR 40 million would be available upon approval of the arrangement; a second purchase of SDR 23 million after June 1, 1985, upon observance of the performance

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1/ The Zairian representatives included Mr. Sambwa, Governor of the Bank of Zaire; Mr. Kiakwama, then Commissioner of State for Finance, Budget, and the Portfolio; Mr. Mulumba, 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, as well as with Prime Minister Kengo. The staff representatives on the two missions were Mr. Goreux (head-AFR), Mr. Baldet (FAD), Mr. Kapur (AFR), Mr. de Schaetzen (ETR), Mr. McCarthy (AFR), and Mr. Diao (AFR), with Mrs. Dowsett (AFR) and Miss de Leva (Office in Europe) as secretaries; the missions were assisted by Mr. Blin, Fund resident representative in Zaire. Mr. Alfidja, Executive Director, and Mr. Tshishimbi, then Alternate Executive Director, also participated in the principal policy meetings.

criteria for end-March 1985; a third purchase of SDR 33 million after August 14, 1985, upon observance of the end-June 1985 performance criteria and completion of the first review; a fourth purchase of SDR 33 million after November 14, 1985, upon observance of the end-September 1985 performance criteria; and a fifth and final purchase of SDR 33 million after February 14, 1986, upon observance of the end-December 1985 performance criteria and completion of the second review (Table 1).

The last Article IV consultation discussions with Zaire, along with negotiations on an adjustment program, were held during the periods May 9-21, 1983 and July 5-20, 1983 in Kinshasa, and were concluded during the period August 2-9, 1983 in Washington. A staff team visited Kinshasa during the period November 16-23, 1983 to assess the implementation of certain aspects of the program. The staff report for the consultation and the request for the stand-by arrangement (EBS/83/257), together with the report on recent economic developments (SM/83/248) and a request for a purchase under the compensatory financing facility (EBS/83/260), were considered by the Executive Board on December 16, 1983; the stand-by arrangement was approved subject to Zaire obtaining adequate debt relief to close the financing gaps. On December 27, 1983, the stand-by arrangement came into effect following the rescheduling of Zaire's official debt by Paris Club creditors.

There were four reviews of the 1983-84 program, which were discussed by the Executive Board on April 30, 1984 (EBS/84/72), August 8, 1984 (EBS/84/147), November 9, 1984 (EBS/84/213), and January 23, 1985 (EBS/84/271). Staff teams visited Kinshasa during the months of February, May, August-September and November-December 1984 to carry out the discussions that formed the basis for the reviews.

Zaire continues to avail itself of the transitional arrangements of Article XIV. Summary statements on Zaire's relations with the Fund and with the World Bank Group are provided in Appendix III and IV, respectively; basic economic and financial data are contained in Appendix V. A supplement is also being prepared by the staff of the World Bank and will be issued in due course.

II. Background and Prospects

1. The setting

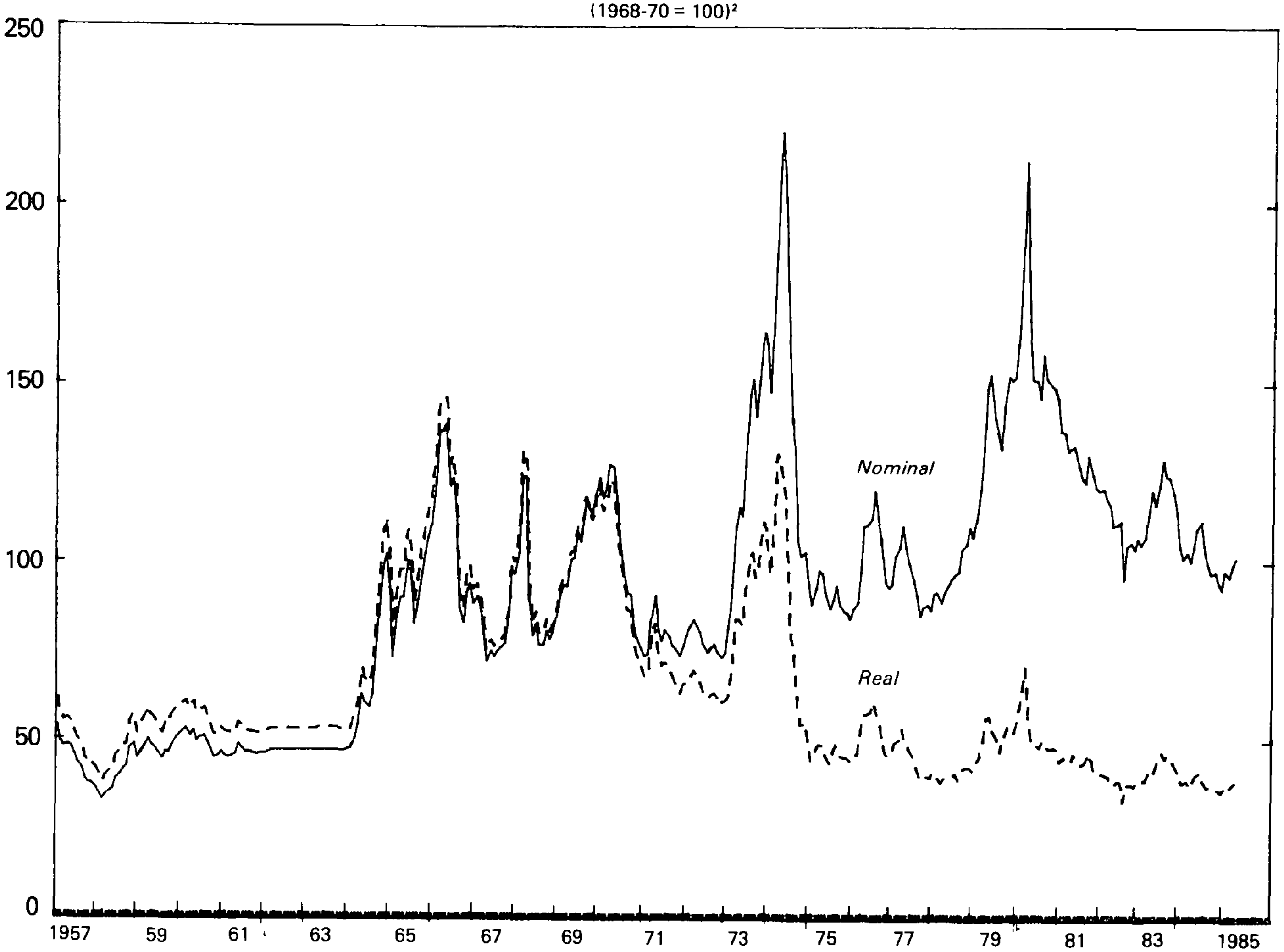
The development of the Zairian economy has been uneven since independence in 1960. It has been influenced mainly by domestic policies, but also by cyclical variations in the world price of copper. The first six years after independence were marked by political and economic turmoil, and by low copper prices (Chart 1). A turning point occurred in 1967 with the implementation of a strong adjustment program, which was followed

CHART 1

ZAIRE

INDEX OF COPPER PRICE IN NOMINAL AND REAL TERMS[1]

(1968-70 = 100)[2]



[1]Nominal prices are in U.S. dollars, real prices rice derived by deflating nominal prices by the UN index of unit values of manufactures exported by developed countries

[2]Weights are based on 1968 70-100 average export earnings of primary producing countries

Table 1. Zaire: Fund Position During Period of Arrangement

	Mar. 31 1985 1/	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Mar.
		(In millions of SDRs)			
Transactions under tranche policies (net) 2/		46.1	16.8	23.4	21.8
Purchases		63.0	33.0	33.0	33.0
Ordinary resources		63.0	33.0	33.0	33.0
Borrowed resources		--	--	--	--
Repurchases		-17.0	-16.2	-9.6	-11.2
Ordinary resources		-12.3	-7.4	-4.9	-2.4
Borrowed resources		-4.7	-8.8	-4.7	-8.8
Transactions under special facilities (net) 3/		-13.4	-13.4	-13.4	-13.4
Purchases		--	--	--	--
Repurchases		-13.4	-13.4	-13.4	-13.4
Total Fund credit outstanding (end of period)	610.2	642.8	646.3	656.4	664.8
Under tranche policies	388.8	434.8	451.6	475.0	496.8
Special facilities	221.4	208.0	194.7	181.4	168.0
		(As percent of quota)			
Total Fund credit outstanding (end of period)	209.7	220.9	222.1	225.5	228.4
Under tranche policies	133.6	149.4	155.2	163.2	170.7
Special facilities	76.1	71.5	66.9	62.3	57.7

Source: Treasurer's Department, International Monetary Fund.

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

by a period of rapid economic growth; prices of copper remained high, and real gross domestic product increased on average by 7 percent a year from 1967 to 1974. The second turning point came in 1974 with the fall in copper prices and a deterioration in economic and financial management. In spite of several attempts to redress the economy, the economic and financial situation deteriorated almost continuously through 1982, when real GDP had fallen 37 percent from its 1974 level. The 1983-84 adjustment program has been the third turning point, but the road to economic recovery will be longer and harder than in 1967 because of the burden of Zaire's external indebtedness and because the price of copper in real terms is not likely to be as favorable as it was between 1966 and 1974.

The deterioration of the Zairian economy from 1974 through 1982 was largely due to unwise decisions taken in the climate of euphoria which resulted from the 1973-74 commodity boom. The authorities launched an over-ambitious investment program without adequate project preparation; at the same time, they embarked on a program of "Zairianization" and nationalization which affected economic management so adversely that it had to be abandoned in 1975. As copper prices failed to recover, Zaire borrowed heavily until it lost its external creditworthiness and accumulated arrears. Increasingly larger budgetary deficits were financed by domestic credit, which fueled inflation and led to a grossly overvalued currency. By 1982, the country's infrastructure had decayed and many plantations had ceased to be maintained. Nevertheless, GECAMINES, the large mining complex responsible for half of Zaire's export earnings, maintained its level of production, though this was achieved at the cost of postponing much-needed investments.

2. The 1983-84 adjustment

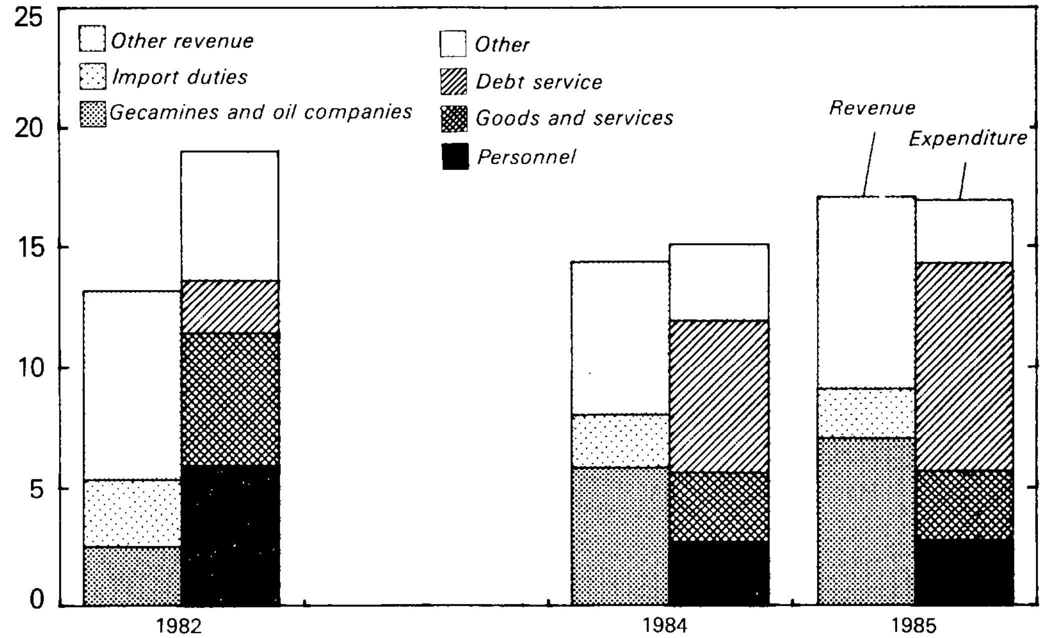
In 1983, the Executive Council resolved to come to grips with the causes of Zaire's deep-seated problems by cutting the budget deficit and liberalizing the price system. The centerpiece of the adjustment program, however, was a far-reaching reform of the exchange system; on September 12, the zaire was devalued by 77.5 percent in SDR terms and an interbank market was established to freely determine the value of the currency. A temporary dual exchange system was also introduced allowing a 10 percent margin between the official and interbank market rate. This margin was then gradually reduced and the two rates were unified on February 24. The reform was accompanied by a liberalization of exchange restrictions with most foreign exchange transactions being freed of restrictions. As a consequence, the parallel market has virtually disappeared with both the discount and the volume of transactions on this market falling sharply. Importers have been able to obtain foreign exchange through the banking system without much difficulty, foreign companies have been allowed to transfer dividends abroad, and the zaire has become virtually a convertible currency.

CHART 2

ZAIRE

EVOLUTION OF THE BUDGET

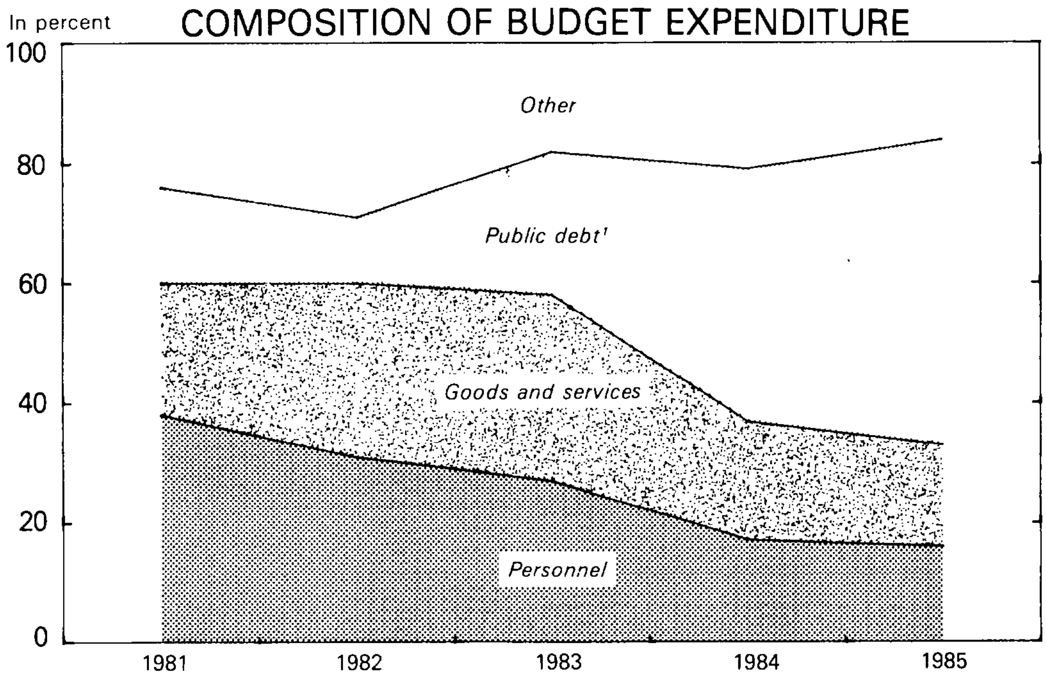
(In percent of GDP)



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

CHART 3

COMPOSITION OF BUDGET EXPENDITURE



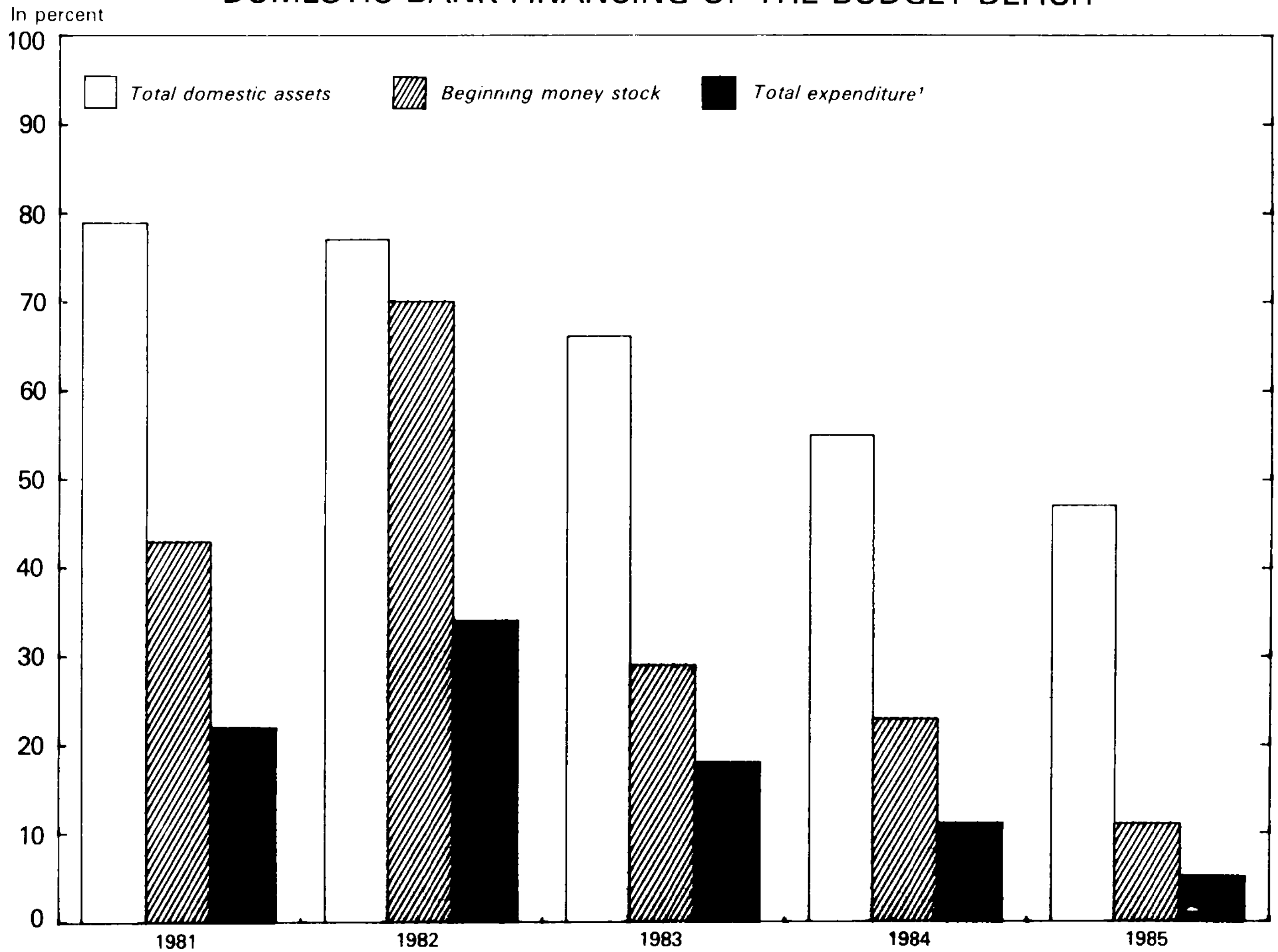
Sources: Data provided by the Zairian authorities and staff estimates.

[1] Including repayment of arrears.

CHART 4

ZAIRE

DOMESTIC BANK FINANCING OF THE BUDGET DEFICIT



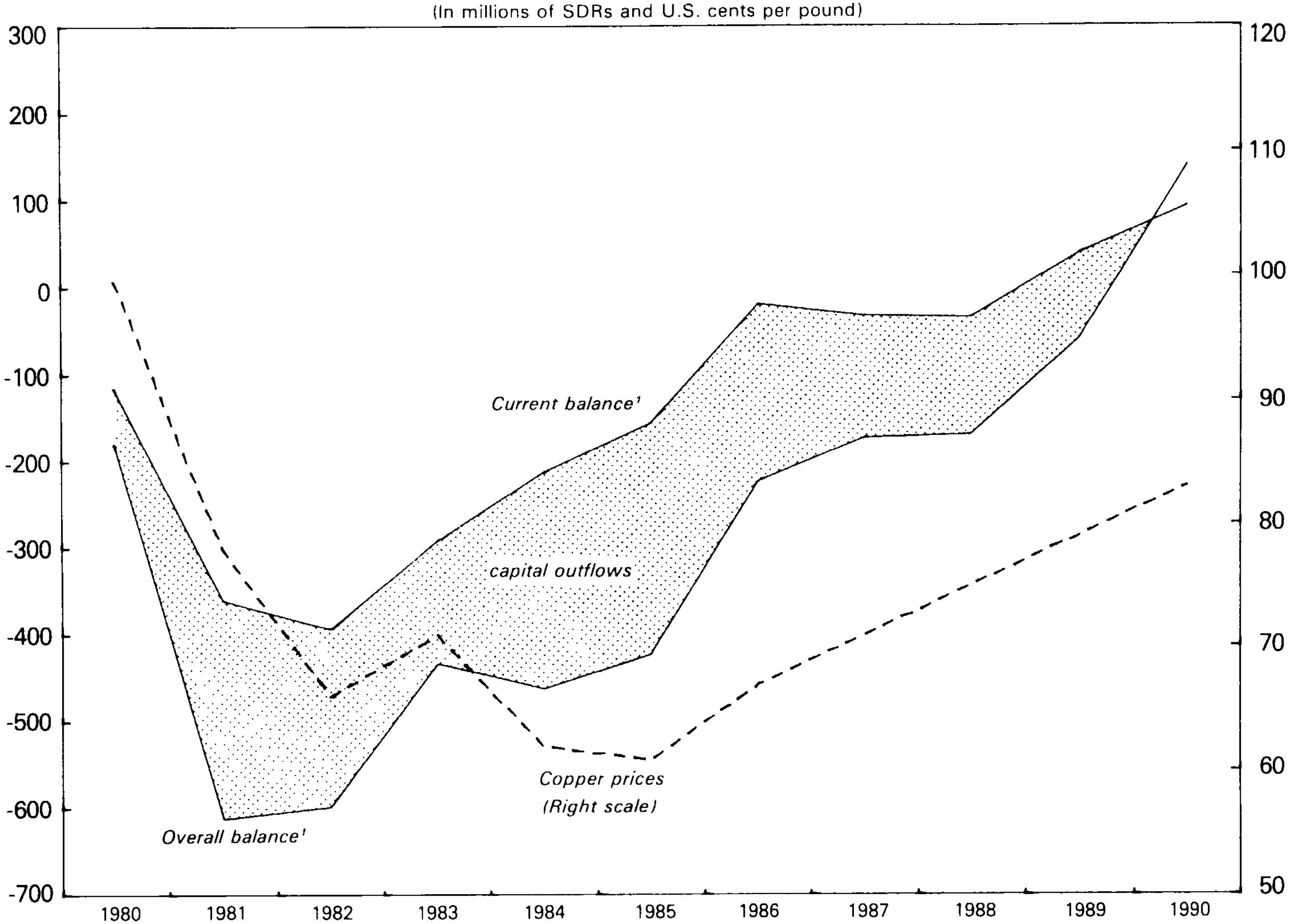
Sources: Data provided by the Zairian authorities and staff estimates.
[1] Including amortization of external debt

CHART 5

ZAIRE

EXTERNAL SECTOR, 1980-90

(In millions of SDRs and U.S. cents per pound)



Sources: Data provided by the Zairian authorities and staff estimates

[1] Before rescheduling

The float of the zaire has been a success because it has been supported by the implementation of strong fiscal, credit, and monetary policies, which resulted in a major slowdown of domestic inflation. It has also been supported by a massive rescheduling of the external debt and a sizable use of Fund resources.

The fiscal adjustment has been substantial. Budgetary revenue rose from the equivalent of 13 percent of GDP in 1982 to 14.4 percent in 1984, with tax payments by GECAMINES and oil exporting companies increasing from 19 percent to 40 percent of total revenue (Chart 2). Expenditure in contrast declined from 19.0 percent of GDP in 1982 to 15.1 percent in 1984, despite interest payments on the public debt increasing by 4.1 percentage points of GDP. As a consequence, debt payments in 1984 accounted for 42 percent of total expenditures compared with 16 percent in 1982, while the share of outlays for personnel and goods and services declined from 60 percent to 37 percent (Chart 3).

With revenue increasing faster than expenditure, the overall budget deficit 1/ in terms of GDP fell from 6.0 percent in 1982 to 0.7 percent in 1984, and monetary financing of the deficit, which was equivalent to 34 percent of total expenditure in 1982, was reduced to only 11 percent in 1984 (Chart 4). The reduction in the Government's domestic financing requirement to 55 percent of the increase in net domestic assets of the banking system in 1984, from 77 percent in 1982, somewhat eased the crowding out of the private sector; nevertheless, further progress in this direction is needed to ensure a recovery of productive activities.

In order to mop up the excess liquidity in the system, the ratio of mandatory reserves held by commercial banks at the Central Bank was raised substantially and Treasury bills bearing high interest rates were sold to the nonbank public. With a fall in the rate of domestic inflation, interest rates became high in real terms, which contributed to the success of the float.

From 1982 to 1984 the trade surplus doubled, despite a decline in copper prices, while the external current account and the overall deficits (before rescheduling) were reduced, respectively, by 42 percent and 23 percent (Chart 5). Moreover, for the first time in years, Zaire made considerable progress toward restoring normal payment relations with its external creditors in 1984. Monthly payments to Paris and London Club creditors were made on schedule, while the reduction of nondebt external arrears of the Treasury and commercial arrears exceeded considerably the program targets.

1/ Throughout the paper the overall deficit excludes budgetary investments financed from external resources.

Real GDP is estimated to have increased by 1.2 percent in 1983 and 2.8 percent in 1984, which suggests that the adoption of a realistic exchange rate and the liberalization of prices provided powerful production incentives. Growth originated mainly from the noncopper export sector (diamonds, oil, and coffee, in particular) and from food crops for domestic consumption. The exchange rate adjustment improved the terms of trade in favor of the mining and agricultural sectors, but its impact on the manufacturing sector was mixed; manufacturing enterprises were able to import the inputs and spare parts which they needed, but effective demand for their products was curtailed by the decline in purchasing power in the urban areas.

3. Prospects for 1985-90

Despite the improvements in the last two years, the economic and financial situation remains difficult. Zaire's external debt amounts to about US$4.4 billion (90 percent of GDP) and external nondebt arrears to some US$150 million, while the financial needs for rehabilitating the economy are very large.

An economic recovery can no longer depend on the copper sector alone. Copper's share in total export earnings has fallen from 45 percent in 1980 to one third in 1984 and is likely to fall further (Chart 6). Production of copper is expected to remain at about present levels despite substantial investments, and prices, which in real terms are now at their lowest level since the 1960s, are not expected to recover substantially; in these circumstances, an increase in value-added by the copper sector must come mainly from cost-saving measures.

Exports of cobalt are expected to remain at about their present level, while exports of diamonds, after a rapid growth in the last two years, are likely to increase only moderately. With sufficient investments, off-shore oil production could continue to increase through 1990 and exploration along the western border may start in the near future. Exports of other minerals, notably gold and tin, could also increase substantially if management were restructured and adequate investments were made.

Prospects for increasing agricultural production for export (coffee, cocoa, rubber, and palm oil) and for domestic consumption are favorable. Production of maize and cassava has already increased, and dependency on imports of food crops, livestock, and fish could be reduced significantly. Forestry offers the brightest prospects; however, the existing port capacity severely limits the expansion of timber exports.

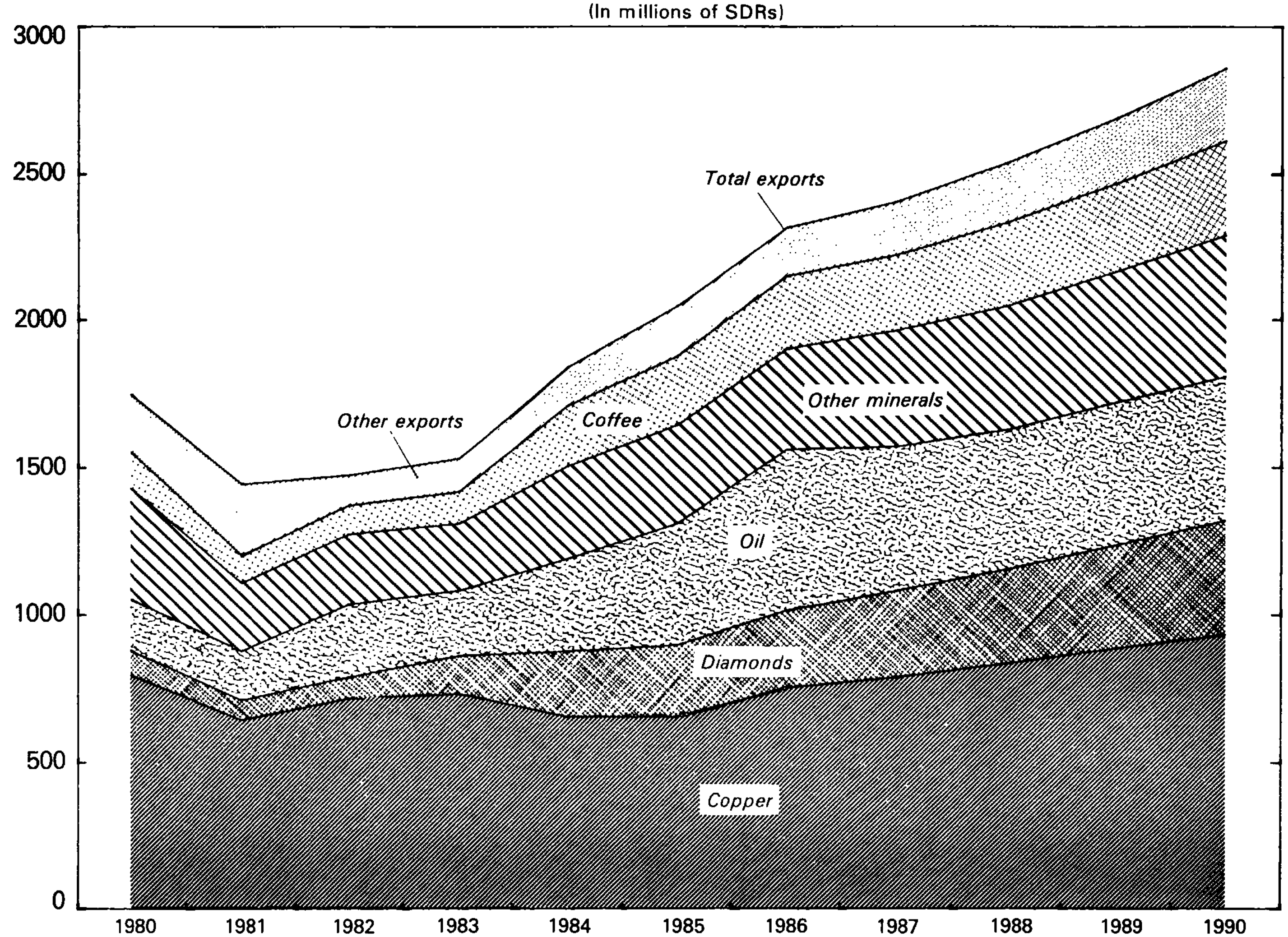
Manufacturing production could be expanded by taking advantage of the sizable potential domestic demand in the Kinshasa area and the availability of abundant labor and electric power at low costs. With appropriate

CHART 6

ZAIRE

EXPORT RECEIPTS,[1] 1980-90

(In millions of SDRs)



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

[1] Excluding marketing and financial costs.

policies, there is scope for increasing some exports of manufactured and processed products and for profitable import substitution in the medium term.

Development of production and trade are, however, dependent on an improvement of the infrastructure. For this reason, World Bank assistance in recent years has concentrated on the rehabilitation of the existing transport network and of the hydroelectric system. Projects to expand capacity have been limited to the agricultural sector.

In spite of the many uncertainties, Zaire's balance of payments has been projected for the period 1985 through 1990 by assuming that strong adjustment policies are pursued, but by making relatively conservative assumptions on export growth. It is assumed that prices of copper, remain unchanged in real terms and that crude oil production peaks in 1986 (Appendix VI, Table II). With export earnings increasing on average by 6.9 percent a year and imports by 6.8 percent a year, the trade surplus rises from SDR 595 million in 1985 to SDR 1,017 million in 1990 (Table 2). With continued restraint on nonconcessional borrowing by the public sector and some improvement in unrequited transfers, the current account deficit (inclusive of interest payments on the financing of the gap) could disappear by 1989. Moreover, the capital account could improve substantially if confidence in the Zairian economy were to be progressively restored. As a result, the overall balance of payments deficit could be eliminated by 1990.

This projection suggests that, with conservative assumptions on copper prices, a viable balance of payments could not be achieved before the end of the decade, and then only provided Zaire pursued strong adjustment policies in order to attract private and public capital inflows. Taking into account the elimination of existing arrears, repurchases falling due as well as a modest buildup of reserves, the financing gap would exceed SDR 350 million a year until 1988, which illustrates the need for continued debt relief.

More favorable assumptions on exports, in particular on the external terms of trade, would result in a smoother move toward viability. For example, a 10 percent increase in the real price of copper from 1985 to 1990 would result in about SDR 110 million more in export earnings by 1990. Such an improvement in exports would lead to some decrease in the financing gaps and, consequently, a reduced need for rescheduling, thus accelerating the restoration of confidence and attracting larger capital inflows.

III. Performance Under the 1984 Program

As a first step toward financial viability, the 1984 program aimed at reducing the external current account deficit by one quarter by leberalizing the price and exchange rate system, in order to stimulate

Table 2. Zaire: Medium-Term Balance of Payments Outlook, 1984-90

(In millions of SDRs)

	1984	1985	1986	1987	1988	1989	1990
Trade balance	595	718	873	876	890	968	1,017
Exports, f.o.b.	1,731	1,966	2,230	2,321	2,437	2,586	2,745
Imports, f.o.b.	-1,136	-1,248	-1,357	-1,445	-1,547	-1,618	-1,728
Oil	(-162)	(-199)	(-208)	(-228)	(-249)	(-271)	(-295)
GECAMINES	(-226)	(-249)	(-314)	(-331)	(-338)	(-324)	(-344)
Other	(-748)	(-800)	(-835)	(-886)	(-960)	(-1,023)	(-1,089)
Services	-938	-979	-1,022	-1,053	-1,089	-1,113	-1,129
Receipts	108	114	122	131	140	150	160
Expenditures	-1,046	-1,093	-1,144	-1,184	-1,229	-1,263	-1,289
Of which: freight and insurance	(-202)	(-231)	(-251)	(-267)	(-286)	(-299)	(-320)
IMF charges 1/	(-48)	(-55)	(-56)	(-48)	(-38)	(-24)	(-14)
Interest on public debt 2/	(-347)	(-315)	(-300)	(-284)	(-270)	(-260)	(-345)
Interest on financing of gaps 3/	(--)	(-16)	(-47)	(-75)	(-105)	(-129)	(-138)
Other expenditures	(-449)	(-492)	(-490)	(-509)	(-530)	(-551)	(-573)
Unrequited transfers (net)	116	106	130	145	165	185	205
Current account balance	-227	-155	-19	-32	-34	40	93
Public capital	-181	-267	-218	-176	-190	-163	-29
Disbursements	178	174	205	235	270	310	355
Amortization 2/	-359	-441	-423	-411	-460	-473	-384
Private capital and errors and omissions	-53	--	15	35	55	65	75
Overall balance	-461	-422	-222	-173	-169	-58	139
Financing items	461	422	222	173	169	58	-139
Arrears	-74	-40	-40	-40	...	...	...
Other reserves	53	-15	-25	-25	-30	-30	-41
Net Fund credit	95	65	-61	-125	-173	-138	-98
Purchases	158	169	33	...	...	...	...
Repurchases 1/	-63	-104	-94	-125	-173	-138	-98
Rescheduling	387	...	...	...	...	...	...
Financing gap	--	412	348	363	372	226	--
Cumulative gap	--	412	760	1,123	1,495	1,721	1,721
Memorandum items:							
Average export unit value of copper (US cents/lb)	62	61	67	71	75	79	83
Debt service ratios 4/							
Interest and charges	21.5	18.6	17.1	16.6	16.0	15.1	13.7
IMF charges	2.6	2.6	2.4	2.0	1.5	0.9	0.5
Other	18.9	15.9	14.8	14.7	14.5	14.2	13.2
Principal and repurchases	22.9	26.2	22.0	21.9	24.6	22.3	16.6
Repurchases	3.4	5.0	4.0	5.1	6.7	5.0	3.4
Other	19.5	21.2	18.0	16.8	17.9	17.3	13.2
Total debt service	44.4	44.8	39.1	38.5	40.6	37.4	30.2
IMF	6.0	7.6	6.4	7.1	8.2	5.9	3.8
Other	38.4	37.1	32.8	31.4	32.4	31.5	26.4

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

1/ Based on use of Fund resources as of end-March 1986.
2/ Scheduled obligations.
3/ Assumes interest rate of 8.0 percent on average cumulative gap.
4/ In percent of exports of goods and services.

production and exports. It also aimed at sharply curtailing the scope of the parallel market and containing domestic inflation within 40 percent. To reach these objectives and, in particular, to ensure a free float of the exchange rate without an excessive depreciation of the currency, a maximum expansion of 35 percent was originally set for broad money as well as for net domestic assets of the banking system in 1984; the latter represented an increase of Z 4,900 million, of which Z 2,600 million was for net credit to the Government.

Although it was possible to set quantitative targets for the monetary aggregates consistent with the inflation and the balance of payments objectives, it was much more difficult to translate them into operational targets for specific budgetary items. This was due partly to the considerable uncertainty regarding the magnitude of the tariff increases required for public utilities and transportation, and the financial impact of these increases on public enterprises and on the government budget. Moreover, external debt payments due in terms of SDRs were not accurately known, even after the Paris Club meeting. There was also uncertainty regarding the extent of the depreciation likely to occur with the float of the currency and its impact on government expenditure and revenue, as well as on the needs of the private sector. In addition, it was known that some government resources and outlays were not recorded in the government accounts and that improvements were required in the accounts of the Bank of Zaire, especially as regards the so-called "other domestic assets". For all these reasons, close monitoring was needed to help achieve the basic objectives of the adjustment program, and four reviews were conducted in the course of the year.

1. The monitoring of the program

When the first review mission visited Kinshasa in February 1984, the demand for foreign exchange far exceeded supply, the exchange rate was depreciating rapidly, and it was clear that the budgetary targets had to be revised. Measures were taken to absorb excess liquidity by raising the reserves which commercial banks are required to hold with the Central Bank, issuing Treasury bills bearing high interest rates, and tightening the expansion of private sector credit by Z 150 million (Table 3). Simultaneously, a series of fiscal measures were taken to improve government expenditure control and revenue collection, notably by revising import duties and reinforcing customs control. However, in spite of an upward revision of expenditure and of the budget deficit, the 1984 ceiling on net credit to the Government was not raised; instead it was decided to meet the additional financing requirement through the proceeds of sales of Treasury bills to the non-bank public. These various measures were implemented expeditiously and resulted in a lower rate of domestic inflation and a rapid improvement in the functioning of the interbank foreign exchange market. Furthermore, before uncovered letters of credit could be opened, importers were asked to make a minimum deposit

Table 3. Zaire: Expansion of Domestic Credit in 1984 and Budget Deficit Targets, Modifications and Outcome

(In millions of zaires)

Item	Original target (1)	Modifications made in each review I (2)	II (3)	III (4)	IV (5)	Final revised target (6)	Actual (7)	Deviation from Revised (8)	Original (9)
(NDA) Net domestic assets*	4,900	-150	+900	--	+400	6,050	5,247	-803	+347
(G) Net credit to Government*	2,600	--	+600	--	--	3,200	3,197	-3	+597
(P) Net credit to households and enterprises	1,900	-150	+200	--	--	1,950	1,610	-340	-290
(O) Other domestic assets	400	--	+100	--	+400	900	440	-460	+40
(TA) Treasury bills	--	200	--	--	300	500	692	+192	+692
(A) Amortization of external debt	-2,850	+463	--	-13	-50	-2,450	-2,596	+146	+254
(B) Budget deficit (-)	+250	-663	-600	-187	-50	-1,250	-1,218	+32	-1,468

* Performance criteria.
(NDA) = (G) + (P) + (O)
(G) + (TB) + (A) + (B) = 0
(6) = (1) + (2) + (3) + (4) + (5)
(8) = (7) - (6)
(9) = (7) - (1)

equivalent to 50 percent of the zaire counterpart; once the deposit was made, they had no difficulty in obtaining the necessary foreign exchange.

When the second review mission visited Kinshasa in May, the interbank market was functioning in a satisfactory manner. As liquidity had become very tight, and this threatened to have a strong adverse impact on the private sector, especially agriculture, the rediscount ceilings of the Central Bank were raised substantially. The attention of the mission was, however, devoted mainly to the required improvements in the control of government expenditures (notably those effected through the subaccounts of the Treasury) and the management of public enterprises. The authorities decided to conduct external audits of several enterprises in financial difficulties, and to liquidate SOZACOM with a view to reduce costs and improve the transparency of commercial operations.

An important development had been the implementation of a new system of monetary accounts with the assistance of the Bureau of Statistics, which made it possible to identify the various components of other domestic assets, instead of calculating some of them as a residual item. From these revised accounts, it appeared that the increase in the zaire counterpart of Fund charges resulting from the devaluation (which amounted to about Z 1.4 billion) had been misclassified in revaluation losses and other adjustments, instead of being included under net domestic assets. In order to cover the higher domestic currency cost of Fund charges, the interest rate charged by the Bank of Zaire to the Government was raised effective July 1, 1984. It was estimated at the time that this would increase government expenditure on interest payments by about Z 700 million for the second half of 1984. Although this correction did not affect the projections for broad money, the end-December 1984 credit ceilings were not raised by the full amount of the error; the ceiling on net domestic assets was raised by Z 900 million, and the subceiling on credit to Government by Z 600 million.

The third review mission in August concentrated again on the required improvements in the management of public enterprises, control of government expenditures, and accounting procedures in the Bank of Zaire. It noted that, although the interbank market was functioning well, the demand for foreign exchange had been artificially reduced by not providing the Treasury with the foreign exchange needed to reduce its external non-debt arrears (for technical assistance, embassies abroad, and the like). To satisfy this demand, the Bank of Zaire was asked to purchase an amount of at least US$25 million net in the last quarter, which would also contribute to reverse the appreciation of the real effective exchange rate during the preceding five months.

In the fourth and last review mission conducted in November 1984, it was clear that the credit ceilings for end-September had been met with a comfortable margin, but only by sharply curtailing credit to the private sector at the end of the quarter. In view of the cost of this stop-and-go policy, the ceiling on net domestic assets for end-December was increased by Z 400 million without modification of the subceiling on net credit to the Government. It was also noted that the interbank market had been disrupted by actions taken by the Bank of Zaire to satisfy the new performance criterion on minimum foreign exchange purchases, which illustrated the fragility of this new market.

In the course of the four reviews, the targets set for the budget deficit and the expansion of domestic credit were revised several times and three modifications or waivers were granted (Table 4).

As a result, the end-December ceiling on net domestic assets was raised by Z 1,150 million above the original target. However, since net domestic assets at end-December were actually Z 804 million below the revised ceiling, the original ceiling was exceeded by only Z 347 million, equivalent to 2.4 percent of the beginning money stock and 7 percent of the yearly flow. For 1984, as a whole, net domestic assets and broad money increased by 37 percent and 34 percent, respectively, compared with an original target of 35 percent for both.

Net credit to the government at end-December was only Z 3 million below the revised unadjusted December subceiling, which had been raised by Z 600 million from the original target. However, since it had been specified that the subceiling would be reduced by the amount outstanding of Treasury bills in excess of Z 500 million, the adjusted net credit to the Government exceeded the subceiling by Z 189 million. This excess is a matter of concern because it is an indication of a relaxation of budgetary discipline towards the end of the year, which could undermine an otherwise very successful adjustment effort.

2. Fiscal performance

The fiscal objective of the original program for 1984 was to generate a budgetary surplus of Z 250 million, compared with an anticipated Z 1.1 billion deficit for 1983 (Table 5). Total revenue was budgeted at Z 20.4 billion and total expenditure at Z 20.15 billion, representing increases of 85 percent and 66 percent, respectively, over 1983 expected results. However, at the time of the first review, the authorities, faced with a rapid exchange rate depreciation and a continued deterioration in the fiscal situation, undertook a substantial revision of the budget. To compensate for an upward adjustment of Z 2.1 billion in payments for interest on external debt and nondebt arrears of the Treasury, appropriations for nonwage outlays were cut by Z 1.1 billion. As regards revenue, to contain a shortfall in customs receipts reflecting widespread evasion encouraged by subtantially higher duty payments in zaires as a result of the devaluation, a new lower tariff schedule was introduced. This, together with a number of other less important revenue measures,

Table 4. Zaire: Performance Criteria, Purchases, Waivers and Modifications Approved by the Executive Board in Each of the Four Reviews of the Arrangement

First Review	Setting credit ceilings for March and June consistent with NDA yearly increase lower than the original target. Authorizing purchase based on December 1983 performance criteria after waiving credit ceilings on technical grounds, mainly on account of modifications in the definition of monetary aggregates.
Second Review	Setting credit ceilings for September and December resulting in a NDA yearly increase higher than the original target. Authorizing purchase based on March performance criteria.
Third Review	Authorizing purchase based on June performance criteria after waiving the NDA ceiling for an excess of Z 176 million and the multiple currency practice resulting from mandatory deposits required to open uncovered letters of credit.
Fourth Review	Confirming the waiver of the June NDA ceiling which had been exceeded by Z 809 million instead of Z 176 million on account of misclassification of Fund charges in the monetary survey. Authorizing purchase based on September performance criteria and raising the December NDA ceiling.

Table 5. Zaire: Fiscal Performance, 1982-84 1/

(In millions of zaires)

	1982	1983	1984 Program (1)	1984 Results (2)	Difference = (2) - (1) (3)	Percentage change = (3)/(1) (4)
Total revenue	6,259	10,998	20,400	25,994	5,594	27
Of which: Gecamines	(356)	(2,036)	(4,600)	(5,009)	(409)	(9)
oil companies	(782)	(1,915)	(3,540)	(5,455)	(1,915)	(54)
Income and profit taxes	2,161	3,787	5,900	8,122	2,222	38
Taxes on goods and services	1,548	3,108	4,262	7,365	3,103	73
Import duties	1,496	2,158	5,593	5,268	-325	-6
Export duties	215	1,123	3,020	3,430	410	14
Other revenue	839	822	1,625	1,809	184	11
Administrative revenue	(...)	(383)	(1,020)	(584)	(-258)	-25
B.P.O.	(...)	(439)	(605)	(1,047)	(442)	73
Other	(—)	(—)	(—)	(178)	(178)	(n.a.)
Total expenditure	9,037	12,106	20,150	27,212	6,971	35
Personnel 2/	2,780	3,264	4,586	4,696	110	2
Goods and services	2,636	3,754	4,706	5,438	732	16
Public debt service	686	1,754	5,856	9,031	2,921	37
Domestic 3/	(191)	(243)	(606)	(1,121)	(515)	(85)
External	(495)	(1,511)	(5,250)	(7,910)	(2,660)	(51)
Transfers and subsidies	988	941	1,295	875	-420	-32
Equipment budget 4/	1,085	647	1,400	1,019	-381	-27
Repayment of arrears	346	1,210	1,702	2,351	649	38
Gecamines 5/	(—)	(434)	(1,102)	(1,222)	(120)	(11)
Other domestic	(...)	(354)	(—)	(199)	(199)	(—)
External	(...)	(422)	(600)	(930)	(330)	(55)
B.P.O.	...	446	605	955	350	58
Of which:						
Agricultural Fund	(...)	(28)	(...)	(198)	(...)	(...)
Industrial Fund	(...)	(128)	(...)	(164)	(...)	(...)
Counterpart funds	(...)	(93)	(...)	(565)	(...)	(...)
Unclassified	516	—	—	521	521	n.a.
Treasury subaccounts (net drawings)	...	90	—	2,326	2,235	n.a.
Overall Treasury surplus or deficit 6/ (-)	-2,778	-1,108	250	-1,218	-1,377	n.a.
Financing 7/	2,778	1,108	-250	1,218	1,377	n.a.
Domestic	3,274	2,364	2,600	3,814	1,123	43
Banking system	(3,274)	(2,364)	(2,600)	(3,197)	(506)	(19)
Treasury sales (net)	(—)	(—)	(—)	(617)	(617)	(—)
Amortization of external debt	-496	-1,256	-2,850	-2,596	-254	-9

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

1/ Covers central government operations, excluding foreign financed outlays (not recorded in Treasury accounts), and the operations of autonomous agencies.
2/ Includes wages and salaries, pensions, and scholarships.
3/ Includes interest on Treasury bills and on central bank's advances, and domestic currency equivalent to Fund charges (for 1985).
4/ Excluding foreign-financed investment outlays.
5/ Repayment of uncompensated sales made in earlier years.
6/ Includes net drawings on Treasury's subaccounts and other unclassified outlays.
7/ After rescheduling. Before rescheduling there would have been a financing gap of US$389 million in 1984 (equivalent to about Z 15.1 billion) which is estimated to increase to US$412 million (equivalent to about Z 18.5 billion) in 1985.

was expected to yield net additional receipts of Z 0.4 billion. As a result, the revised budget showed an overall deficit of Z 413 million. Further revisions were introduced at the time of the second review which increased the programmed budget deficit to Z 1,013 million. Thus, appropriations for interest on central bank advances were raised by Z 700 million and those for the equipment budget by Z 200 million. The Z 900 million in supplementary appropriations was partially offset by additional revenue of Z 300 million. In view of these successive revisions, the permissible increase in the level of domestic bank financing of the budget deficit was raised from Z 2.6 billion in the original program to Z 3.2 billion at the time of the second review.

Preliminary results for 1984 show that central government operations resulted in an overall deficit of Z 1,218 million, which was out of line with the original target surplus of Z 250 million, but only Z 200 million above the revised target deficit of the second review. This outcome which occurred despite substantially higher revenue than originally estimated is attributable largely to substantial overruns in current expenditure and sizable drawdowns on the Treasury's subaccounts. The overall deficit, together with amortization payments of Z 2,596 million, was financed by Z 617 million net sales of Treasury bills and a Z 3,197 million increase in net bank credit to the Government.

Total revenue reached Z 26 billion, exceeding the original program estimate by Z 5.6 billion. About 40 percent of this excess may be attributed to the effect of a more rapid depreciation of the exchange rate than had been accounted for in the original revenue estimates; an estimated 25 percent of the excess stemmed from higher-than-expected increases in the volumes of crude oil, and to a lesser extent of non-oil exports, and about 18 percent from an underestimation of the base of the domestic turnover tax; the remainder resulted mainly from improved tax administration which more than offset revenue shortfalls in import taxes, following the April downward revision of the tariff structure, and lower receipts from administrative fees, mainly due to the non-implementation of the levy on the employment of expatriates.

Total budgetary expenditure, excluding drawdowns on the Treasury subaccounts, amounted to Z 24.9 billion, exceeding original appropriations by Z 4.7 billion. The sizable overrun reflected to a large extent additional outlays that resulted from the more rapid exchange rate depreciation referred to above (estimated to account for Z 1,440 million), and also from insufficient appropriations for a number of current outlays, including public debt service (Z 840 million for interest on external debt and Z 515 million for interest on central bank credit), diplomatic representation abroad and foreign scholarships (Z 603 million), external nondebt arrears of the Treasury (Z 74 million), repayments to GECAMINES (Z 44 million), and the reduction of domestic arrears (Z 199 million). In addition, Treasury disbursements exceeded external debt obligations by Z 760 million and repayments of external nondebt arrears exceeded the program level by Z 150 million. The remainder resulted from expenditures authorized by the Executive Council, largely in connection with the presidential election; a part of it appears as "unclassified" expenditure and the remainder in outlays for goods and services.

In 1984 the Treasury reduced its stock of external nondebt arrears accumulated at the end of December 1983 by an amount equivalent to $24 million, or $4 million more than the program target. Most of the reduction took place in the last months of the year when, with foreign exchange becoming available, the Treasury was able to make large disursements to cover current payments for certain categories of expenditures abroad and external debt obligations. With regard to the domestic arrears of the Treasury accumulated before December 1983, Z 199 million was repaid during the first nine months of 1984. A comprehensive inventory of arrears within the public sector as of the end of September 1984 was completed. This inventory is to be extended to cover arrears vis-à-vis the rest of the economy and abroad, and will be updated at regular intervals.

As noted earlier, drawdowns on the Treasury's subaccounts also played a major role in aggravating the Treasury cash deficit. These subaccounts which, by law, cannot be in debit, showed large credit balances at the beginning of 1984 which had been carried over from previous years. In view of the tight budgetary situation, ministries and government agencies withdrew heavily from their accounts during the first semester. As of June 1, 1984, however, any drawing from these subaccounts was made subject to the prior approval of the Ministry of Finance, and each ministry or agency was required to submit a schedule of monthly disbursements from its accounts, accompanied by the corresponding financing. Despite this measure, drawdowns continued during the summer months, but were substantially reduced in the latter part of the year.

3. Public enterprises

Due to a combination of poor management, inadequate pricing policy, overstaffing, major deficiencies in financial reporting and controls, and lack of coordination between the overseeing ministries, a number of key enterprises have experienced substantial operating losses and, in the absence of outright budgetary subsidies, have accumulated large payment arrears. Certain enterprises were provided with physical assets by the State in the form of grants, but failed to constitute appropriate depreciation allowances for the replacement of these assets. Furthermore, several enterprises which borrowed heavily from abroad with government guarantee to finance investment projects with dubious economic returns have been unable to service their external debt, thereby further burdening the government budget.

Cognizant of the severe repercussions which a continued deterioration in the public enterprises' financial performance would have on the overall economic situation, the authorities decided, in early 1984, to undertake a thorough review of the major enterprises with a view to rehabilitate a number of them and to privatize or liquidate the others. While undertaking a comprehensive study of the public enterprise sector with technical assistance from the World Bank, the authorities have started to deal with the most urgent problem cases. External audits have been or are being undertaken for three companies, 1/ and steps have been taken to redress the situation, notably by eliminating uneconomic operations, reducing employment, restructuring management, adjusting tariffs, and seeking foreign participation.

Following the liquidation of SOZACOM in July, a holding company was established with three subsidiaries responsible for mining production, marketing, and other activities, respectively. The production subsidiary retains ownership of its output until the sales transaction is completed, while the marketing subsidiary acts soley as an agent and is remunerated for its services. Sales contracts for metal exports will be jointly signed by the production and the marketing subsidiaries, while the accounts of GECAMINES (Commerciale) and GECAMINES (Exploitation) will be verified quarterly by an external auditor.

4. Production and income

Real GDP increased by 2.8 percent in 1984, which was one of the best yearly performances since 1974. In contrast to the 1967-74 period, growth in 1984 was not induced by the copper sector, since output did not increase and prices declined. Growth originated essentially from the mining sector other than copper and gold, and from agriculture. The greatest increases were for oil, diamonds, coffee, but food production also rose. As a result of tight monetary policies and of a more competitive environment, enterprises were induced to adopt cost saving measures. Nevertheless, a number of them suffered from a liquidity squeeze, either because they could not afford to borrow from the domestic banking system at yearly rates of 35 or 40 percent or because, even at these rates, credit was not available. Collection and marketing of agricultural products was hampered by the lack of credit in the third quarter of 1984, precisely when delays occured in river transportation because of the low water level resulting from the drought.

The evolution of wages was uneven among sectors. Since the September 1983 devaluation, civil servants suffered a substantial purchasing power loss, while employees of the two largest public enterprises (GECAMINES

1/ Audits have already been completed for CMZ and Air Zaire; the audit for KILOMOTO is scheduled to be completed by March 1985.

and SNCZ) and of a number of private enterprises succeeded in maintaining their real wage level. When private sector wages were renegotiated in the last quarter of 1984, increases of about 35 percent were granted in most cases, but employees of the banking sector succeeded in obtaining a 70 percent increase.

5. Money, credit, and exchange rate

Monetary developments in 1984 were characterized by a drastic reduction in the expansion of broad money from 73.8 percent of the beginning money stock in 1983 to 34.2 percent in 1984, reflecting, in large part, the slowdown in the overall expansion of credit (Table 6). The surge in the money supply during the last quarter of 1983 (following the devaluation in September 1983) continued through the first quarter of 1984, as broad money grew at an annualized rate of about 62 percent. Money growth decelerated to about 45 percent in the second quarter and slowed sharply to less than 20 percent for the second half of 1984. More than half of the expansion in broad money during 1984 was attributable to the growth of currency in circulation as the ratio of currency in circulation to deposits increased from 78 percent at the end of 1983 to 88 percent by end-1984.

Government expenditures have shown a pronounced seasonal pattern which has been reflected in the growth of credit and broad money. In 1983, 58 percent of the increase in net credit to Government for the entire year was released in the last quarter, and 45 percent of the yearly increase in broad money also occured in that quarter. As the surge in credit and broad money came at the end of the last quarter, the problem facing the authorities at the beginning of 1984 was to absorb the excess liquidity, in order to arrest the depreciation of the currency while maintaining the interbank foreign exchange market reasonably free of restrictions. For this purpose, the authorities decided to establish an instrument providing holders of zaires with a remuneration, at least, as high as the one they could have obtained by holding foreign currencies; on April 3, 1984, the Bank of Zaire started issuing Treasury bills on behalf of the government for periods of 28, 56 and 91 days in multiples of Z 50,000. The bills were sold at weekly auctions to the non-bank public at interest rates ranging from 40 to 45 percent a year, depending on the maturity. With a 2 percent average monthly depreciation of the zaire in relation to the SDR, these rates would have been equivalent to a 13 percent annual yield on SDR holdings, which was an attractive rate of remuneration. During the third quarter of 1984, several modifications were introduced. The minimum face value of Treasury bills was reduced from Z 50,000 to Z 10,000; physical bearer paper was issued instead of accounting entries in the books of the Bank of Zaire, and sales started in the interior of the country through branches of the Bank of Zaire and of commercial banks. As the annual rate of inflation declined to about 20 percent, interest rates were reduced to an average of 36 percent as of October 23, and 31 percent as of January 2, 1984.

Table 6. Zaire: Monetary Survey, 1983-85

(In millions of zaires; end of period)

	1983	1984				1985			
	Dec. 1/	Mar. 1/	June 1/	Sept. 1/	Dec. 1/	Mar. 2/	June 2/	Sept. 2/	Dec. 2/
Net foreign assets (broad)	-18,941	-22,495	-22,391	-23,766	-23,653	-27,554	-29,038	-30,315	-31,137
Net foreign assets (narrow)	-16,014	-18,806	-18,321	-20,933	-20,861	-23,310	-24,598	-25,675	-26,301
Assets	9,317	10,420	10,354	9,941	11,804	12,076	11,388	12,698	12,706
Bank of Zaire	6,019	6,173	7,733	7,742	8,785	...	...	...	...
Commercial banks	3,298	4,247	2,621	2,199	3,019	...	...	...	...
Liabilities	-25,331	-29,226	-28,675	-30,874	-32,665	-35,386	-35,986	-38,373	-39,007
Bank of Zaire	-24,577	-28,230	-27,931	-30,295	-32,154				
Of which: provisions for external commercial and invisible arrears	(-5,753)	(-6,443)	(-5,559)	(-5,087)	(-4,989)	(-4,730)	(-4,500)	(-4,230)	(-3,920)
Commercial banks	-753	-996	-744	-580	-511	...	...	...	...
Foreign currency deposits and provisions for import financing	-2,927	-3,690	-4,070	-2,832	-2,792	-4,244	-4,440	-4,640	-4,836
Net domestic assets	14,150	15,895	17,650	16,989	19,396	22,234	23,384	24,634	25,384
Net claims on Government	10,252	11,318	11,345	11,096	13,449	14,652	14,802	15,452	15,602
Credit to enterprises and households	2,882	3,544	4,160	3,846	4,492	5,582	6,232	6,732	7,282
Other net domestic assets	1,016	1,033	2,145	2,048	1,455	2,000	2,350	2,450	2,500
Money and quasi-money	14,002	15,799	17,165	17,979	18,792	20,280	21,980	22,780	23,351
Currency in circulation	6,136	6,795	7,900	8,215	8,802	...	...	...	...
Deposits	7,866	9,004	9,265	9,764	9,990	...	...	...	...
Revaluation gains and losses (net)	-18,656	-22,331	-21,427	-23,276	-25,733	-27,067	-28,628	-29,529	-29,866
Off balance sheet accounting adjustment 3/	-2,575	-2,504	-3,707	-4,749	-744	-2,243	-2,890	-2,988	-3,466
SDR allocation counterpart	2,437	2,437	3,227	3,270	3,428	3,710	3,884	4,056	4,228

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

1/ Actuals.
2/ Projections.
3/ Equivalent to the difference between net foreign assets of the Bank of Zaire as shown on its balance sheet and as reported by correspondents; the latter data have been used for foreign assets and liabilities in this table.

In many respects, the sale of Treasury bills was a success. The amount outstanding at face value increased rapidly; it reached Z 255 million by the end of June, Z 535 million by the end of September and Z 692 million by the end of December. Moreover, the high rate of return on Treasury bills induced commercial banks to raise their borrowing rates. As a result, the ratio of term to time deposits increased and banks started to remunerate short-term deposits of a large size.

At the same time, the Bank of Zaire tightened the liquidity position of commercial banks by raising the effective minimum reserve requirement to 15 percent as of March 1, 1984 and to 18 percent as of April 30, 1984. Also, the Bank of Zaire required importers to make a domestic currency deposit before opening uncovered letters of credit; the rate was raised from 50 percent in March to 65 percent in May. As it was found that this constitutes multiple currency practice, the rate was reduced to 50 percent in November and the authorities decided to eliminate mandatory deposits by June 1985. As the liquidity position of commercial banks became progressively tighter, it appeared necessary to provide them with a safety margin by raising, as of June 11, the rediscount ceiling at the Central Bank from Z 150 million to Z 600 million and establishing a separate ceiling of Z 400 million for the placing of pledged paper by the commercial banks with the Central Bank. The commercial banks took advantage of these rediscount facilities only when their liquidity was low, because they had to pay a 20 percent yearly discount rate.

The Bank of Zaire also imposed tight credit ceilings on commercial banks, which acted as the main constraint to the expansion of credit to enterprises and households. These various measures, combined with very strict fiscal policies resulted in a slowing-down in credit expansion. From end-March to end-September 1984, the increase in net domestic assets represented only 18 percent of the increase for the whole of 1984 and the nominal effective exchange rate remained virtually unchanged; the zaire depreciated in relation to the U.S. dollar, but it appreciated in relation to the Belgian franc (Chart 7). Toward the end of 1984, net credit to Government increased sharply again. As foreign exchange was in short supply due to large repayments of external arrears, the zaire started to depreciate vis-à-vis the Belgian franc, as it had one year earlier. The nominal effective exchange rate declined by 10 percent in the first ten weeks of the year, compared with a 16 percent fall in the first quarter of the preceding year. In both cases, it resulted in a substantial decline of the real effective exchange rate.

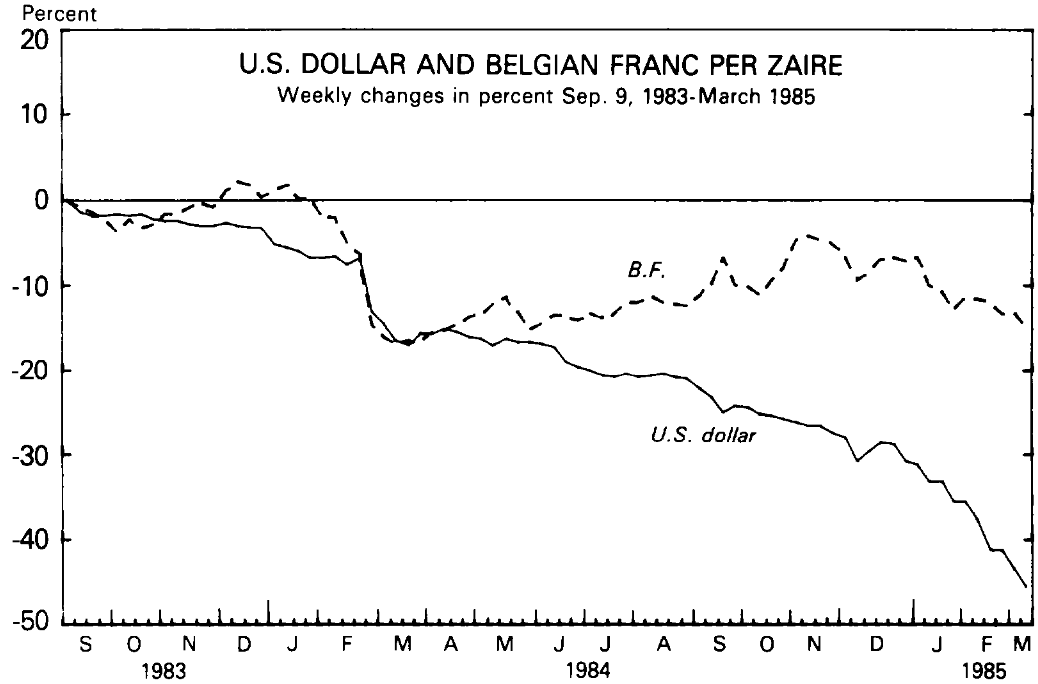
6. Balance of payments

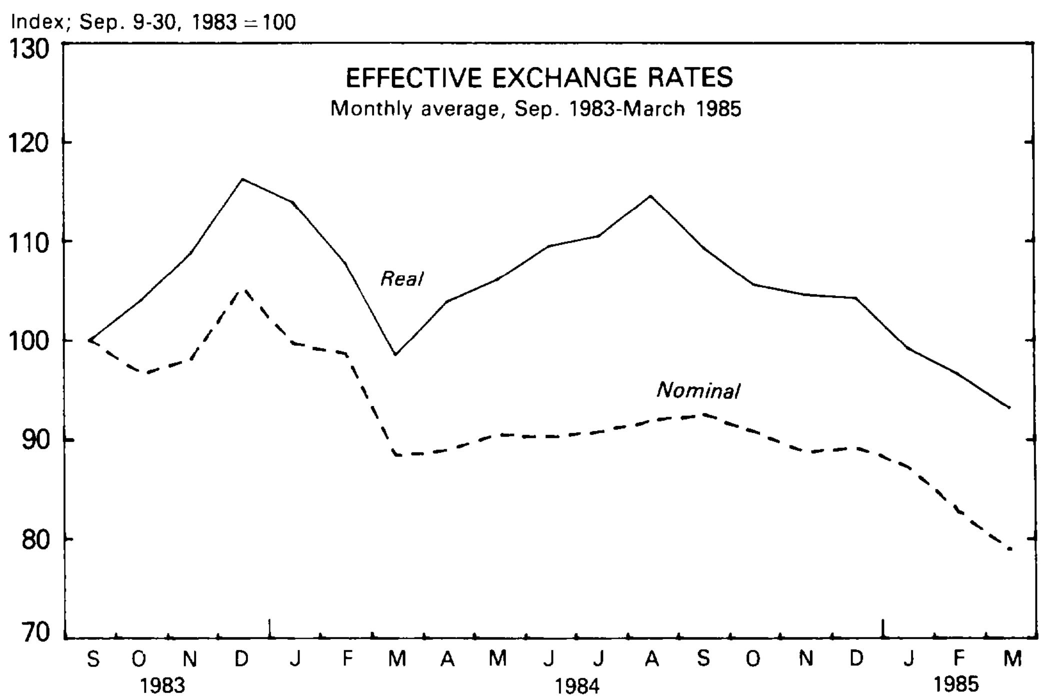
The foreign exchange interbank market has been functioning in a manner which, on the whole, can be considered as satisfactory, because developments in the balance of payments have also been relatively satisfactory. The performance of the trade balance was particularly

CHART 7

ZAIRE

EXCHANGE RATE DEVELOPMENTS





Source: Bank of Zaire and IMF staff estimates.

gratifying since the surplus of this balance exceeded the target set in the original program by SDR 176 million, entirely on account of exports although copper prices were 21 percent lower than had been assumed in the original program (Table 7). This favorable result reflects the good performances of cobalt, diamonds, petroleum and coffee and, more generally, the favorable impact of the exchange rate adjustment on the export sector.

Unfortunately, the gain in the trade surplus was nearly entirely offset by the loss in the balance of services and transfers, and, as a result, the external current account deficit was only marginally below the original target. The higher than targeted net deficit on services (SDR 104 million) reflected, in particular, higher interest payments on the public debt (SDR 51 million) and higher government outlays (SDR 60 million). The latter was largely caused by a substantial underestimation of the recurrent foreign exchange needs of Government for the army, embassies abroad, technical assistance and the like; but it also reflected some unforeseen expenditures. The higher deficit on transfers (SDR 69 million) was due to a shortfall in public transfers and higher than projected private transfers, which may have been allowed by the liberalization of exchange controls.

The deficit of the capital account was greater than originally foreseen essentially because GECAMINES reduced the level of its export prefinancing credits by an amount of SDR 53 million. The larger than targeted overall balance of payments deficit should therefore, not be interpreted as a worsening of the underlying external position. Nevertheless, since the larger overall deficit (SDR 61 million) was associated with higher repayments of commercial arrears (SDR 34 million), Zaire's reserve position substantially deteriorated instead of improving as originally programmed.

A notable achievement during 1984 was the progress made towards restoration of normal payment relations with international creditors. Following the conclusion of the December 1983 agreement with Paris Club creditors, Zaire made monthly payments of SDR 14.25 million to a special account with the Federal Reserve. These deposits were then used to pay creditors as bilateral agreements were signed and payments fell due; a total of US$160 million (Appendix VI, Table III) was paid to Paris Club creditors in 1984. At the end of December 1984, bilateral agreements had been signed with all participating countries except Japan. The delays in signing an agreement with this country has been, according to the Zairian authorities, due to administrative difficulties outside their control. Zaire also reached an informal agreement with creditor banks members of the London Club, under which monthly payments would amount to US$2 million in the first half of 1984, US$5 million in the third quarter, US$7 million in the fourth quarter, and US$4 million in the first quarter of 1985; all payments for 1984 have been effected on schedule. The Zairian authorities also requested debt relief, on terms

Table 7. Zaire: Balance of Payments, 1983-85

(In millions of SDRs)

	1983	1984 Original program	1984 Preliminary actual	Changes: 1984 Preliminary-original	Changes: 1984 Preliminary-1983 actual	1985 Program	Change: 1985 Program-1984 preliminary original
				(3)-(2)	(3)-(1)		(6)-(3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Trade balance	383	419	595	176	212	718	123
Exports, f.o.b.	1,424	1,524	1,731	207	307	1,966	235
Imports, f.o.b.	-1,041	-1,105	-1,136	-31	-95	-1,248	-112
Oil	(-156)	(-180)	(-162)	(18)	(-6)	(-199)	(-37)
Non-oil	(-885)	(-925)	(-974)	(-49)	(-89)	(-1,049)	(-75)
Services	-839	-834	-938	-104	-99	-979	-41
Receipts	118	100	108	8	-10	114	6
Expenditures	-957	-934	-1,046	-112	-89	-1,093	-47
Freight and insurance	(-198)	(-245)	(-202)	(43)	(-4)	(-231)	(-29)
Other transport	(-31)	(-35)	(-23)	(12)	(8)	(-29)	(-6)
Travel	(-23)	(-18)	(-55)	(-37)	(-32)	(-59)	(-4)
IMF charges	(-42)	(-55)	(-48)	(7)	(-6)	(-55)	(-7)
Interest on public debt	(-263)	(-296)	(-347)	(-51)	(-84)	(-331)	(16)
Other investment income	(-47)	(-40)	(-47)	(-7)	(--)	(-55)	(-8)
Government, n.i.e.	(-123)	(-50)	(-110)	(-60)	(13)	(-104)	(6)
Other services	(-230)	(-195)	(-214)	(-19)	(16)	(-229)	(-15)
Unrequited transfers (net)	165	185	116	-69	-49	106	-10
Private	3	-15	-54	-39	-57	-66	-12
Public	162	200	170	-30	8	172	2
Current account balance	-291	-230	-227	3	64	-155	72
(Excluding interest rescheduled)	(-181)	(...)	(-104)	(12)	(77)	(...)	(104)
Public capital	-211	-170	-181	-11	30	-267	-86
Disbursements	132	180	178	-2	46	174	-4
Amortization	-343	-350	-359	-9	-16	-441	-82
Short-term nonmonetary capital 2/	)	—	-53	-53	-53		53
Private capital and errors and omissions	) 69	--	--	—	-69		
Overall deficit (-)	-433	-400	-461	-61	-28	-422	39
(Excluding interest and principal rescheduled)	(-97)	(...)	(-74)	(-58)	(23)	(...)	(...)
Financing items							
Arrears (reduction -)	-480 3/	-40	-74	-34	406	-40	34
Of which: Bank of Zaire 4/	(-12)	(-40)	(-40)	(--)	(-28)	(-40)	(--)
Debt rescheduling and other assistance	861	...	387	387	-474	...	-387
Net Fund credit	104	129	95	-34	-9	65	-30
Purchases	(114)	(198)	(158)	(-40)	(44)	(169)	(11)
Repurchases	(-10)	(-69)	(-63)	(6)	(-53)	(-104)	(-41)
Other reserve movements (increase -)	-52	-42	53 5/	95	105	-15	-68
Financing gap	--	353	--	-353	—	412	412
Memorandum items:							
Average export unit value of copper in U.S. cents per pound	71	79	62	-17	-9	61	-1

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

1/ Contractual amounts falling due in each year.
2/ Mainly export prefinancing by GECAMINES.
3/ Amount rescheduled under Paris Club agreement (SDR 525 million, including SDR 97 million of late moratorium interest) plus cash payments (SDR 12 million) on commercial and invisible arrears minus further accumulation of arrears (SDR 57 million) on medium- and long-term external debt.
4/ Cash payment by the Bank of Zaire on commercial and invisible arrears only.
5/ Estimated from the change in net narrow foreign assets in the monetary survey, taking into account net Fund credit and reduction in arrears. The exchange rates used are Z 31.534 per US$ for end-December 1983 and Z 39.649 per US$ for December 1984. The estimate also excludes US$92 million held by the Bank of Zaire at the Federal Reserve which reflected payments to Paris Club creditors due at the end of December 1984 but effected only in early January 1985.

broady comparable to those of the Paris Club rescheduling, from other official and private creditors. On the whole, medium- and long-term foreign debt service payments in 1984 amounted to US$328 million (Appendix VI, Table III) or some 19 percent of exports compared with US$276 million in the original program, the difference reflecting essentially higher interest payments. In 1984 external commercial and invisible arrears were reduced by SDR 74.1 million, of which SDR 40.1 million through cash payments in foreign exchange by the Bank of Zaire; SDR 32 million through payments in zaire which, for the major part, were converted into foreign exchange by commercial banks; and SDR 1.7 million through rebates. By the end of 1984, the stock of commercial arrears had been reduced to SDR 122 million. The Treasury also reduced its accumulated arrears by SDR 24 million in 1984.

IV. The Adjustment Program for 1985

1. Overview

The adjustment program for 1985 is designed as a further step towards the achievement of a viable balance of payments position at the end of the eighties. The objectives for 1985 are to strengthen the rehabilitation efforts without refueling inflationary pressures and to reduce the external current account deficit to 3.3 percent of GDP from 4.7 percent in 1984. To achieve these objectives, the increase in money supply and in net domestic assets will be limited to about 25 percent, which corresponds to the expected growth in monetary GDP. In order to provide the financial resources for an expansion of production, credit to enterprises and households--which still remains extremely low--will be allowed to rise by 62 percent. By contrast, the increase in net credit to Government will be limited to 16 percent, which implies that the budget deficit which amounted to 0.7 percent of GDP in 1984 should turn in to a surplus equivalent to 0.9 percent of GDP in 1985. These and other objectives are to be achieved through the combination of policies set out below.

2. Fiscal policies

The 1985 fiscal program aims at reducing the recourse of the Government to domestic bank credit to Z 2,150 million equivalent to 12 percent of beginning broad money stock, and limiting to Z 500 million the part of the budget deficit financed through issuance of Treasury bills. 1/

1/ If the increase in outstanding Treasury bills exceeds Z 500 million in 1985, the subceiling on credit to the Government will be reduced by the amount of the excess, as has been the case in 1984.

Since amortization of external debt (after rescheduling) is estimated at Z 4,600 million, the Treasury will have to generate an overall surplus of Z 1,950 million (Table 8). It may be noted that data for the 1985 budget are presented after debt rescheduling and assume terms of debt relief in line with previous reschedulings. Before rescheduling there would have been a financing gap of Z 20.8 billion compared to Z 15.1 billion in 1984.

Total revenues are expected to increase by 53 percent to Z 39.7 billion. About 44 percent (Z 6.0 billion) of the increase will stem from higher contributions by GECAMINES and the oil-exporting companies (based on the companies' own projections, at unchanged tax rates). An expansion of the taxable base and an improvement in tax administration will provide another 19 percent (Z 2.6 billion), and the remainder of the increase is expected to result from a package of revenue measures estimated to yield Z 4.9 billion in new revenue. These measures include: (1) elimination of the 25 percent flat-rate deduction from the taxable base of the domestic turnover tax (Z 750 million); (2) an increase in the rates of the turnover tax on imports, from 25 percent to 30 percent for goods subject to the higher rate when produced domestically, and from 20 percent to 25 percent for the other goods (Z 600 million); (3) selective increases in import duties on certain sensitive goods and stronger measures to prevent customs fraud (Z 335 million); (4) increases in the excises on wine, beer, and alcoholic beverages (Z 15 million); (5) introduction of a levy on expatriate employment (Z 880 million); (6) selective increases in certain fees and royalties charged for services, together with an improvement of the procedures for collecting administrative revenue (Z 300 million); (7) a gasoline tax of Z 3 per liter (Z 350 million); and (8) additional revenue stemming from the transfer to the budget of the gasoline tax after the elimination of Petrozaire's import monopoly (Z 300 million), and from the sale of assets related to the restructuring of Air Zaire and CMZ (Z 1,400 million).

As concerns budgetary outlays, the Zairian representatives pointed out that the 1985 budget was already severely burdened by the considerably greater outlays required to service the public debt and to repay the Treasury's nondebt arrears. Even under optimistic debt rescheduling assumption, interest payments on the external debt would amount, in zaire terms, to at least Z 11.8 billion in 1985, an increase of some 50 percent compared to 1984. Furthermore, interest payments to the Bank of Zaire on account of central bank credit, the domestic currency equivalent of Fund charges, and internal Treasury bills, were estimated to reach some Z 3.5 billion. Lastly, repayments of Treasury nondebt arrears were budgeted at Z 4.0 billion, including Z 1.5 billion to GECAMINES for noncompensated sales; Z 1.5 billion for the reduction of domestic arrears; and Z 1.0 billion (US$20 million) for the reduction of arrears of foreign exchange. Altogether, these items would amount to Z 19.3 billion representing a 68 percent increase over 1984 payments.

Table 8. Zaire: 1985 Budget 1/

(In millions of zaires)

	1984 Preliminary results (1)	1985 Proposed budget 2/ (2)	Absolute change =(2)-(1) (3)	Percentage change (3)/(1) (4)
Total revenue	25,994	39,665	13,707	53
Of which:				
GECAMINES	(5,009)	(7,930)	(2,921)	(58)
oil companies	(5,455)	(8,500)	(3,045)	(56)
Income and profit taxes	8,122	11,200	3,078	38
Taxes on goods and services	7,365	11,535	4,170	57
Import duties	5,268	7,240	1,972	37
Export duties	3,430	4,850	1,420	41
Administrative revenue	584	1,890	1,306	224
B.P.O.	1,047	1,450	403	38
Other revenue	178	1,500	1,358	763
Total expenditure	27,212	37,715	10,503	39
Personnel 3/	4,696	6,000	1,304	28
Goods and services	5,438	6,650	1,212	22
Public debt service	9,031	15,200	6,169	68
Domestic 4/	1,121	3,450	2,329	208
Foreign	7,910	11,750	3,840	49
Transfers and subsidies	875	950	75	9
Equipment budget 5/	1,019	2,000	981	96
Repayments of arrears	2,351	3,965	1,614	69
GECAMINES 6/	1,222	1,500	278	23
Other domestic	199	1,500	1,301	654
External 2/	930	965	35	4
B.P.O.	955	1,450	495	52
Of which:				
agricultural funds	(198)	(140	(-58)	(n.a.)
industrial fund	(164)	(580)	(416)	(254)
counterpart funds	(565)	(625)	(60)	(11)
Unclassified	521	1,000	479	92
Treasury subaccounts (net drawings)	2,326	500	-1,826	n.a.
Overall Treasury surplus or deficit (-)	-1,218	1,950	3,168	n.a.
Financing	1,218	-1,950	-3,168	n.a.
Domestic	3,814	2,650	-1,164	n.a.
Banking system	3,197	2,150	-1,047	n.a.
Treasury sales (net)	617	500	-117	n.a.
Amortization of external debt 2/	-2,596	-4,600	-2,004	77

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

1/ Covers central government operations, excluding foreign-financed outlays (not recorded in Treasury accounts), and the operations of autonomous agencies.

2/ After rescheduling. Before rescheduling there would have been a financing gap of US$387 million in 1984 (equivalent to about Z 15.1 billion) which is estimated to increase to US$412 million (equivalent to about Z 20.8 billion) in 1985.

3/ Includes wages and salaries, pensions, and scholarships.

4/ Includes interest on Treasury bills and on central bank's advances, and Fund charges (for 1985).

5/ Excluding foreign-financed investment outlays.

6/ Repayment of uncompensated sales made in earlier years.

With regard to personnel outlays, the Zairian representatives explained that between January 1983 and the beginning of 1985 the average salary of government employees had increased by 40 percent, while during the same period, the cost of living index in Kinshasa prices had risen by some 120 percent, implying a substantial cut in purchasing power. For 1985, the authorities intend to raise government salaries by 10 percent as of April 1, and by another 15 percent as of October 1. While this could represent an average salary increase of 15.7 percent over the corresponding 1984 level, wage rates at the end of the year will be 25 percent higher. Furthermore, free travel on public transportation for certain categories of civil servants will be replaced with monthly travel allowances. Taking into account outlays for the liquidation of outstanding arrears on salaries and related benefits, and for the settlement of severance pay for employees who had been retired in 1984, total appropriations for personnel outlays, including pensions and scholarships were budgeted at Z 6 billion. The authorities also intend to actively pursue their policy aiming at a gradual reduction of government employment. The number of civil employees on the government payroll which had been reduced by 14 percent in 1984 to about 120,000 by the end of the year, will be reduced by a further 5,000 in 1985. However, this reduction is not expected to have a significant impact on personnel outlays in 1985 because of the costs entailed in terms of severance pay and pensions.

Expenditure for goods and services were budgeted at Z 6,650 million, representing an increase of only 22 percent over 1984 results. Capital expenditure was budgeted at Z 2 billion, an increase of about 65 percent (in real terms) over 1984 results, but still considerably below the amount of Z 2.6 billion proposed by the World Bank. Appropriations for the budget pour ordre (BPO), which includes the agricultural and industrial development funds and some counterpart funds, have been increased by 53 percent. Expenditure from these funds are matched by an equivalent amount of revenue. In order to prevent the recurrence of overruns due to unforeseen outlays authorized by the Executive Council but for which, in the past, there were no appropriations, a contingency fund has been created in the budget and endowed with an amount of Z 1 billion. Disbursements from the fund will be conditional upon the full realization of the revenue objectives of the program.

Measures have been adopted, or will be enacted shortly, that are designed to improve budgetary control procedures, combat waste, and prevent the accumulation of new arrears. Thus beginning April 1, the management of appropriations for utilities (water, electricity, fuel and telephone) will be charged against global appropriations for all operating expenditures of each administrative unit. Furthermore, Treasury subaccounts which constituted a substantial burden on the Treasury's cash position in 1984, will be incorporated in the budget and credit balances shown by these accounts at the end of 1984 will be written off, with the exception of those of the counterpart funds for which an appropriation of Z 500 million has been provided for in the budget. Lastly, as concerns domestic and external arrears, a special committee will be established by March 1, 1985 to supervise the completion of a comprehensive inventory. In the interim, appropriations of Z 1,500 million have been provided in the 1985 budget for repayment of domestic arrears and Z 965 million for external arrears (equivalent to US$20 million). Furthermore, the existing procurement committee will be strengthened and will monitor the legality and economic justification of contracts awarded through competitive bidding procedures. As a result of all these measures, expenditure will not exceed Z 37,717 million, representing an increase of 38.6 percent over 1984 results.

The 1985 budget estimates have been based on a projected average exchange rate of Z 48 per SDR, compared with a rate of Z 46 per SDR at mid-March. With the wage bill remaining unchanged, a depreciation of 1 percent of the zaire vis-à-vis the SDR would induce revenue and expenditure to rise by 0.53 percent and 0.55 percent, respectively; consequently, the deficit (after amortization) would increase by Z 22 million. Since the size of the deficit is constrained by ceilings which remain unchanged in terms of zaire, a depreciation of the currency would lead to a reduction in the zaire outlays on items other than wages and external obligations and a greater reduction in these outlays in real terms.

3. Public enterprises

The authorities are now convinced that the rehabilitation of the public enterprise sector is required for a durable economic recovery. In 1985, efforts will be concentrated on restructuring those enterprises which are currently facing the most serious financial difficulties namely, Air Zaire, CMZ (the Zairian company for international shipping), SNCZ (the railroad company), SNEL (the electricity company), PETROZAIRE, and KILOMOTO (the gold mining company).

After completion of the audits of Air Zaïre and CMZ the authorities have undertaken a series of actions to restore financial viability with a view to attract foreign equity participation. It has been decided to put for sale, before April 10, 1985, certain physical assets (ships and aircraft which cannot be exploited profitably) for a total amount of at least US$40 million. Of the proceeds of these sales, up to US$20 million will be used to liquidate the companies' external and domestic arrears, settle severance pay obligations for the staff already on technical leave or to be laid off, and reconstitute a minimum working capital; the remainder will accrue to the budget.

The management of KILOMOTO has been recently changed and the authorities are currently exploring the possibility of equity participation by foreign partners.

Tariffs for the two domestic transport companies ONATRA and SNCZ will be raised to take into account the increase in the price of fuel and other inputs; and salary increases will be limited to 25 percent in 1985. The same will apply to SNEL, the electricity company, which moreover will undertake a reform of its tariff structure on the basis of the recommendations to be submitted shortly by a foreign consultant. In areas supplied with thermally generated electricity, SNEL will generalize the practice of billing on the basis of actual costs. A rehabilitation and restructuring program is also underway for SNCZ with a view to decentralize management and achieve significant savings in overhead costs.

The authorities have also stated their intent of moving towards a complete liberalization of imports and distribution of petroleum products in the second half of 1985. Measures to achieve this objective are actively contemplated and will be discussed during the first review mission. In order to prevent a further deterioration in the financial position of PETROZAIRE and to adjust more closely retail prices to import costs, prices were raised by 31 percent for fuel oil, 23.3 percent for diesel-oil, and 12 percent for kerosene at the beginning of January 1985. Further adjustments will be made quarterly to reflect changes in the cost of imports in terms of zaires.

A national trading corporation, SONATRAD, has been established under the control of the Ministry of External Trade on March 7, 1985, to centralize procurements for foreign purchases by major public enterprises. The staff will report to the Board on this matter when further information is available.

4. Monetary, credit, and exchange rate policies

Monetary policies will be directed toward containing the growth of broad money to below 25 percent in 1985, compared with an actual increase of 34 percent in 1984. Taking into account the balance of payments objective of an increase in net foreign liabilities by SDR 10 million, the expansion in the net domestic assets of the banking system will be limited to 25 percent from the December 1984 target, as against 43 percent allowed for 1984. The slowdown in overall credit expansion will result essentially from a sharp cut in the growth of net bank credit to Government, which will be limited to 16 percent, compared with 31 percent in 1984. By contrast, the program allows for a 62 percent credit increase to enterprises and households; this is expected to exert downward pressure on domestic interest rates which remain very high in real terms and to stimulate productive activities. Other net domestic assets of the banking system are projected to increase by 25 percent, which corresponds to the expected growth in nominal GDP.

In absolute terms, the overall expansion of total net domestic assets of the banking system in 1985 will be limited to Z 5,150 million, of which Z 2,150 million for net credit to the Government, which will leave a Z 2,500 million margin for credit to enterprises and households, and a Z 500 million margin for other domestic assets. Quarterly credit ceilings and subceilings, which will be treated as performance criteria, have been set for end-March, end-June, end-September, and end-December 1985; indicative ceilings for end-March 1986 will be established during the second review of the program.

The Bank of Zaire has already taken measures to simplify the system of credit ceilings imposed on commercial banks. Since January 1985, sectoral credit ceilings have been abolished and each commercial bank receives an overall credit ceiling which can be exceeded by a given margin, with the prior authorization of the Bank of Zaire, for the financing of agricultural activites and for medium-term investments. At the same time, the preferential rate for food crop credit has been raised from 15 percent to 20 percent in order to minimize the diversion of crop credit to other purposes, which had been induced by the wide margin between preferential and normal rates. The rediscount ceiling has remained unchanged, but access has been enlarged by extending from 120 days to 180 days the length of credits eligible for rediscounting.

The face value of Treasury bills outstanding, which was Z 692 million by end-December 1984 and Z 830 million by mid-March 1985, is expected to reach at least Z 1.2 billion by the end of 1985. 1/ Starting in April, bills with a 26-week maturity will be issued; they will provide a direct alternative to term deposits with maturities of six months of the banking system, and may induce banks to better remunerate such deposits. The authorities are studying means of enlarging the Treasury bill system into a domestic money market which could facilitate the functioning of the interbank foreign exchange market; the findings of this study will be discussed with the staff during the first review of the program.

The authorities recognize that the recent depreciation of the exchange rate was mainly due to a surge in broad money. They will attempt to contain further depreciation by limiting credit expansion and absorbing excess liquidity, but will abstain from introducing restrictions which could sustain the rate artificially.

5. Balance of payments and financing requirements

The objective of the program is to reduce the external current account deficit and the overall deficit before rescheduling to around SDR 155 million and SDR 422 million, respectively (Table 7). A crucial

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1/ If the face value of outstanding Treasury bills exceeds Z 1.2 billion, the subceiling on net credit to Government will be reduced by the amount of the excess in order to avoid crowding out the private sector, but the overall ceiling will not be reduced until the outstanding value of Treasury bills exceeds Z 1,350 million.

assumption in this regard is that export proceeds would increase by 13 percent to almost SDR 2 billion in 1985. Export performance is based on a conservative assumption for copper prices, namely that prices would remain at US$0.61 per pound; on the other hand, it is assumed that prices will remain firm for cobalt and coffee, and that diamond exports will further increase; most of the growth in export revenues is, however, expected to originate from a 25 percent increase in crude oil production. With the depreciation of the currency and tight credit policies, the increase in the value of all imports should not exceed 10 percent. Since oil imports need to increase substantially for reconstituting stocks that were depleted at the end of 1984, and since GECAMINES' imports are projected to rise rapidly, the volume of other imports would increase by only 4 percent, at about the same rate as real GDP.

Despite the projected improvement in the current account, Zaire will continue to experience large financing requirements in 1985 stemming

principally from high scheduled payments on its foreign debt, which will amount to SDR 772 million, of which SDR 496 million to Paris Club creditors (Appendix VI, Table III). Taking into account use of Fund resources in 1985 under the proposed stand-by arrangement, there would remain an unfinanced gap of SDR 412 million. To close this gap, Zaire has asked its foreign creditors for substantial debt relief. The authorities intend to submit a request to Paris Club creditors for a rescheduling of payments falling due in 1985 excluding, however, payments under the December 1983 rescheduling agreement. Until the conclusion of an arrangement on 1985 maturities, the authorities intend to continue to make monthly payments of SDR 14.25 million to the special account at the Federal Reserve of New York. The authorities also intend to reach understandings with the Steering Committee of the London Club banks regarding a new payment schedule; pending such understandings, the Bank of Zaire will make monthly payments of US$4 million during 1985. Negotiations will continue with other creditors in order to obtain a rescheduling of Zaire's debt on terms comparable to those granted by the Paris Club. The amount of debt relief that will be granted in 1985 cannot be known at this stage, but it is expected that the Paris Club will meet to consider debt rescheduling soon after the Board consideration of the paper.

As noted earlier, Zaire's external arrears were substantially reduced in 1984 and they will be further reduced in 1985. Commercial and invisible arrears will be reduced through cash payments in foreign currency by at least SDR 10 million during the first quarter, SDR 20 million in the first half, SDR 30 million for the first three quarters, and SDR 40 million for 1985 as a whole. These payments will continue to be made according to a strict chronological schedule based on due dates, and no new arrears will be accumulated during the year. In addition, the Treasury will reduce its arrears in foreign exchange by at least SDR 20 million.

In view of Zaire's large foreign indebtedness, the authorities intend to limit strictly new commitments on nonconcessional terms. The program, therefore, limits such government borrowing with an original maturity of 1-12 years to SDR 150 million and, within this ceiling, borrowing with an original maturity of 1-5 years to SDR 40 million. In addition, the stock of outstanding short-term debt of the Bank of Zaire will not be increased by more than SDR 40 million at any time during 1985.

The foreign trade and payments system was largely freed of restrictions in 1983 and 1984. The authorities in 1985 will, therefore, continue a flexible exchange rate policy with a main objective to ensure adequate return to domestic producers and to promote export diversification. They do not intend to impose new or intensify existing exchange and trade restrictions for balance of payments purposes. In addition, the Bank of Zaire intends to reduce the minimum mandatory deposit for importers to open documentary credit from 50 percent to 25 percent by end-March 1985 and eliminate it by end-June 1985.

6. Performance criteria

The proposed stand-by arangement includes the following performance criteria: (a) quarterly ceilings on net domestic assets of the banking system and on net credit of the banking system to the Government; (b) net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange; (c) ceilings on new commitments by the Government or guaranteed by the Government on nonconcessional loans in the maturity ranges of 1-12 and 1-5 years (excluding commitments under rescheduling arrangements); and a ceiling on the stock of outstanding short-term debt of the Bank of Zaire. (d) the standard clauses regarding the exchange and payments system. The quantitative performance criteria for March, June, September, and December 1985 are contained in Table 9. In addition, there will be two comprehensive reviews with the Fund of progress under the program; the first, not later than August 1985 and the second, not later than December 1985, both of which will constitute performance criteria. During the second review understandings will be reached on performance criteria for end-March 1986.

V. Staff Appraisal

After a period of high copper prices and rapid growth from 1966 to 1974, the economic and financial situation deteriorated steadily through 1982. This deterioration has been arrested by the implementation of strong adjustment measures.

In spite of unfavorable external factors, notably the weakness of copper prices, the main objectives of the 1984 program have been achieved. The price system has become one of the most liberal in Africa and real

GDP increased by about 2.8 percent in 1984. Inflation, as measured by the increase in the cost of living index in Kinshasa, has been reduced to about 20 percent between December 1983 and December 1984, from 100 percent in the preceding 12-month period. After a brief period of dual exchange system, rates were unified at the end of February 1984 and, since then, the exchange rate has been determined by market forces on the interbank market. The scope of the parallel market has been considerably reduced, and the margin between the parallel and the official rates has not exceeded 10 percent. For the first time in a decade, foreign companies have been authorized to transfer their dividends abroad and Zaire has fulfilled its external obligations.

In view of the many uncertainties attached to a massive depreciation of the currency, several modifications and waivers have been required for approval by the Board in the course of the four reviews of the program. But, in spite of these modifications, most 1984 results compare favorably with original expectations. In relation to the original targets, the growth rate of real GDP has been twice as high, while the inflation rate was only half. The external current account deficit was marginally lower, but the overall balance of payments deficit was 15 percent higher. However, the excess in the overall deficit was entirely due to the combination of anticipated repayment of prefinancing credits by GECAMINES and higher than programmed repayments of external commercial arrears. The increase in net domestic assets of the banking system exceeded the original target for 1984 by 7 percent, but net domestic assets remained 14 percent below the revised December ceiling. On the other hand, although part of the budget deficit was financed by the sale of Treasury bills, the increase in net claims on Government of the domestic banking system exceeded the original target for 1984 by 23 percent and the December subceiling was exceeded by 6 percent. For this reason, Zaire did not make its last purchase of SDR 30 million under the arrangement expiring March 26, 1985.

During the course of 1984, considerable progress has been made in the collection of government revenue, in channeling all government expenditures through the budget and in improving the accounting practices of the Bank of Zaire. Nevertheless, further progress is needed both in the accounting of monetary statistics and in the control of government expenditures. Partly because reliable monetary data were not available in time, the Bank of Zaire had, on occasions, to take emergency measures in order to satisfy the quarterly credit ceilings, and the economy has been adversely affected by this stop-and-go policy. The inadequate control over government expenditures raised, however, more serious problems. It has contributed to the crowding out of the private sector and to the depreciation of the currency. The surge in government expenditures toward the end of 1984 was partly responsible for the rapid depreciation of the currency during the first ten weeks of 1985, repeating a pattern observed in the preceding year.

Nevertheless, the staff recognizes that the fiscal adjustments achieved since 1982 have been impressive and that the further adjustments required under the proposed program for 1985 are very demanding. The expansion of net credit to Government will be reduced by one third to Z 2,150 million while that to the private sector is allowed to increase by one third to Z 2,500 million in order to provide the resources required for an expansion of economic activity. The overall expansion of net domestic assets will be limited to 25 percent in 1985 to contain inflationary pressures and to avoid an excessive depreciation of the currency. However, in spite of the substantial adjustment effort the financing gap remains large. It is expected that this will be filled through debt restructuring. A meeting of the Paris Club is expected to take place soon after the Fund's Executive Board considers the Zairian program and the Fund staff and the Secretariat of the Paris Club have been in touch as to the possible extent of the rescheduling. In these circumstances, the staff considers that outright approval by the Executive Board would be justified.

Regarding the level of the proposed access to Fund resources, the staff has been guided by two considerations. On the one hand, the staff believes that the policies set forward in the attached letter of intent are a continuation of the vigorous adjustment effort begun in 1983 and hence merits Fund support. On the other hand, the staff recognizes the long-term nature of Zaire's problem which implies strong adjustment policies in the context of use of Fund resources, as well as continued assistance by creditors and donors over several years. On this basis, the staff considers that the proposed access (55.7 percent of quota equivalent to SDR 162 million) should allow adequate support for the 1985-86 program while permitting the possibility of further access in subsequent years.

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

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 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 twelve months from ________________ 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.

Zaire - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated March 25, 1985 from the President of the Republic of Zaire requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Zaire intend to pursue for the period of this stand-by arrangement.

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

1. For a period of 12 months from [date] Zaire will have the right to make purchases from the Fund in an amount equivalent to SDR 162 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 40 million through June 1, 1985;
SDR 63 million through August 14, 1985;
SDR 96 million through November 14, 1985; and
SDR 129 million through February 14, 1986.

b. None of these limits 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.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

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:

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 of the banking system to the government, or

(iii) the ceiling on new external borrowing by the government or against government guarantee in the maturity ranges of 1 to 12 and 1 to 5 years (with the exception of concessional loans and the refinancing of loans under debt rescheduling agreements), and less than 1 year,

set forth in Table 1 to paragraph 26 of the memorandum annexed to the attached letter is not observed, or

(iv) the net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange, or

(v) the net cumulative reduction in external non-debt arrears of the Treasury

set forth in Table 1 to paragraph 26 of the memorandum annexed to the attached letter is not observed;

b. after August 31, 1985 and December 31, 1985 respectively, until suitable performance criteria have been established in consultation with the Fund pursuant to the reviews contemplated in paragraph 26 of the memorandum annexed to the attached letter, or after such criteria have been established, while they are not being observed; or

c. if Zaire:

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, except as described in paragraph 22 of the memorandum annexed to the attached letter, 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. Zaire shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. 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.

10. 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.

11. 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 under paragraph 26 of the memorandum annexed to the attached letter 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 25, 1985

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

Dear Mr. de Larosière:

1. The Executive Council of the Republic of Zaire has now been pursuing rigorous adjustment policies for more than two years; these policies have been supported, since December 1983, by a 15-month stand-by arrangement with the Fund due to expire at the end of March 1985. The progress made during the course of this arrangement has been closely monitored by the Fund and, as shown by the recently completed fourth review, the basic objectives of the 1984 program have been met.

2. The rate of inflation has been reduced in 1984 to one fifth of that prevailing in 1983. The free convertibility of the zaire has been maintained throughout the year at a realistic exchange rate. All external obligations have been fulfilled and the external current account deficit is slightly lower than had been anticipated, in spite of higher interest payments on the external debt and considerably lower copper prices. Finally, in spite of strong deflationary measures, real GDP has increased by 2.8 percent which exceeds the original target set for 1984.

3. The progress achieved so far provides a sound basis for restoring economic prosperity during the course of the new seven-year term which I recently assumed. Nevertheless, the road to economic recovery remains long and difficult and Zaire will again have to follow an austerity program in 1985. This program, which is described in the attached Memorandum, aims at consolidating the gains made in 1984 by maintaining free convertibility through an appropriate depreciation of the currency, stimulating domestic production by raising the private sector share of credit expansion, preventing a resurgence of inflation by reducing Government's recourse to bank financing through strict control of expenditure, and substantially reducing the external account deficit (before rescheduling) in order to restore Zaire's international creditworthiness.

4. In support of its strong adjustment program, Zaire requests a 12-month stand-by arrangement with the International Monetary Fund for an amount equivalent to SDR 162 million and will seek a substantial rescheduling of its debt service due in 1985. 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 in the implementation of the program in May 1985 and October 1985.

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

I. Performance in 1984

1. For the past two years, the Executive Council has been rigorously implementing a stabilization program under which significant progress has been made in fighting inflation, revitalizing investment and economic activity, and restoring the balance of payments. Nevertheless, the strength of the economic recovery has fallen short of Zaire's growth potential because the public sector absorbed a large share of the expansion of credit, to the detriment of the private sector. The situation therefore remains fragile and vigilance will be required in order to strengthen the foundations of a more balanced economic recovery.

2. The free convertibility of the zaire, the unification of the exchange market and the virtual elimination of the parallel exchange market have been responsible for the most striking results of the stabilization program. The availability of foreign exchange on the market has made it possible for economic agents to obtain the spare parts and raw materials essential to their activities. However, because the public sector's foreign exchange requirements were substantially greater than the amounts initially allocated to it, the Bank of Zaire was forced at the end of the year to purchase sizable amounts of foreign exchange on the interbank market, which was disrupted as a consequence.

3. One other decisive turn of events in 1984 was the decline in inflation rates. Consumer prices which had risen by over 100 percent from December 1982 to December 1983, rose only by about 20 percent from December 1983 to December 1984. The policy of external trade and payments liberalization and the tight monetary policy are the two major factors which contributed to this reduction in the inflation rate.

4. In accordance with the commitments undertaken in December 1983 vis-à-vis the creditor countries of the Paris Club, bilateral agreements have been signed with all creditors except Japan. Monthly payments have been made regularly into the special account with the Federal Reserve Bank of New York and have covered the totality of the amount due under the bilateral agreements. The payments schedule established in June 1984 with the banks of the London Club has also been adhered to, and the relevant payments amounted to US$7 million a month in the last quarter. Commercial and invisible arrears were reduced in 1984 by SDR 74 million, of which SDR 40 million was paid in foreign exchange by the Bank of Zaire. The Treasury, in turn, reduced its accumulated external arrears by SDR 24 million, exceeding the required minimum by SDR 4 million. Because the foreign exchange allocation of the Treasury proved inadequate during the second and third quarters of 1984, the bulk of this reduction was brought about during the final quarter of the year.

5. While budgetary revenue exceeded the original program forecast by 27 percent, the increase in expenditure exceeded the growth of revenue in absolute terms partly because of higher public debt service and larger repayments of the Treasury's external arrears, but also as the result of unforeseen expenditure. Consequently, according to the latest estimates the budget deficit, including debt amortization, exceeded the original target by Z 1.1 billion.

6. In 1984, the Executive Council carried out a systematic policy for rehabilitating the public enterprises. External audits were conducted of the major public enterprises, in particular the Zairian Shipping Company (CMZ), Air Zaire, the national rail company (SNCZ), the post and telecommunications office (ONPTZ), the national highways office, and the Kilomoto gold mining company. The findings of these audits have been taken into account in the measures now being introduced with a view to improving these companies' management and bringing their operating accounts into balance, in particular by reducing staffing.

7. Despite renewed investment growth and a resumption of activity in the agricultural sector, the GDP increased by only 2.8 percent in real terms. This slack recovery is explained by the magnitude of the adjustment in aggregate demand, and to some extent by the crowding-out in favor of the public sector and a degree of uneveness in the growth of the money supply. The stop-and-go nature of monetary policy, evidenced in particular by third-quarter declines in the money supply and in credit, is attributable to the fact that the Bank of Zaire had to operate with a substantial safety margin as a precaution in order to meet the credit ceilings.

II. Stabilization Program in 1985

8. Faced with problems that still persist after two years of efforts, the Executive Council has decided to introduce a new stabilization program. This program is aimed at reducing the external current account deficit so as to free the resources needed to cover increased debt service, avoiding any resurgence of inflation, stimulating productive activities through increased fiscal discipline, and preserving the free convertibility of the zaire by a continued flexible exchange rate policy.

9. The fiscal target for 1985 is to hold the overall Treasury deficit to a level consistent with the targets for inflation and the balance of payments, with due regard for the credit expansion required for the recovery of the private sector. The budget deficit (including amortization of the external debt) will thus be limited to Z 2,650 million (1.2 percent of GDP), as against Z 3,814 million in 1984 (2.1 percent of GDP). Of this amount, Z 500 million will be financed by net sales of Treasury bills and Z 2,150 million by net recourse to domestic bank credit.

10. The 1985 budget is severely burdened by the considerably greater outlays for servicing the public debt (both domestic and external) and for repaying the Treasury's arrears. These items account for an overall allocation of Z 23.8 billion, or 70 percent more than the outturn for 1984. Civil service salaries will be increased by 10 percent on April 1 and 15 percent on October 1; in addition, it has been decided, effective April 1, 1985, to eliminate free travel on public transportation of certain government employees and to replace it by a travel allowance. These measures, together with expenditures for severance pay and for the the liquidation of salary arrears from years prior to 1984, will increase personnel outlays by about 28 percent. In view of the constraints on monetary financing, covering these additional outlays will call for the mobilization of additional tax revenues and expenditure restraint in other areas.

11. A package of revenue measures designed to generate Z 5,130 million in new revenue will be implemented prior to March 15, 1985. It includes: (1) elimination of the 25 percent flat-rate deduction from the taxable base of the domestic turnover tax (Z 750 million); (2) an increase in the rates of the turnover tax on imports, from 25 percent to 30 percent for goods subject to the higher rate when produced domestically and from 20 percent to 25 percent for other goods (Z 600 million); (3) selective increases in import duties on certain sensitive goods and stronger measures to prevent customs fraud (Z 335 million); (4) increase in the excises on wine, beer and alcoholic beverages (Z 15 million); (5) introduction of a levy on expatriate employment (Z 880 million); (6) a stepped-up campaign to audit income tax returns and monitor direct tax collection efforts (Z 200 million); (7) selective increases in certain fees and royalties charged for services, together with an improvement of the procedures for collecting administrative revenues (Z 300 million); (8) a gasoline tax of Z 3 per liter (Z 350 million); and (9) additional revenue from the elimination of Petrozaire's import monopoly (Z 300 million), and the restructuring of Air Zaire and CMZ (Z 1,400 million).

12. On the expenditure side, the Executive Council has decided to improve the control over appropriations for operating expenditures with a view to combating waste. This effort will concentrate on appropriations for utilities, including water, electricity, and fuel, where sizable overruns have been recorded in recent years. Beginning April 1, the management of these appropriations will be decentralized to the level of each administrative unit so that the cost of actual consumption will be charged against the global appropriations for all operating expenditures (other than wages and salaries) of each administrative unit.

13. The Executive Council has also decided to continue its labor-shedding effort, which got well under way in 1984 as total budgeted government employees were reduced from 143,000 to 125,000. For 1985, the cuts will be concentrated on employment in higher education, where staffing will be reduced by about 5,000. In view of the wage and salary arrears and the

severance allowances and pensions to be paid, this reduction in current manpower levels will have only a limited impact on the total wage bill (including pensions).

14. As decided previously, those Treasury subaccounts whose net movements constituted a substantial burden on the Government's cash position in 1984, despite the measures taken during the second quarter, have been incorporated into the general account of the budget (and their balances frozen); this measure does not include accounts containing counterpart funds and certain other accounts whose operations for the year would show a balance between receipts and outlays.

15. The inventory of the domestic arrears of the Treasury could not be completed in 1984 because of the problems encountered in identifying or precisely quantifying certain claims. A special committee will be established by April 1 to supervise the preparation of this inventory. The arrears matrix showing the reciprocal debts and claims of the Government and the public enterprises, drawn up as at September 30, 1984, will have to be supplemented by April 1, 1985 in order to incorporate the debts of the public sector vis-à-vis the rest of the economy and the external sector. It will be updated through December 31, 1984, and quarterly thereafter. In the interim, the Executive Council has decided to include Z 1,500 million in appropriations in the 1985 budget for repayment of arrears that have been clearly identified. Furthermore, the procurement committee will be strengthened and will monitor the legality and economic justification of contracts awarded through competitive bidding procedures. The completion of the inventory of domestic arrears for end-December 1984 and end-March 1985 will be required for the first review of the program. It is our intention not to accumulate any new domestic currency arrears in 1985.

16. An exhaustive inventory of the Treasury's arrears in foreign exchange (other than those relating to the public debt) will be completed by March 31, 1985. These arrears will be reduced by at least SDR 20 million during 1985 and no new arrears will be accumulated during the year, these two undertakings being treated as performance criteria.

17. These measures taken together should make it possible to reach total budgetary revenue of Z 39,665 million. Expenditure (including amortization of the external debt and excluding investments financed from external resources) should not exceed Z 42,315 million. It will thus be possible to limit the deficit to Z 2,650 million, a level of financing consistent with the program targets. All extrabudgetary outlays have been included in the programmed budget and any additional outlays will also be included in a revision of the budget, thus ending the practice of extrabudgetary revenues and expenditures.

18. One key objective of the program is to stimulate exports and import-substitution activities with a view to achieving a balance of payments position that is viable over the medium term. Even though the forecast

average price of copper for 1985 has been revised downward from $0.65 to $0.61 per pound, overall export proceeds in 1985 should increase by 14 percent to SDR 1,966 million, an improvement largely accounted for by the firmness of cobalt and coffee prices and by increased petroleum and diamond production. Cautious exchange rate and credit policies should make it possible to maintain a growth rate of imports of about 10 percent. Overall, the current account deficit would thus be reduced by about SDR 72 million, to about SDR 155 million. Despite this progress, Zaire will continue to have sizable financing requirements, largely the result of scheduled external debt service payments estimated at SDR 772 million. Since the financing requirement for 1985 is presently estimated at SDR 422 million, Zaire intends to ask its foreign creditors for substantial debt relief in addition to requesting use of Fund resources. If the outcome of the envisaged debt rescheduling is better than has been assumed the difference will be used to reduce the net credit position of the Government with the banking system.

19. The Executive Council will submit a formal request to Paris Club creditors for a rescheduling of payments falling due in 1985, with the exception of those due under the rescheduling agreement of December 1983. Pending the conclusion of new arrangements with the Paris Club, the Executive Council will continue to make monthly payments of SDR 14.25 million to the special account with the Federal Reserve Bank of New York. As regards the debt to the London Club banks, the Zairian authorities will continue to make monthly payments of US$4 million pending the establishment of a new payment schedule. The authorities will also enter into negotiations with other bilateral creditors that are not participants in either the Paris Club or the London Club with a view to rescheduling Zaire's debt on terms similar to those granted by the Paris Club.

20. Despite the anticipated rescheduling, external debt service payments will remain quite sizable. In order to prevent any worsening of the external debt service burden, the amount of new commitments on non-concessional terms will be limited in 1985 to the amount set forth in Table 1. During 1985, new commitments directly contracted or guaranteed by the Government with maturities of 1 to 12 years will be limited to SDR 150 million. Within this ceiling, a subceiling of SDR 40 million will apply to new commitments of 1 to 5 years' maturity. These ceilings will not apply to new borrowing on concessional terms or to the refinancing of loans under debt rescheduling agreements. In addition, the stock of outstanding short-term debt, i.e., with a maturity of less than one year, of the Bank of Zaire will not be increased by more than SDR 40 million at any time during 1985.

21. The authorities intend to continue reducing commercial and invisible arrears through payments in foreign exchange. This reduction will amount to at least SDR 10 million during the first quarter, SDR 20 million in

the first half year, SDR 30 million for the first three quarters, and SDR 40 million for 1985 as a whole. These payments will continue to be made by strict chronological order on the basis of the original maturities. At the same time, there will be no accumulation of new external arrears.

22. The minimum mandatory deposit required of importers for opening documentary credits will be reduced from 50 percent to 25 percent by end-March 1985 and eliminated by end-June 1985. During the entire period of the stand-by arrangement, the Executive Council does not intend to introduce any new multiple currency practice, or impose new or intensify existing restrictions on payments and transfers for current international transactions, or enter into any bilateral payments agreements with Fund members. Furthermore, the Council does not intend to impose new or intensify existing restrictions on imports for balance of payments purposes.

23. Monetary policy will be aimed at keeping the inflation rate below 20 percent and restoring economic activity with a view to achieving a growth of GDP of at least 4 percent in real terms. These objectives are compatible with an increase in net domestic assets of Z 5,150 million, of which credit to the economy accounts for Z 2,500 million. Credit allocation arrangements have been made more flexible by eliminating the sectoral subceilings applied to banks under the overall ceiling. Credit to the economy will be increased substantially, which should bring about a reduction in the currently very high lending rates. This decline will contribute to reducing the differential between the rates applicable to ordinary loans and the preferential rate for noncoffee agriculture, which has just been increased from 15 percent to 20 percent.

24. Treasury bills with a 26-week maturity will be issued beginning in early April and efforts will be made to place them in the interior of the country, the objective being to increase the outstanding stock of Treasury bills by Z 500 million in 1985. In addition, the term of commercial paper eligible for rediscount has been increased from 120 days to 180 days in order to encourage better utilization of credit in the economy. Prior to the first review of the program, the Bank of Zaire, in consultation with Fund staff, will examine the possibility of creating a money market to complement the interbank exchange market and the current Treasury bill system.

25. In 1985 the Executive Council will continue its policy of rehabilitating the public enterprises. Following the completion of an external audit of Air Zaire and CMZ, steps have been taken to partially privatize these two enterprises in order to permit an equity participation by foreign companies. Prior to this participation, measures will be taken to restore the financial viability of Air Zaire and CMZ. Ships and aircraft will be put up for sale before April 10 for a total amount of at least US$40 million. Of this amount, up to US$20 million will be used to

liquidate arrears, pay indemnities to the staff laid off, and increase the working capital of Air Zaire and CMZ; the zaire counterpart of the remainder will accrue to the Treasury. Discussions are under way to arrange for the equity participation by foreign partners in the Kilomoto gold mining company. Tariffs for ONATRA and SNCZ will be raised to take into account the increase in the price of fuel and other inputs; and salary measures will be limited to 25 percent in 1985. Moreover, in order to improve coordination between road, river, and rail transportation, the authorities envisage to have representatives of the "office des routes" ONATRA and SNCZ sit on each others Boards.

26. The quantitive performance criteria for 1985 are set forth in Table 1 (attached). They entail: (a) ceilings on net domestic assets of the banking system, net credit of the banking system to the Government, and new external borrowing by the Government or against government guarantee with the exception of concessional loans; (b) minimum amounts for the net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange; and (c) minimum amounts for the net cumulative reduction of external nondebt arrears of the Treasury. The overall expansion of net domestic assets of the banking system will be limited to Z 5,150 million in 1985 in accordance with the quarterly ceilings indicated in Table 1; the increase in net credit of the banking system to the Government will not exceed Z 2,150 million in 1985. These ceilings will be reduced if necessary in accordance with footnote 4 to Table 1. The other performance criteria include provisions with respect to the exchange and trade arrangements referred to in paragraph 22 above. In addition, two reviews with the Fund will make it possible to assess progress made under the program and to reach understanding on performance criteria. The first review with the Fund will be completed before the end of August 1985 and the second before the end of February 1986. These two reviews shall constitute performance criteria. The Executive Council will not take any economic and financial policy measures likely to have significant implications as regards program execution without first consulting the Fund staff.

Table 1. Zaire: Proposed Ceilings Under the Program for 1985-86

	1984	1985				1986
	Dec. 1/	March 2/	June 2/	Sept. 2/	Dec. 2/	March 3/
	(In millions of zaires)					
Net domestic assets of the banking system (at end of month)	20,234	22,234 4/	23,384 4/	24,634 4/	25,384 4/	27,924
Net credit of the banking system to the Government (at end of month)	13,452	14,652 4/	14,802 4/	15,452 4/	15,602 4/	16,802
	(In millions of SDRs)					
Net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange (by end of month)	40	10	20	30	40	10
Net cumulative reduction in external nondebt arrears of the Treasury (for applicable calendar year)	5	10	15	15	20	5
New external borrowing by the Government or against government guarantee through end of period						
1-12 years' maturity	--	150	150	150	150	150
1-5 years' maturity	--	40	40	40	40	40
less than 1 year	--	40	40	40	40	--

1/ 1984-85 program ceilings.
2/ Performance criteria.
3/ Targets.
4/ These amounts are based on the assumptions that (a) external debt service payments by the Treasury will amount to the zaire equivalent of SDR 72.4 million at end-March 1985, SDR 155.4 million at end-June 1985, SDR 238.4 million at end-September 1985, and SDR 321.4 million at end-December 1985; (b) arrears in foreign exchange of the Treasury, which amounted to the equivalent of US$37 million at end-December 1984, will be reduced by US$5 million by end-March 1985, US$10 million by end-June 1985, US$15 million by end-September 1985, and US$20 million by end-December 1985; (c) the outstanding stock of Treasury bills will not exceed Z 900 million at end-March 1985, Z 1,000 million at end-June 1985, Z 1,100 million at end-September 1985, and Z 1,200 million at end-December 1985. Should actual payments fall short of the amounts indicated in (a) and (b), the ceilings and sub-ceilings will be reduced by equivalent amounts. Should the outstanding stock of Treasury bills exceed the amounts indicated in (c), the excess amount will be used to reduce the advances of the Bank of Zaire to the Treasury; however, the ceilings on net domestic assets for end-March, end-June, end-September, and end-December 1985 will not be reduced unless the outstanding stock of Treasury bills exceeds Z 1,000 million, Z 1,150 million, Z 1,300 million, and Z 1,350 million, respectively.

Zaire - Relations with the Fund

(As of March 15, 1985)

I. Membership Status

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

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: SDR 291 million

(b) Total Fund holdings of Zaire's currency: SDR 903.6 million, 311 percent of quota

(c) Fund credit: SDR 612.6 million, 211 percent of quota
Of which: credit tranches: SDR 391.2 million, 134 percent of quota
special facilities: SDR 221.4 million, 76 percent of quota

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

(a) Current stand-by arrangement:
(i) Duration: December 1983-March 1985
(ii) Amount: SDR 228 million
(iii) Utilization: SDR 198 million
(iv) Undrawn balance: SDR 30 million

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

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

Zaire - Relations with the Fund (continued)

IV. SDR Department

(a) Net cumulative allocation: SDR 86.3 million
(b) Holdings: SDR 0.3 million, equivalent to 0.31 percent of net cumulative allocation

V. Administered Accounts

(a) Trust Fund loans
(i) Disbursed: SDR 110.43 million
(ii) Outstanding: SDR 92.62 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 March 15, the exchange rate was Z 1 = SDR 0.0219.

VII. Last Article IV Consultation: Discussions were initiated in Kinshasa during May 9-21, 1983. Subsequently, in connection with negotiations on an adjustment program, discussions were continued in Kinshasa during the period July 5-20, 1983, and they were concluded in Washington during August 2-9, 1983. The Executive Board discussed the staff report for the 1983 Article IV consultation and request for stand-by arrangement, along with a request for a purchase under the compensatory financing facility, on December 16, 1983 (EBS/83/257). The Executive Board adopted the following decisions:

(i) 1983 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 1983 Article XIV consultation with Zaire, in the light of the 1983 Article IV consultation with Zaire conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Zaire maintains restrictions on payments and transfers for current international transactions, including external payments arrears, and a multiple currency practice resulting from the introduction of a dual exchange rate arrangement as described in EBS/83/257. The Fund welcomes the liberalization of the

Zaire - Relations with the Fund (concluded)

exchange and trade system effective September 12, 1983, and notes the intention of the authorities to unify the exchange rate system by February 29, 1984. The Fund urges the authorities to remove the remaining restrictions on payments and transfers 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 contained in EBS/83/257, the Fund grants approval for the maintenance of the multiple currency practice resulting from the dual exchange rate arrangement until the completion of the first review under the stand-by arrangement; the Fund also grants approval for the retention of the existing exchange restrictions, including external payments arrears, until December 31, 1984, or the completion of the 1984 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 in an amount equivalent to SDR 228 million for a period of 15 months.

2. The Fund approves the stand-by arrangement attached to EBS/83/257, subject to 3 below, and waives the limitation in Article V, Section 3(b)(iii).

3. The stand-by arrangement set forth in EBS/83/257 shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for the reduction of Zaire's debt service obligations for 1983 and 1984 to a level consistent with Zaire's program.

VIII. Technical Assistance:

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

2. Five 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) is outdated and in need of revision.

b. Government finance

The 1984 Government Finance Statistics Yearbook includes data through 1982 only. In addition, the coverage of data has been limited since investment expenditures financed from abroad 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 an early issue of 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.

d. Merchandise trade

Trade data on a customs basis are uncurrent, 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 for the years 1982 and 1983 but have not submitted any data for 1981. The 1982 and 1983 data have not yet been incorporated in the Bureau's data files because the methodology used for compiling the reported data for 1982 and 1983 differs significantly from that used in compiling the data for ealier years.

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 1985 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

		Latest Data in March 1985 IFS
Real Sector	- National Accounts	1982
	- Prices	December 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1981
	- Financing	1981
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	June 1984
	- Deposit Money Banks	June 1984
	- Other Financial Institutions	1980
External Sector	- Merchandise Trade: Values - exports	Q4 1983
	- imports	Q3 1983
	Prices	n.a. (except for copper, Dec. 1984)
	- Balance of Payments	1980
	- International Reserves	October 1984
	- Exchange Rates	January 1985

3. Technical Assistance

A two-week technical assistance mission on general economic data is presently in Kinshasa.

Zaire - Relations with the World Bank Group

(In millions of U.S. dollars)

A. Overall IBRD/IDA operations (as of September 30, 1984)	Disbursed		Undisbursed	
	IBRD	IDA	IBRD	IDA
Agriculture and livestock	--	51.8	--	40.3
Development finance	--	52.3	--	59.2
Education	--	8.5	--	9.0
GECAMINES	100.0	--	--	7.0
Water supply	--	28.2	--	--
Transportation	--	104.8	--	127.5
Energy	--	3.7	--	34.8
Total	100.0	249.3	--	277.8
Of which: repaid	(43.9)	(2.4)	--	--
Total outstanding	56.1	246.9	--	277.8

B. IFC investments 1/ (as of December 31, 1983)	Disbursed	Undisbursed
Total	4.3	--
Of which: repaid	(3.7)	
Total outstanding	0.6	--

Memorandum items:

Annual IBRD/IDA operations	Commitments 2/	Disbursements 3/	Repayments
1977	18.0	56.4	--
1978	9.0	44.7	--
1979	46.0	27.9	6.0
1980	35.9	43.0	6.5
1981	28.9	17.5	6.1
1982	118.3	38.4	8.0
1983 3/	64.5	42.0	8.4
1984 4/	90.5	50.8	9.9

Source: World Bank Group.

1/ Loans and equity.
2/ As of July 1, 1980 credits were denominated in SDRs calculated at the time of commitment.
3/ For credits after July 1, 1980 calculated in SDRs, the exchange rate utilized is December 31, 1983.
4/ Projected.

Table I. Zaire: Selected Economic and Financial Indicators, 1981-84

	1981	1982	1983 Program	1983 Actual	1984 Original program	1984 Revised projections	1985 Program
	(Annual percent changes, unless otherwise specified)						
National income and prices							
GDP at constant prices	2.4	-2.6	1.0	1.2	2.0	2.8	4.0
GDP deflator	35.2	34.4	68.0	83.0	47.0	81.4	25.0
Consumer prices (year-to-year average)	35.4	37.2	68.0	76.0	47.0	52.1 1/	20.0
External sector (on the basis of SDRs)							
Exports, f.o.b.	-18.8	3.5	4.4	8.1	10.8	21.6	13.6
Copper exports, f.o.b.	-20.1	14.0	2.5	4.4	7.5	-10.5	0.2
Imports, c.i.f.	0.4	-6.2	1.8	2.1	6.3	7.3	10.0
Non-oil imports, f.o.b.	-9.0	-3.4	2.7	3.7	5.6	11.3	4.0
Export volume	-14.4	13.3	2.7	7.9	4.5	4.6	9.4
Import volume	-5.7	-7.8	-0.3	0.5	1.6	5.0	5.0
Terms of trade (deterioration -)	-7.5	-8.9	-0.5	-1.2	1.7	4.6	-0.9
Nominal effective exchange rate (depreciation -) 2/	-19.5	-16.3	...	-17.8	...	-73.4	-20.0
Real effective exchange rate (depreciation -) 2/	-7.4	3.8	...	16.0	...	-60.8	...
Government budget							
Total revenue	30.0	28.8	76.8	75.7	84.4	144.0	52.6
Total expenditure (excluding amortization)	68.8	44.6	33.9	34.0	66.5	147.7	22.2
Money and credit							
Net domestic assets (end of period)	54.4	77.3	51.9	34.4	34.6	37.1	30.6
Government	62.4	86.5	34.0	30.0	27.5	31.2	16.0
Enterprises and households	32.3	46.9	65.9	49.2	58.1	55.9	62.0
Money and quasi-money (end of period)	37.9	72.6	50.5	73.8	35.1	34.2	24.3
Interest rates (end of period)							
Bank of Zaire basic rediscount rate	15.0	15.0	20.0	20.0	...	20.0	...
Commercial banks							
Rediscountable short-term loan rate for noncoffee agricultural production	11.0	11.0	15.0	15.0	...	15.0	...
Rediscountable short-term loan rate for other productive activities	11.0	11.0		freely negotiable			
6-12 months' time deposit rate	20.0	20.0	20.0	20.0	...	...	...
12-24 months' time deposit rate	30.0	30.0	30.0	30.0	...	...	...
Treasury bills (average)	...	...	...	...	...	36.0	...
	(In percent of GDP)						
Government budget surplus or deficit (-)	-3.6	-6.0	-1.1	-2.1	0.2	-0.7	0.9
Domestic bank financing (net)	3.6	6.9	2.6	2.4	2.5	2.0	1.0
Foreign financing (net)	—	-0.9	-1.5	-0.4	-2.7	-1.4	-2.0
External current account deficit (-)							
Before rescheduling							
Including official transfers	-4.7	-4.8	-3.4	-4.3	-4.7	-4.7	-3.3
After rescheduling							
Including official transfers	-3.1	-4.3	-1.7	-2.7	-2.4	-3.3	...
External medium- and long-term debt inclusive of use of Fund credit	54.8	53.9	...	48.5 3/	...	90.5	...
Debt service ratio (in percent of exports of goods and services) 4/	24.9	17.9	18.4	18.4	28.1	25.8	...
	(In millions of SDRs, unless otherwise specified)						
External current account deficit (-)							
Before rescheduling	-360	-392	-240	-300	-230	-227	-155
After rescheduling	-239	-353	-122	-190	-116	-160	...
Overall balance of payments deficit (-)							
Before rescheduling	-612	-598	-452	-433	-400	-461	-422
After rescheduling	-327	-480	-86	-97	-16	-74	...
Gross official reserves 5/ (weeks of imports, c.i.f.)	5	1	2	5	3	3	
External payments arrears, end of period	530	848	...	372	...	...	...
Of which: commercial and invisible	(383)	(207)	(197)	(183)	(143)	(143)	

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

1/ From January through December 1984, consumer prices increased by 20 percent.
2/ Annual averages.
3/ Including rescheduled and capitalized moratorium interest under the December 1983 Paris Club rescheduling.
4/ Based on actual payments; includes reduction of commercial arrears by cash payments and Fund charges and repurchases. After taking into account the effects of the December 1983 Paris Club rescheduling.
5/ Excluding gold, most of which is pledged.

Table III (concluded). Zaire: Medium- and Long-Term Debt Outstanding and Projected Debt Service, 1984-90

(In millions of U.S. dollars)

	Debt outstanding at end-Dec. 1984	Service on the debt outstanding end-December 1984 and projected new disbursements after end-December 1984						
		1984 1/	1985	1986	1987	1988	1989	1990
Special payment mechanisms	... 2/	61.1	60.3	72.5	72.5	63.1	54.4	20.7
(interest)		(42.2)	(19.3)	(21.3)	(17.0)	(12.6)	(8.7)	(5.6)
Of which: GECAMINES Trust	...	30.0	29.7	29.7	29.7	29.7	29.7	...
(interest)		(11.1)	(9.4)	(7.7)	(5.9)	(3.9)	(1.7)	(...)
London Club	349.1	48.0	102.9	94.9	87.0	78.8	70.8	32.4
(interest)		(48.0)	(42.1)	(34.0)	(26.1)	(18.0)	(10.0)	(2.0)
Other bank creditors	222.4	11.1	27.9	27.4	25.9	17.4	10.2	8.9
(interest)		(5.1)	(9.3)	(7.4)	(5.9)	(3.6)	(1.4)	(0.6)
Other creditors	77.4	23.0	19.9	12.5	8.3	6.1	6.7	7.3
(interest)		(6.8)	(3.9)	(3.1)	(2.4)	(2.1)	(1.9)	(1.5)
Total disbursed debt as of end-Dec. 1984	4,388.5	327.8	749.7	703.3	660.5	677.9	660.6	528.3
(interest)								
Service on projected new disbursements after Dec. 1984 3/	—	—	6.0	19.6	35.0	52.7	73.0	101.3
(interest)		(—)	(6.0)	(19.6)	(35.0)	(52.7)	(73.0)	(96.2)
Total projected debt service on medium- and long-term debt		327.8	755.8	722.9	695.5	730.6	733.6	629.6
(interest)		(230.0)	(314.9)	(300.1)	(284.3)	(269.5)	(259.9)	(245.0)
Payments to the Fund 4/		113.8	158.7	149.5	173.2	210.2	161.5	111.5
(charges)		(49.9)	(54.7)	(55.5)	(48.2)	(37.7)	(23.9)	(13.9)
Service on financing of the balance of payments gap		—	16.0	47.0	75.0	105.0	129.0	138.0
(interest)		(—)	(16.0)	(47.0)	(75.0)	(105.0)	(129.0)	(138.0)
Total debt service		441.6	930.5	919.4	943.7	1,045.9	1,024.0	879.1
(interest and charges)		(279.9)	(385.6)	(403.6)	(411.5)	(414.2)	(410.8)	(390.9)

Sources: Office de la Dette Publique; and staff calculations.

1/ After the December 1983 rescheduling with Paris Club members and the rescheduling arrangement with London Club members.
2/ Included under official and bank creditors.
3/ Assumes an average interest rateof 7 percent
4/ Based on projected use of Fund resources as of end-March 1985.
5/ Based on medium-term balance of payments projections (Table) and assuming an average interest rate of 8 percent.

Table II. Zaire: Exports, 1984-90

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

	1984	1985	1986	1987	1988	1989	1989
Copper							
Value (SDR)	654.0	655.4	750.5	787.0	834.4	884.6	933.3
GECAMINES	(613.4)	(608.3)	(698.8)	(732.4)	(776.8)	(823.9)	(869.2)
SODIMIZA	(40.5)	(47.1)	(51.7)	(54.5)	(57.5)	(60.7)	(64.0)
Volume (thousands of tons)	490.4	487.3	508.1	505.0	507.5	510.0	510.0
GECAMINES	(460.0)	(452.3)	(473.1)	(470.0)	(472.5)	(475.0)	(475.0)
SODIMIZA	(30.4)	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)	(35.0)
Unit price (US$/lb)	0.62	0.61	0.67	0.71	0.75	0.79	0.83
Cobalt							
Value (SDR)	215.1	229.9	220.5	234.8	250.1	266.3	283.6
Volume (tons)	10.0	11.2	10.0	10.0	10.0	10.0	10.0
Unit price (US$/lb)	10.0	9.3	10.0	10.7	11.3	12.1	12.9
Zinc							
Value (SDR)	58.3	53.2	58.5	62.9	67.7	72.7	78.2
Volume (tons)	67.8	63.5	65.0	65.0	65.0	65.0	65.0
Unit price (US$/lb)	0.40	0.38	0.41	0.44	0.47	0.51	0.55
Silver							
Value (SDR)	7.3	15.7	17.2	14.3	10.9	12.3	13.3
Volume (kgs)	32.9	50.8	52.0	40.2	28.5	30.0	30.0
Unit price (US$/t. oz.)	8.0	10.9	11.7	12.6	13.5	14.6	15.6
Gold							
Value (SDR)	33.8	39.2	46.3	81.0	89.8	95.9	101.2
Volume (1,000 kgs)	3.3	4.2	4.7	7.8	8.2	8.3	8.3
Unit price (US$/t. oz.)	372	330	348	367	387	409	431
Diamonds							
Value (SDR)	221.1	239.5	265.2	293.6	322.0	353.0	387.1
Volume (1,000 carats)	18.85	19.47	20.06	20.66	21.07	21.49	21.92
Unit price (US$/carat)	11.7	12.3	13.2	14.2	15.3	16.4	17.7
Coffee							
Value (SDR)	207.1	234.2	247.1	260.7	283.2	298.7	324.2
Volume (tons)	79.6	85.0	85.0	85.0	87.5	87.5	90.0
Unit price (US$/lb)	1.21	1.25	1.32	1.39	1.47	1.55	1.63
Rubber							
Value (SDR)	15.1	15.5	17.4	19.7	22.3	25.1	28.3
Volume (tons)	15.25	15.25	16.00	16.80	17.70	18.53	19.46
Unit price (US$/lb)	0.46	0.46	0.49	0.53	0.57	0.61	0.66
Crude oil							
Value (SDR)	316.2	413.2	547.5	490.6	475.0	483.9	492.3
Volume (1,000 barrels)	11.8	14.8	18.6	15.8	14.5	14.0	13.5
Unit price (US$/barrel^	27.4	27.9	29.4	31.1	32.8	34.6	36.5
Other (value)	111.0	153.3	145.0	160.2	177.0	195.6	216.2
F.M.M. 1/	-107.6	-83.2	-85.4	-84.4	-95.3	-102.4	-112.4
Total exports	1,731.4	1,965.8	2,229.9	2,320.5	2,437.0	2,585.9	2,745.2
Assumptions on prices, 1986-90							
World inflation (in percentage)	5.5						
Real prices							
Copper	0.0			Diamonds			2.0
Cobalt	1.0			Coffee			0.0
Zinc	2.0			Rubber			2.0
Silver	2.0			Crude oil			0.0
Gold	0.0			Other			5.0

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

1/ Marketing and financial costs of GECAMINES.

Table III. Zaire: Medium- and Long-Term Debt Outstanding and Projected Debt Service, 1984-90

(In millions of U.S. dollars)

	Debt outstand-ing at end-Dec. 1984	Service on the debt outstanding end-December 1984 and projected new disbursements after end-December 1984						
		1984 1/	1985	1986	1987	1988	1989	1990
Paris Club	2,903	159.7	495.8	443.7	407.9	391.6	463.7	413.9
(interest)		(118.7)	(225.2)	(203.9)	(185.0)	(167.9)	(151.8)	(127.1)
Austria	24.9	1.4	4.1	3.8	3.8	3.6	4.1	4.0
(interest)		(0.6)	(2.2)	(2.0)	(1.8)	(1.6)	(1.5)	(1.2)
Belgium	310.6	25.3	48.5	44.0	39.8	39.0	43.3	35.5
(interest)		(18.1)	(23.1)	(20.8)	(18.8)	(16.4)	(14.3)	(11.0)
Canada	39.4	0.4	4.1	3.7	3.3	3.4	4.2	3.9
(interest)		(—)	(1.9)	(1.8)	(1.7)	(1.5)	(1.4)	(1.1)
France	527.2	31.7	98.1	84.2	82.4	82.3	92.8	84.5
(interest)		(23.0)	(43.9)	(41.4)	(39.1)	(35.2)	(30.8)	(28.5)
Germany	313.5	13.4	35.3	31.5	28.9	28.5	37.6	40.8
(interest)		(10.5)	(17.7)	(16.4)	(15.2)	(14.2)	(13.4)	(11.4)
Italy	247.8	14.3	62.3	52.0	46.7	40.6	50.2	47.9
(interest)		(11.2)	(31.1)	(24.0)	(21.7)	(19.3)	(17.7)	(14.5)
Japan	160.9	1.9	9.3	11.8	10.8	10.8	11.9	11.8
(interest)		(1.5)	(2.4)	(2.0)	(1.8)	(1.9)	(1.7)	(1.5)
Netherlands	97.4	8.5	17.9	16.1	14.8	15.0	17.8	14.7
(interest)		(6.6)	(9.0)	(8.2)	(7.6)	(6.8)	(6.1)	(4.8)
Norway	13.2	1.9	2.0	1.6	1.0	1.0	1.6	2.3
(interest)		(1.5)	(1.5)	(1.4)	(0.8)	(0.7)	(0.7)	(0.6)
Sweden	71.8	6.7	14.8	13.7	12.7	12.1	14.3	14.1
(interest)		(5.3)	(8.3)	(7.6)	(6.9)	(6.3)	(5.6)	(4.6)
Switzerland	7.3	0.6	0.7	0.5	1.6	2.5	2.4	1.1
(interest)		(0.5)	(0.5)	(--)	(0.5)	(0.3)	(0.2)	(0.0)
United Arab Emirate	82.5	—	14.7	14.6	9.2	9.5	14.9	—
(interest)		(—)	(2.6)	(2.5)	(—)	(—)	(—)	(--)
United Kingdom	66.5	6.0	18.1	16.0	14.1	13.3	16.0	11.5
(interest)		(4.1)	(8.1)	(7.2)	(6.4)	(5.7)	(5.1)	(3.8)
United States	940.0	47.6	165.9	150.2	138.8	130.0	152.6	141.8
(interest)		(35.8)	(72.9)	(68.6)	(62.7)	(58.0)	(53.3)	(44.1)
Other official creditors	208.6	2.0	6.5	6.5	10.7	12.4	12.4	12.2
(interest)		(2.0)	(0.1)	(0.1)	(0.6)	(1.0)	(1.0)	(0.8)
Multilateral institutions	628.2	22.9	36.4	45.8	48.2	45.4	42.4	32.9
(interest)		(7.1)	(9.0)	(10.7)	(12.3)	(11.6)	(12.1)	(11.2)
Of which: IDA	306.4	3.6	3.1	4.4	5.1	5.2	6.2	6.7
(interest)		(2.9)	(2.1)	(2.7)	(3.1)	(3.2)	(3.4)	(3.5)
Trust Fund	109.9	9.9	19.1	22.3	21.6	19.0	12.7	3.4
(interest)		(--)	(0.4)	(0.3)	(0.2)	(0.1)	(0.1)	(--)