

**FOR
AGENDA**

EBS/85/207

CONFIDENTIAL

August 30, 1985

To: Members of the Executive Board
From: The Acting Secretary
Subject: Zaire - Staff Report for the Review Under the Stand-By
Arrangement

Attached for consideration by the Executive Directors is a staff report on the review under the stand-by arrangement for Zaire. A draft decision appears on page 25.

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

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

Att: (1)

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INTERNATIONAL MONETARY FUND

ZAIRE

Staff Report for the Review Under the Stand-By Arrangement

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

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

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

August 30, 1985

I. Introduction

On April 24, 1985, the Executive Board approved a 12-month stand-by arrangement for Zaire in an amount equivalent to SDR 162 million, representing 55.7 percent of quota (EBS/85/74 and Supplement 1). Zaire made the first purchase of SDR 40 million upon approval. The second purchase of SDR 23 million, subject to the performance criteria at end-March 1985, could have been effected after June 1, 1985; however, this purchase was not made since both the overall ceiling on net domestic assets and the subceiling on net credit to Government at end-March 1985 were exceeded. The third purchase of SDR 33 million, which is available after August 14, 1985, is subject to the performance criteria at end-June and the completion of this review. A fourth purchase of SDR 33 million will be available after November 14, 1985 upon observance of the end-September 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). As of June 30, 1985, the Fund's holdings of Zaire's currency subject to repurchase amounted to SDR 619.9 million (213 percent of quota); excluding holdings under special facilities, they amounted to SDR 411.9 million (141.5 percent of quota). If the second and third purchases are effected before September 30, 1985, the Fund's holdings subject to repurchase will amount to SDR 646.3 million (222.1 percent of quota) at end-September 1985.

The discussions that provided the basis for the first review were held in Kinshasa during the periods April 30-May 15, 1985 and August 4-13, 1985. 1/ A letter from the President of the Republic of Zaire, dated

1/ Staff members on the missions were Mr. Louis M. Goreux (head-AFR), Mr. Michael G. Kuhn (AFR), Mr. Pierluigi A. Molajoni (ETR), Mr. Bassirou A. Sarr (FAD), Mrs. Catherine P. Broadhurst (secretary-BLS) and Mrs. Aline P. Groen (secretary-ADM). The mission was assisted by Mr. Régis F. Blin, Fund Resident Representative in Kinshasa. Mr. Norbert Toe, Advisor to the Executive Director, participated in the discussions in May, and Mr. Mawakani Samba, Alternate Executive Director, in the discussions in August.

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

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

Source: Treasurer's Department, International Monetary Fund.

1/ End of calendar month in which staff paper is issued.

2/ Ordinary and borrowed resources.

3/ Compensatory financing facility and buffer stock facility.

August 29, 1985, detailing policies and measures that Zaire intends to follow for the remainder of the program is contained in Attachment I. Summary statements on Zaire's relations with the Fund and the World Bank Group are provided in Attachments II and III, respectively. Selected economic and financial indicators are provided in Attachment IV.

The previous 15-month stand-by arrangement with Zaire for SDR 228 million (62.7 percent of quota on an annual basis) expired on March 26, 1985. Performance under this program has been extensively discussed in the latest staff report on the Article IV consultation and request for stand-by arrangement (EBS/85/74). At the time of the Board discussion on April 24, 1985, it was believed, on the basis of preliminary data, that the performance criteria established for end-March 1985 had indeed been met. However, on the basis of final data which only became available during the first week of May, it was found that the overall credit ceiling had been exceeded by Z 1,204 million, equivalent to 5.4 percent of the absolute ceiling and over 40 percent of the credit increase allowed during the first quarter (Table 2). This excess in overall credit expansion resulted from a large increase in "other net domestic assets" ^{1/} during the first quarter, which was partly due to a Z 600 million loss by the Bank of Zaire but also incorporated an amount of Z 686 million lodged in suspense accounts which should have been charged to the Treasury. After debiting the government accounts retroactively as of March 31, 1985, net credit to Government exceeded the March program subceiling by Z 560 million, equivalent to 3.8 percent of the ceiling and 45 percent of the increase allowed for the first quarter.

Following this overshooting of the credit targets during the first quarter, extremely strict measures were introduced to bring the program back on track. As a result, net domestic assets of the banking system were drastically reduced during the second quarter by some Z 2.6 billion. At end-June 1985, net domestic assets of the banking system and net credit to Government were, respectively, some Z 2,550 million and Z 900 million below the ceiling and subceiling. All other performance criteria at end-June were also observed. At end-June, a number of external debt payments amounting to about US\$10 million were still outstanding. None of the credit ceilings at end-June would have been exceeded had these payments been effected by end-June. Part of these payments were made in July and the authorities have stated that they intend to clear them soon.

The course of action specified in the Executive Board Guidelines on "Misreporting and Noncomplying Purchases" (EBS/84/196, Supplement 4) was initiated in July because the subceiling on net credit to Government was exceeded at the end of March, and the August mission also conducted the consultations required by the guidelines. The report to the Executive Board on the noncomplying purchase recommending a waiver of the nonobservance will be issued as a separate paper.

^{1/} Other than credit to the Government and to the private sector.

Table 2. Zaire: Net Domestic Assets of the Banking System, December 1984-December 1985

(In millions of zaires)

	<u>Dec. 1984</u> Actual (1)	<u>Mar. 1985</u> Program (2)	<u>Mar. 1985</u> Actual (3)	<u>June 1985</u> Program (4)	<u>June 1985</u> Actual (5)	<u>Sept. 1985</u> Program (6)	<u>Dec. 1985</u> Program (7)
Net domestic assets	19,343	22,234	23,438	23,384	20,831	24,634	25,384
Net credit to Government	13,396	14,652	15,212	14,802	13,893 ^{1/}	15,452	15,602
Credit to enterprises and households	4,492	5,582	5,039	6,232	5,409	6,732	7,282
Other net domestic assets	1,455	2,000	3,187	2,350	1,529	2,450	2,500

(Changes in millions of zaires)

	First quarter			Second quarter			
	Program (2)-(1)	Actual (3)-(1)	Difference (3)-(2)	Mar. program/June program (4)-(2)	Mar. actual/June program (5)-(2)	Mar. actual/June actual (5)-(3)	June actual/June program (5)-(4)
Net domestic assets	2,891	4,095	1,204	1,150	-54	-2,607	-2,553
Net credit to Government	1,256	1,816	560	150	-410	-1,319	-909
Credit to enterprises and households	1,090	547	-543	650	1,193	370	-823
Other net domestic assets	545	1,732	1,187	350	-837	-1,658	-821

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

^{1/} Includes Z 659 million of payments by the Treasury made in July, but debited retroactively to the accounts of the Treasury on June 28, 1985. This retroactive increase in net credit to Government was counterbalanced by a corresponding decrease in other net domestic assets of the Bank of Zaire.

II. Economic Performance Under the 1985 Program

Economic performance during the first half of 1985 has been uneven. Recorded export earnings, which had grown by some 22 percent in 1984, partly as the result of a shift of exports from nonofficial to official channels, were expected to grow by a further 10 percent in 1985. But actual growth during the first half of the year fell short of expectations, essentially because of weaker-than-anticipated export prices and a stagnation in the volume of oil exports. The resulting stress on the external balance contributed to a faster-than-anticipated rate of depreciation of the zaire which, in turn, was reflected in a rate of inflation higher than anticipated. The effects of the unfavorable external situation were exacerbated during the first quarter by a disappointing fiscal performance. Lower-than-expected government revenue from oil and import duties, together with delays in the implementation of certain fiscal measures, led to a higher-than-programmed government deficit which had to be financed by a recourse to domestic credit in excess of the amount provided for under the March subceiling. In order to bring the program back on track, strong fiscal and monetary measures were introduced in the course of the second quarter, and the program ceilings for end-June were met with a substantial margin. The overshooting of domestic credit was, however, not corrected until the end of June, and the excess credit outstanding during most of the second quarter has exerted pressure on the exchange rate.

The pressure on the balance of payments is expected to continue for the remainder of the year. With lower-than-anticipated export earnings and little improvement in external financing, imports of goods and services will have to bear the main burden of the adjustment. The latter will result from a faster real effective depreciation of the zaire as well as a lower-than-programmed expansion of domestic credit in real terms. While credit ceilings for end-September and end-December remain unchanged, the higher-than-anticipated rates of inflation and depreciation have already reduced the expansion of credit in real terms.

The expected reduction in the volume of imports and the smaller-than-expected expansion of domestic credit in real terms will adversely affect economic growth which had been projected to reach 4 percent in the original program, compared with 2.8 percent in the previous year. The annual rate of real GDP growth in the first half of 1985 is estimated at 3.5 percent, with growth originating mainly in manufacturing where capacity utilization remains well below potential. With the anticipated slowdown in economic activity during the remainder of the year, GDP growth is now projected at less than 3 percent for 1985 as a whole, or about the same rate as in 1984.

1. Public finance

The improvement in the budgetary situation envisaged in the program did not materialize in the first quarter because government revenue fell short of expectations on several counts. Revenue from oil exports fell below the program estimates due to shortfalls in both volume and prices

of oil. Revenues from taxes on goods and services were adversely affected by a modification of the base for the turnover tax on domestically produced goods, as well as greater lags due to a change in the collection from the wholesale to the retail level. Proceeds from the levy on expatriates fell considerably short of the target which had been grossly overestimated. Finally, increases in revenue anticipated from fiscal measures were lower than estimated, because of delays in the implementation of some of these measures (Table 3). In an attempt to counterbalance the revenue shortfall, the authorities curtailed a number of budgetary appropriations, notably with respect to capital expenditure, and transfers and subsidies. Expenditures were not, however, curtailed enough to offset the revenue shortfall in the first quarter.

Once it became known that the March subceiling on net credit to Government had been exceeded by Z 560 million, the authorities took strong measures to improve budgetary performance. As a result, government revenue increased by Z 3.9 billion in the second quarter, which includes Z 1.5 billion from the liquidation of assets. Total expenditure (excluding amortization) increased by Z 2.9 billion, but the growth in total outlays (including amortization) was kept to Z 0.8 billion. ^{1/} The overall budget surplus exceeded Z 1.9 billion ^{2/} in the first half of the year, which was the target set for the year as a whole, and net credit to Government remained Z 909 million below the June subceiling (Table 4).

The revenue gains were partly due to exceptional measures which cannot be repeated. One of the two DC10s operated by Air Zaire was sold in mid-June for US\$25 million (equivalent to Z 1.25 billion), and 20 percent of the shares of Zaire-Shell was sold to Shell International, which brought an additional US\$1.5 million (equivalent to Z 76 million) to the Treasury in June. Moreover, the liberalization of the import and distribution of petroleum products which became effective June 1, 1985 permitted oil companies to liquidate progressively their arrears to PETROZAIRE, which, in turn, are being transferred to the Treasury because PETROZAIRE no longer requires the large working capital which it needed as the sole importer of petroleum products. The arrangement provided for the liquidation of the arrears due by the Government, Air Zaire, and the CMZ (the Zairian international shipping company) to the oil companies (estimated at about Z 400 million at the end of May) and for transfers of about Z 1,200 million in six monthly installments; the first transfer of Z 204 million was effected in June. In addition to these exceptional measures, the authorities made a number of policy changes which are expected to have lasting effects. These include the increases in import duty rates and the revision of petroleum taxation. The importance of these changes is illustrated by the fact that other government revenue increased by over 33 percent during the second quarter.

^{1/} Amortization payments were heavily bunched in the first quarter.

^{2/} Foreign-financed outlays are excluded from the budget.

Table 3. Zaire: Summary of Major Fiscal Measures

Measures	Nature of the measures implemented	Date implemented
Revenue measures		
Domestic turnover tax	Elimination of the 25 percent flat rate deduction from the taxable base (Z 300 million)	January 1985
Turnover tax on imports	Increase from 10 percent to 15 percent for goods not produced locally and from 20 percent to 25 percent for goods produced locally (Z 335 million)	April 1985
Selective increases in import duties	Alcoholic beverages 33 1/2 percent, tobacco 10 percent, sugar, flour, and cereal from 3 percent to 8 percent (Z 600 million)	April 1985
Measures to prevent customs fraud	Limited to Kinshasa-Matadi	May 1985
Increase in excises for wine, beer and other alcoholic beverages	33 percent (Z 7.5 million)	July 1985
Campaign to audit income tax returns and monitor direct tax collection	In Kinshasa and for the main economic regions (Z 460 million)	May and June 1985
Improvement in the procedures for collecting administrative revenue	New collection voucher introduced	May 1985
Sale of assets	Air Zaire (US\$25 million) Shell (US\$1.5 million)	June 1985 June 1985
Liberalization of petroleum distribution	Elimination of PETROZAIRE import monopoly (Z 1.2 billion)	June 1985
	Z 3.2/liter tax on petroleum products (Z 380 million)	August 1985
	Revision of the price structure and transfer to the Treasury of earmarked taxes for PETROZAIRE and part of the taxes earmarked for SOZIR (Z 300 million)	August 1985
Special incentive for customs officials and other tax administration department	Under study	Not yet implemented
Expenditure measures		
Control of centralized expenditure	Water	February 1985
	Petroleum products	May and June 1985
	Electricity	Initial action in July 1985
	Telephone	Initial action in May 1985
	Rental expenses	May 1985
Treasury subaccounts	Ministry of Finance signature now required for all expenditures under the subaccounts	January 1985
Personnel expenditure	Verification of personnel records in introduction of a salary voucher for all departments	Started in January 1985--intensified in May and June 1985

Source: Minister of Finance of Zaire.

Table 4. Zaire: Fiscal Performance, 1984-85 ^{1/}

(In millions of zaires)

	1984	1985 Actuals		1985 Program		
		March	June	Original (1)	Revised (2)	Difference (3)=(2)-(1)
Total revenue	25,994	7,343	18,656	39,665	39,000	-665
Of which: GECAMINES	(5,009)	(1,680)	(3,925)	(7,930)	(8,600)	(670)
oil companies	(5,455)	(1,702)	(3,581)	(8,500)	(6,500)	(-2,000)
Income and profit taxes	8,122	3,558	6,493	11,200	11,800	600
Taxes on goods and services	7,365	1,137	4,702	11,535	10,200	-1,335
Import duties	5,268	1,477	2,995	7,240	7,000	-240
Export duties	3,430	1,014	2,293	4,850	5,200	350
Other revenue	1,809	157	2,173	4,840	4,800	-40
Administrative revenue	(584)	(83)	(237)	(1,890)	(550)	(-1,340)
BPO	(1,047)	(74)	(210)	(1,450)	(1,450)	(--)
Other	(178)	(--)	(1,530)	(1,500)	(2,800)	(1,300)
Total expenditures	27,212	6,937	16,735	37,715	36,950	-765
Personnel ^{2/}	5,063	1,292	2,700	6,000	6,300	300
Goods and services ^{3/}	5,071	1,678	4,173	6,650	5,587	-1,063
Public debt	9,031	3,057	7,831	15,200	16,763	1,563
Domestic ^{4/}	(1,121)	(1,049)	(2,777)	(3,450)	(4,813)	(1,363)
External ^{5/}	(7,910)	(2,008)	(5,054)	(11,750)	(11,950)	(200)
Transfers and subsidies	875	131	546	950	750	-200
Investment budget ^{6/}	1,019	35	209	2,000	1,600	-400
Repayment of arrears	2,351	892	1,989	3,965	3,800	-165
GECAMINES	(1,222)	(132)	(132)	(1,500)	(1,000)	(-500)
Other domestic	(199)	(544)	(959)	(1,500)	(1,400)	(-100)
External	(930)	(216)	(898)	(965)	(1,400)	(435)
BPO	955	26	186	1,450	1,450	--
Unclassified	521	--	--	1,000	300	-700
Treasury subaccounts	2,326	-174	-899	500	400	-100
Overall surplus/Deficit (-)	-1,218	406	1,921	1,950	2,050	(100)
Financing	1,218	-406	-1,921	-1,950	-2,050	(100)
Domestic	3,814	1,956	725	2,650	2,650	--
Banking system	(3,197)	(1,816)	(497)	(2,150)	(2,150)	(--)
Treasury bills ^{7/}	(617)	(140)	(228)	(500)	(500)	(--)
Amortization of external debt ^{5/}	-2,596	-2,362	-2,646	-4,600	-4,700	(100)
Memorandum items:						
Total outlays (including amortization)	(29,808)	(9,299)	(19,381)	(42,315)	(41,650)	(-665)
Total external debt payments (interest plus amortization)	(10,506)	(4,370)	(7,700)	(16,350)	(16,650)	(300)

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

^{1/} Includes central government operations, but excludes foreign-financed outlays and the outlays of autonomous agencies.

^{2/} Includes wages and salaries, pensions, and scholarships.

^{3/} Includes Z 699 million in expenditure for June actuals for which the breakdown was not available.

^{4/} Includes interest on central bank advances, and Treasury bills, Fund charges (for 1985), and IMF Trust Fund.

^{5/} After rescheduling, total external debt payments for 1985 (interest plus amortization) are estimated at US\$330 million. The breakdown between interest shown above the line and amortization below the line is subject to errors.

^{6/} Excludes foreign-financed investment expenditures, as these do not go through the Treasury accounts.

^{7/} Increase in the amount of Treasury bills outstanding at face value during the period.

The authorities contained expenditure growth during the first half of the year, even though the possibilities for reducing expenditures is limited by the large share of external debt payments. In particular, measures taken to eliminate "ghosts" from the personnel records helped to keep the wage bill below target. In addition, measures were taken to strengthen control over commitments made under the Treasury sub-accounts and to limit other nonpriority expenditures.

For the second half of the year the program calls for the continued pursuit of the fiscal effort made during the second quarter so as to reach the original budgetary surplus target. On the revenue side, the new price structure of petroleum products introduced at the beginning of August provides for additional revenue of approximately Z 105 million monthly. In addition, transfers from the oil companies to the Treasury will amount to about Z 1 billion in the second semester, of which Z 200 million was paid in July. The Treasury will also receive substantial dividends from several public enterprises, in particular from GECAMINES (the large mining complex), which has benefited from a higher-than-anticipated depreciation of the currency. Efforts to improve the collection of import duties and other taxes will be intensified with the establishment of an incentive system. The customs department is being reinforced with a technical assistance program coordinated by the European Community, and controls are being strengthened between the port of Matadi and Kinshasa, where the bulk of the import traffic takes place. It should be noted, however, that the implementation of the EC technical assistance program is not proceeding as rapidly as had been foreseen, but the measures already in place will at least prevent a further decline in the collection of import duties.

As a result of these various efforts, revenue is expected to increase by over Z 21 billion in the second half of the year or Z 10.5 billion a quarter, which represents an increase of 5 percent from the second quarter, if the proceeds of the sale of the DC10 and of the Zaire-Shell shares are excluded from the revenue collected in that quarter. These projections take into account the lower-than-originally-programmed value of imports (in terms of SDRs) which will be largely offset by the faster-than-anticipated depreciation of the currency and the effects of a somewhat higher rate of inflation.

A revenue shortfall of Z 665 million would nevertheless remain in relation to the original projections due mainly to a Z 2.0 billion shortfall in oil revenues and a downward revision of the proceeds from administrative receipts. Since outlays on the public debt is expected to exceed the original projection by Z 1,663 million (largely because of the faster depreciation), other expenditures have to be curtailed by Z 2,328 million. The cuts will mainly affect current expenditures on goods and services (Z 1,063 million), investments (Z 400 million), transfers and subsidies (Z 200 million), and unclassified expenditures (Z 700 million).

Expenditures of government agencies on public utilities and petroleum products have always been a source of problems, because they were paid centrally by the Treasury which had virtually no control of actual consumption by decentralized agencies. In order to solve these problems, the authorities took two types of actions: (1) to reduce waste through physical controls (for example, by stopping misuse of water in military camps and repairing water meters); and (2) to provide financial incentives by charging the cost of actual consumption directly against the global appropriations for all operating expenditures of decentralized agencies. These actions, initiated in February 1985 by the REGIDESO, have already resulted in significant savings: in military camps in the Kinshasa area where such action has been conducted, water consumption has been reduced by half. The program is now being extended to hospitals, schools, and universities in the Kinshasa area and will later be extended to other cities. It aims at reducing water consumption by civilian and military agencies by almost half within two years. Similar action is being initiated by SNEL (the electricity company) to reduce electricity consumption, but the program is still in its initial stage. Regarding the use of petroleum products by the civilian administration, a program of individualized allocation has been implemented under the control of the Ministry of Public Works, and monthly expenditures are expected to be cut by about 20 percent by year-end. A similar program is being implemented for the Army, the Navy, and the Air Force, which together account for the major part of government consumption of petroleum products. It should result in savings by the military of more than Z 250 million in the second half of the year.

Expenditures under the subaccounts of the Treasury had also been a source of problems in previous years, but the measures recently taken to strengthen control of commitments made under these subaccounts appear to have been effective. The large deficit recorded in 1984 has turned into a surplus in the first half of 1985, and the deficit for the year as a whole is likely to be lower than originally budgeted. Finally, with the strengthening of budgetary discipline, no unforeseen expenditure has been recorded in the first half of 1985 under the category "unclassified", and the provision under this item has been reduced from Z 1 billion to Z 300 million for the year as a whole.

The investment budget 1/ has been cut from Z 2 billion to Z 1.6 billion, but the cut will be offset by earmarking an equivalent amount for infrastructure projects from the Road Fund (an independent agency); the resources of this fund are expected to rise to Z 2.3 billion in 1985 from Z 900 million in the preceding year as a result of the sharp increase in the tax on gasoline. Disbursements on the investment budget, which have lagged far below budget appropriations in the first half of 1985, will be accelerated in the remainder of the year. Priority will be given to projects mainly financed with external resources, and 75 percent of the zaire counterpart funds budgeted for 1985 should be disbursed by October to avoid delays in external disbursements.

1/ Excludes foreign-financed investment.

Apart from public debt payments and repayment of external arrears, personnel is the only major item for which revised projections exceed the original ones. Although the government wage bill has remained within targets in the first half of 1985, it may exceed the original target for the year as a whole by Z 300 million (or 5 percent) because the cost of increased security along the borders (in particular along the northern and the eastern borders) is likely to exceed the savings resulting from the elimination of "ghosts" from the payroll.

External arrears of the Treasury (not related to external debt) were reduced by Z 898 million, equivalent to US\$18 million, during the first half of 1985, thus exceeding the minimum reduction of US\$10 million specified as a performance criterion for end-June. This was done because the stock of arrears outstanding at the end of 1984 was revised from US\$37 million to US\$85 million, after an investigation of the arrears due by the Department of Defense. Accordingly, the repayments of arrears will exceed the original minimum target set in the program for 1985.

The quarterly audits of GECAMINES (Commercial and Exploitation) which are now available until March 1985 have not revealed any "uncompensated sales" since SOZACOM was abolished on July 3, 1984. The new schedule of repayments on account of earlier uncompensated sales agreed upon by GECAMINES and the Treasury in June provides for Z 1 billion in cash payment by the Treasury through 1985, instead of Z 1.5 billion as originally programmed. Regarding other domestic arrears, a commission has investigated the stock of arrears provisionally estimated at Z 2.9 billion at end-December 1984. So far, of claims amounting to Z 2.1 billion, Z 1.4 billion has been considered legitimate, and Z 959 million has been paid. The remaining Z 0.8 billion represents claims of doubtful validity because no substantiation has yet been presented to the commission. Regarding commitments made during the course of 1985, no arrears can be incurred vis-à-vis the oil companies under the clearing arrangements established in the context of the liberalization of oil imports. In the case of water, electricity, and telephone, no similar clearing arrangements exist; however, discussions are under way on a possible compensation mechanism which would offset government arrears by a reduction of amortization payments that public utilities make to OGEDEP (the external debt agency) on account of capital on-lent to them by the Government.

2. Public enterprises

The various measures taken to improve the management of public enterprises have started to bear fruit. GECAMINES recorded an after-tax profit of US\$45 million in 1984 and is expected to make substantially larger profits in 1985. Its investments, which were negligible in 1982 and 1983, reached US\$55 million in 1984 and are projected to exceed US\$60 million this year, most of which being self-financed. The financial situation of the two major public transportation companies has also improved. Tariffs were adjusted in 1985 to take into account increases

in the price of fuel and other inputs, while--unlike in preceding years--the average percentage salary increase was limited in 1985 to that granted to civil servants (10 percent). As a result, ONATRA (the company responsible for river transportation and rail transportation between Kinshasa and the port of Matadi) is now paying dividends to the Treasury for the first time in years, while SNCZ (the major railways company) has reduced its losses to less than one third of the 1983 level. Electricity tariffs are being progressively adjusted to long-run marginal costs. SNEL's new tariff structure, which will become effective in early September, will result in a first increase averaging 30 percent, with some rates being lowered and others being raised sharply; the rate on thermally generated power is expected to rise ninefold for medium voltage. The CMZ has been restructured under the supervision of three directors from the CMB (a Belgian shipping company) which may take equity participation in the CMZ in 1986. Employment in Air Zaire has been reduced to 2,500 from 6,000 in 1983, but operations remain unprofitable, and a major restructuring is under way with the assistance of a foreign airline company which may take an equity participation in the restructured company.

A new national trading corporation, SONATRAD, was established in March 1985 to improve purchasing procedures for the inputs and materials imported by the five major public enterprises. The centralization of procurements is now under way, but it is still too early to assess the benefits or drawbacks of the new system.

The most important step toward liberalization was the decision made by the authorities in June to return the imports of petroleum products to the oil companies marketing them. PETROZAIRE, which was previously the sole importer, has become just another oil company (fully owned by the Government) and will have to compete on comparable terms with the four other oil companies (each with 40 percent government participation) for the import and the marketing of petroleum products. New companies will be allowed to enter into the market, provided they bring a minimum equity contribution to Zaire-Sep, the agency providing common services to the various oil companies. SOZIR, the refining company, which ceased refining in September 1984, will pursue its offloading and storage activities during the remainder of the year.

The liberalization of the oil trade has been associated with a revision of the price structure. Cross-subsidization among products and regions has been eliminated since April, and consumer prices now reflect differences in shipping costs from the Zairian borders (with differential base prices depending on whether the oil is supplied through the western, the eastern, or the southern route) and differences in transportation costs inside Zaire. The price structure is being revised quarterly to take into account variations in both dollar prices of the products and in the exchange rate. The structure includes a road fund tax which has been raised to Z 5.377 1/ per liter of gasoline and diesel

1/ The tax was raised from Z 2 in 1984 to Z 3.4 in January 1985 and Z 5 in April 1985. It was further raised to Z 5.377 in August in all regions other than Kivu where it was eliminated altogether.

oil in August. The proceeds, estimated at Z 2.3 billion for 1985, are going to the "Office des Routes" which is operated as an independent government agency and has now been able to improve road maintenance significantly.

3. Money and credit

The efforts made in the second quarter to reduce government recourse to bank credit and to contain the losses of the Bank of Zaire, together with the restrictive credit policy followed toward the private sector, succeeded in limiting the expansion in the net domestic assets of the banking system to only 7.7 percent from end-December 1984 to end-June 1985 as compared to the 20.9 percent expansion allowed under the program. (Table 5). During the first half of the year, net credit to Government increased by Z 0.5 billion and remained Z 0.9 billion below the June subceiling; credit to the private sector increased by Z 0.9 billion and remained Z 0.8 billion below its target; and net domestic assets increased by Z 1.5 billion and remained Z 2.5 billion below the ceiling. This substantially lower-than-programmed credit expansion was reflected in an expansion of money and a deterioration of the net foreign assets position of the banking system (net of exchange rate changes) which were both slightly smaller than expected. However, developments during this period were very uneven with a sharp expansion of net domestic assets during the first quarter which continued well into the second quarter, followed by a sharp decline in June.

In the first quarter, net domestic assets increased by Z 3.6 billion, exceeding the end-March ceiling by Z 1.2 billion, largely due to the excessive credit requirements of the Government and exceptionally high losses by the Bank of Zaire which caused a sharp increase in other net domestic assets. As the growth of broad money (7.3 percent) was in line with the program target, the higher-than-programmed growth of domestic credit was largely reflected in a deterioration of the net foreign assets position of the banking system. This decline in net foreign assets reflected mainly a loss in international reserves by the Bank of Zaire in addition to increased recourse to short-term credits and Fund resources. However, during the second quarter, these developments were reversed. Net domestic assets contracted by Z 2.6 billion as the result of a decrease in net credit to Government by Z 1.4 billion and a decline in other net domestic assets by Z 1.7 billion which includes Z 0.7 billion in payments by the Treasury actually effected at the beginning of July. This contraction of domestic credit was reflected by an improvement in the net foreign assets position of the banking system, in particular, of the commercial banks.

Interest rates charged by banks are free from regulation, except for the preferential rate on agricultural credits. Borrowing rates on short-term credits, which are subject to quantitative ceilings set for each bank by the Bank of Zaire, range between 30 and 40 percent per year. For medium-term credits, which require approval by the Bank of Zaire but do not fall under the quantitative limits, competition among banks

Table 5. Monetary Survey, 1983-85

(In millions of zaires; end of period)

	1983	1984				1985					
	Dec.	March	June	Sept.	Dec.	March Program	March Actual	June Program	June Actual	Sept. Revised	Dec. program 1/
Net foreign assets (broad)	-18,940	-23,531	-23,520	-26,089	-24,325	-27,554	-31,299	-31,822	-30,928	-34,454	-35,426
Net foreign assets (narrow)	-16,013	-19,841	-19,450	-23,257	-21,533	-23,310	-28,083	-28,436	-27,934	-31,244	-32,036
Assets	9,317	9,385	9,225	7,617	10,728	12,076	14,810	12,450	16,613	3/ 18,244	20,734
Bank of Zaire 2/	6,019	5,138	6,604	5,418	7,709	...	11,679	...	12,413	...	...
Commercial banks	3,298	4,247	2,621	2,199	3,019	...	3,131	...	4,200	...	...
Liabilities	-25,330	-29,226	-28,675	-30,874	-32,261	-35,386	-42,893	-40,886	-44,547	-49,488	-52,770
Bank of Zaire 2/	-24,577	-28,230	-27,931	-30,294	-31,750	...	-41,701	...	-43,743	...	...
Commercial banks	-753	-996	-744	-580	-511	...	-1,192	...	-804	...	...
Foreign currency deposits and provisions for import financing	-2,927	-3,690	-4,070	-2,832	-2,792	-4,244	-3,216	-3,386	-2,994	-3,210	-3,390
Net domestic assets	14,149	15,896	17,649	16,990	19,343	22,234	23,438	23,384	20,831	24,634	25,384
Net claims on Government	10,252	11,318	11,345	11,095	13,396	14,652	15,212	14,802	13,893	15,452	15,602
Credit to enterprises and households	2,882	3,544	4,159	3,847	4,492	5,582	5,039	6,232	5,409	6,732	7,282
Other net domestic assets	1,015	1,034	2,145	2,048	1,455	2,000	3,187	2,350	1,529	2,450	2,500
Money and quasi-money	14,003	15,800	17,166	16,136	18,792	20,280	20,159	21,980	21,220	22,780	23,351
Currency in circulation	6,136	6,795	7,900	8,149	8,802	...	9,768	...	10,743	...	...
Deposits	7,867	9,005	9,266	7,987	9,990	...	10,391	...	10,477	...	...
Revaluation accounts and adjustments	-21,231	-25,872	-26,264	-28,504	-27,202	-29,310	-32,042	-34,701	-35,680	-37,201	-38,252
SDR allocation counterpart	2,437	2,437	3,227	3,269	3,428	3,710	4,022	4,283	4,363	4,601	4,859

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

1/ The revisions to the program estimates for September and December arise essentially from a modification of the exchange rate assumptions. The program ceilings for net domestic assets remain unchanged.

2/ As of February 1985, the Bank of Zaire modified the presentation of foreign assets and foreign liabilities by including the value of pledged gold under foreign assets and the use of the gold swap credit line under foreign liabilities. Prior to February 1985, only the net liability had been shown under foreign liabilities. This presentational modification leaves the net foreign asset position unchanged. In December 1984, the value of pledged gold amounted to Z 3,283 million.

3/ Corrected for the payment out of the special account with the Federal Reserve Bank of New York to Paris Club creditors of US\$72.3 million effected on June 28, 1985, but accounted for in the beginning of July.

is stronger and rates are lower (25 to 30 percent). Treasury bills with a maturity of 182 days and an annual yield of 38 percent were introduced in April, and by end-June, all outstanding Treasury bills amounted at face value to Z 920 million. ^{1/} Due to the increasing competition of Treasury bills, commercial banks offered higher rates of remuneration on deposits. However, taking advantage of excess demand for foreign exchange, banks attempted to safeguard their profit margins by requiring high import deposits which are not remunerated, although the Bank of Zaire abolished its import deposit requirement in June, according to schedule.

Inflation, as measured by the consumer price index in Kinshasa, has slowed down after a very sharp increase in May, which followed a 50 percent increase in the price of diesel fuel. For the first seven months of the year, inflation has been running at an annual rate of 25 percent, slightly above the 20 percent target set for 1985. However, apart from crop credits, real interest rates (approximated by nominal interest rates adjusted for the actual rate of inflation) have remained positive.

Monetary and credit policies for the remainder of the year will be directed toward containing the growth of broad money to below 25 percent and ensuring the observance of the original program limits on the expansion of domestic credit. For this purpose, the Bank of Zaire has already taken several measures. First, in order to reduce excess liquidity, the minimum reserve requirement has been raised in stages from 20 percent in the middle of March to 30 percent at end-June; part of the increase was, however, required to compensate for a reduction in the base which resulted from the exclusion of provisions for uncovered documentary letters of credit so as not to discourage the banks' use of external lines of credit. The percentage of the reserve requirement will be raised further in early September. Second, to avoid sharp credit expansion at the beginning of each quarter and drastic cutbacks at the end, the Bank of Zaire has been imposing a weekly penalty of 5 percent for excesses over credit limits since August. Third, in an attempt to provide comparable remuneration on domestic and foreign assets, interest rates applicable to crop credits, rediscount facilities of the Bank of Zaire, and Treasury bills were raised in late May by two percentage points. They will be raised again by two percentage points in early September, which will bring them to 22 percent for crop credit and the preferential discount rate, 24 percent for the normal discount rate, and a range of 32 to 42 percent for Treasury bills.

Following the large losses incurred by the Bank of Zaire in the first quarter of 1985, notably to finance losses on the gold swaps and printing costs of bank notes, the budget of the Bank has been audited thoroughly, and the practice of lodging expenditure attributable to the

^{1/} If Treasury bills had exceeded Z 1.0 billion at end-June, the sub-ceiling on net credit to Government would have been adjusted by the amount of the excess.

Bank in suspense accounts has been abolished. The rate charged on net credit to Government has been raised retroactively to 4 percent a year from January 1, 1985; ^{1/} expensive short-term credits are being replaced by less costly financing; recruitment has been frozen and a number of expenditures have been curtailed. Due to the absorption of previous losses, the Bank is expected to show an operating loss for 1985 as a whole, but to reach a balanced budget for 1986.

A permanent internal audit has been established in the Bank of Zaire, and a new procedure has been implemented to improve the monitoring of the Government's net position with the Bank. Payments with known payment dates, such as external debt payments, are debited automatically to the government accounts with a notification to the Minister of Finance within 24 hours. The number and amount of other payments passing through suspense accounts are computerized on a daily basis, and the Treasury is informed daily of its global position (including items in suspense) with the Bank. Finally, the Minister of Finance and the Governor of the Bank of Zaire meet once a week to examine and clear out these remaining items in suspense. With these new accounting procedures, a repetition of the errors made at end-March should be avoided. Nonetheless, further improvements in the accounting of monetary aggregates is necessary, in particular with respect to the accounting procedures of commercial banks.

4. External sector

a. Balance of payments

It now appears that Zaire's export revenue in 1985 had been originally overestimated by some SDR 150 million, while net capital inflows had been underestimated by some SDR 30 million (Table 6). Hence, with no change foreseen in unrequited transfers and receipts from services and no change in the target for the accumulation of foreign exchange reserves, imports of goods and services would be SDR 120 million lower than originally estimated. About a third of this decline would result from an SDR 100 million shortfall in crude oil exports, since approximately 40 percent of the gross export receipts is earmarked for payments of imported goods and services by the foreign oil companies.

Compared with preliminary data for 1984, exports are now expected to increase by only 5 percent in 1985, as an improvement in the exports of GECAMINES, due to higher prices and volumes, is offset by declines in most other exports largely as a result of a poor price outlook (Attachment IV, Table I). In the case of gold, however, the shortfall with respect to 1984 is due to a sharp decline in volume, reflecting increased smuggling through the eastern border.

^{1/} In addition to the interest on outstanding credit by the Bank of Zaire, the Treasury is paying the zaire counterpart of all Fund charges which represents about 20 percent of outstanding credit.

Table 6. Zaire: Balance of Payments, 1983-85

(In millions of SDRs)

	1983	1984		1985		Difference (3)=(2)-(1)
		Original program	Prelim- inary	Original program (1)	Revised program (2)	
Trade balance	383	419	595	718	623	-95
Exports, f.o.b.	1,424	1,524	1,731	1,966	1,813	-153
Of which: copper, cobalt, and zinc	(890)	(...)	(933)	(938)	(1,043)	(105)
crude oil	(221)	(...)	(315)	(413)	(310)	(-103)
diamonds	(130)	(...)	(215)	(240)	(194)	(-46)
coffee	(109)	(...)	(207)	(234)	(190)	(-44)
Imports, f.o.b.	-1,041	-1,105	-1,136	-1,248	-1,190	58
Oil	(-156)	(-180)	(-162)	(-199)	(-190)	(9)
Non-oil	(-885)	(-925)	(-974)	(-1,049)	(-1,000)	(49)
Services	-839	-834	-938	-979	-917	62
Receipts	118	100	108	114	114	--
Expenditures	-957	-934	-1,046	-1,093	-1,031	62
Freight and insurance	(-198)	(-245)	(-202)	(-231)	(-212)	(19)
Other transport	(-31)	(-35)	(-23)	(-29)	(-29)	(--)
Travel	(-23)	(-18)	(-55)	(-59)	(-59)	(--)
IMF charges	(-42)	(-55)	(-48)	(-55)	(-55)	(--)
Interest on public debt ^{1/}	(-263)	(-296)	(-347)	(-331)	(-331)	(--)
Other investment income	(-47)	(-40)	(-47)	(-55)	(-45)	(10)
Government, n.i.e.	(-123)	(-50)	(-110)	(-104)	(-100)	(4)
Other services	(-230)	(-195)	(-214)	(-229)	(-200)	(29)
Unrequited transfers (net)	165	185	116	106	106	--
Private	3	-15	-54	-66	-66	--
Public	162	200	170	172	172	--
Current account balance	-291	-230	-227	-155	-188	-33
(Excluding interest rescheduled)	(-181)	(...)	(-104)	(...)	(-81)	(...)
Public capital	-211	-170	-181	-267	-283	-16
Disbursements	132	180	178	174	160	-14
Amortization ^{1/}	-343	-350	-359	-441	-443	-2
Short-term monetary capital	)	--	)	--	20	20
Private capital and errors and omissions	) 69	--	) -53	--	--	--
Overall deficit (-)	-433	-400	-461	-422	-451	-29
(Excluding interest and principal rescheduled)	(-97)	(...)	(-74)	(...)	(-5)	(...)
Financing items						
Arrears (reduction -)	-480 ^{2/}	-40	-74	-40	-54	-14
Of which: Bank of Zaire ^{3/}	(-12)	(-40)	(-40)	(-40)	(-40)	(--)
Debt rescheduling and other assistance	861	...	387	...	447	...
Net Fund credit	104	129	95	65	73	8
Purchases	(114)	(198)	(158)	(169)	(169)	(--)
Repurchases	(-10)	(-69)	(-63)	(-104)	(-96) ^{4/}	(8) ^{4/}
Other reserve movements (increase -)	-52	-42	53	-15	-15	--
Financing gap	--	353	--	412	--	...
Memorandum item:						
Average export unit value of copper in U.S. cents per pound	71	79	62	61	63	2

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

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

^{2/} 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.

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

^{4/} Due to a correction in the schedule of repurchases.

Overall, imports of goods and nonfactor services are expected to increase by 3 percent in 1985. Oil imports are projected to increase by about US\$28 million (18 percent) from 1984 because, in that year, consumption was partly satisfied by drawing on stocks which were fully depleted by December. Non-oil imports are projected to increase by less than 3 percent in nominal terms, and expenditure on services is expected to decline.

Disbursements of foreign public capital in the first half of the year were generally lower than expected, partly because of delays in the release of counterpart funds, and partly because of various bureaucratic and administrative difficulties. For these reasons, expected disbursements for the full year were revised downward from SDR 174 million to SDR 160 million. On the other hand, with the liberalization of oil imports in June, local banks have increased their commercial lines of credit with foreign correspondents, which is expected to result in a one-time capital inflow of some SDR 20 million. Moreover, net Fund credit in 1985 has been increased by SDR 8 million due to a correction in the Fund repayment schedule. 1/

b. Exchange rate

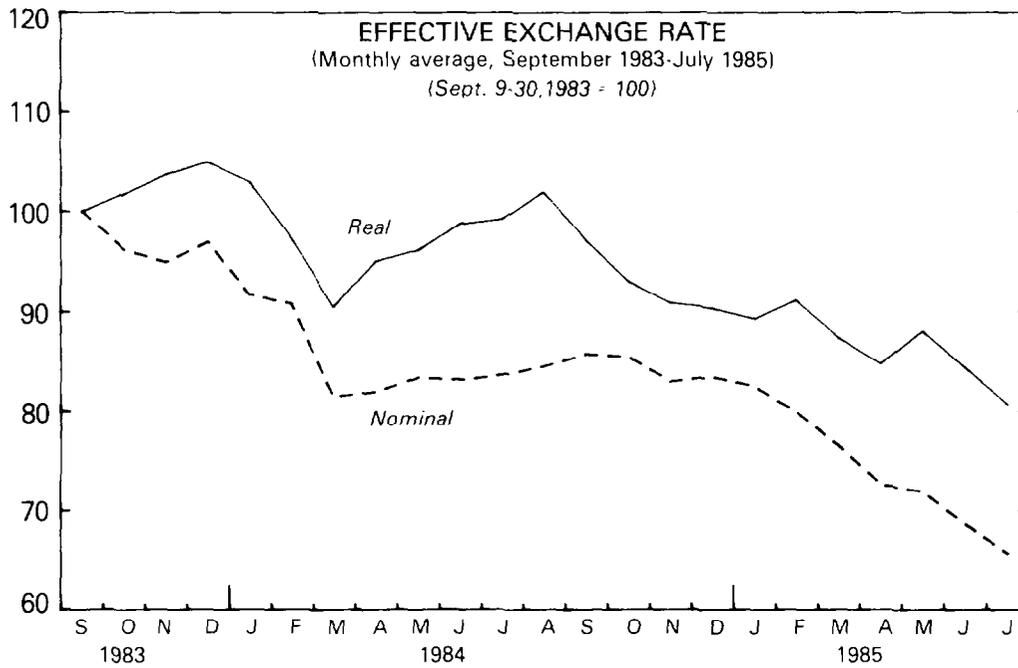
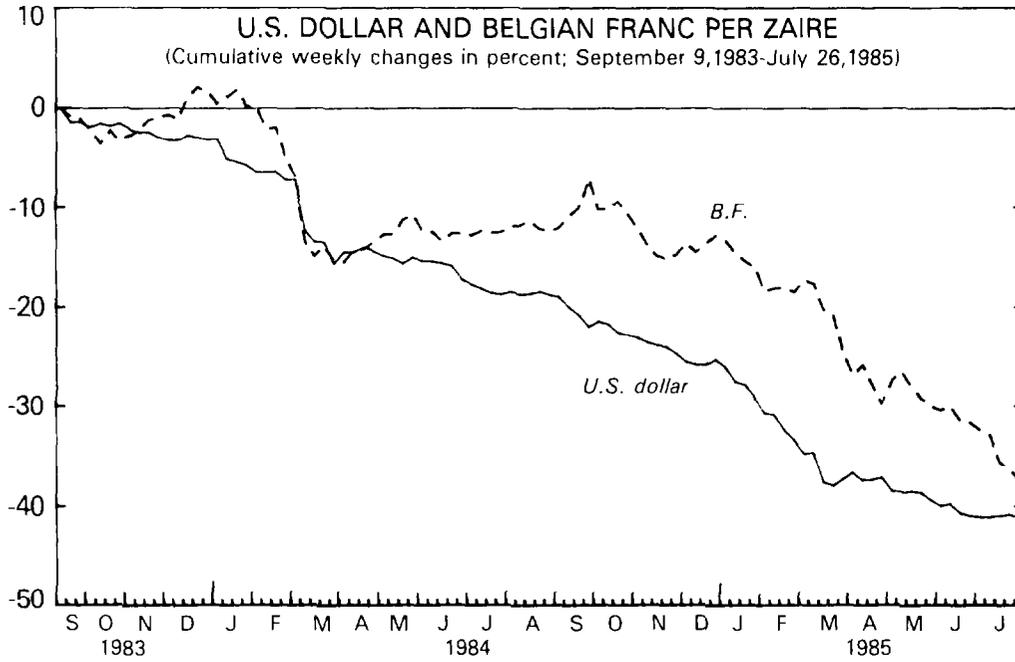
The zaire depreciated rapidly during the first few months of the year despite the Bank of Zaire's intervention in the interbank foreign exchange market to sustain the rate. 2/ As commercial banks took mostly a buying position, transactions in the interbank market declined in the first half of 1985 to about US\$28 million and, in view of the excess demand for foreign exchange, banks required substantial advance deposits from their customers. During the first seven months of 1985, the zaire depreciated in foreign currency terms by 20.5 percent against the U.S. dollar and 28.0 percent against the Belgian franc (see Chart). Over the same period, the effective exchange rate depreciated by 27 percent in nominal terms and by 12 percent in real terms.

The premium on foreign exchange in the parallel market has reached about 12 percent, but the Bank of Zaire, which is determined to preserve the convertibility of the zaire, has decided to allow changes in the exchange rate to play a larger role in balancing demand and supply. This greater flexibility is expected to narrow the gap between the official and parallel markets, which should help in channeling exports of gold and diamonds flowing through official channels.

1/ The date for one repurchase was corrected from end-December 1985 to the first week in January 1986.

2/ During the first quarter, the Bank of Zaire sold US\$8.6 million and bought US\$1.8 million in the interbank market for net sales of US\$6.8 million. In the second quarter, net sales declined to US\$2.2 million as gross sales were reduced to US\$6.6 million and purchases increased to US\$4.4 million.

CHART 1
ZAIRE
EXCHANGE RATE DEVELOPMENTS



Sources: Bank of Zaire, and IMF staff estimates.



c. Debt rescheduling

Paris Club creditors met on May 23-24, 1985 to consider Zaire's request for a rescheduling. Agreement in principle was reached on a debt rescheduling arrangement covering the 15-month period ending March 1986. 1/ The Agreed Minute covers all debt service payments due to Paris Club creditors in 1985 and the first quarter of 1986 on loans with an original maturity of more than one year contracted before June 30, 1983. Obligations arising from the December 1983 Paris Club rescheduling agreement are excluded from the 1985 arrangement, while those arising from the previous agreements are included. According to the terms of the Agreed Minute, 95 percent of principal and interest payments due during the consolidation period was rescheduled over ten years, including a grace period of five years with repayments in ten equal semiannual installments starting on February 15, 1991. The remaining 5 percent is to be paid in two equal installments on March 31, 1986 and January 31, 1987. Thus, effective debt relief over the consolidation period amounts to 97.5 percent of rescheduled obligations (estimated at US\$398 million). The bilateral agreements under the Agreed Minute will have to be concluded no later than December 31, 1985. The agreement also provides for monthly payments of SDR 17.2 million into the Special Account at the Federal Reserve Bank of New York during the May 1985-March 1986 period. Since SDR 91.4 million has already been paid during the first six months of 1985, total payments for the year will amount to SDR 194.6 million, of which SDR 38 million for principal payments (Attachment IV, Table II). The average moratorium interest rate relative to the SDR 1.81 billion consolidated in 1983 and 1984 is approximately 10.5 percent.

Following the meeting of Paris Club creditors, agreement was also reached with the Steering Committee of the London Club creditors regarding a monthly payment schedule through April 1986. 2/ Monthly payments to London Club creditors were set at US\$4.5 million for the period May 1985-December 1985, increasing to US\$6.0 million for the first four months of 1986. The arrangement specifies that monthly payments are to be raised by US\$0.5 million if the copper price (as quoted for London in the International Financial Statistics) exceeds US\$0.66 per pound, by US\$1.0 million if this price exceeds US\$0.70, and by US\$1.5 million if it exceeds US\$0.74. Payments to the London Club during the first six months of the year amounted to US\$27.1 million. In principle, US\$0.5 million more ought to have been paid in June because the April reference price was above US\$0.66 per pound. This amount was disbursed in July, together with a payment of US\$5 million due to the sustained copper price in May. Total payments to the London Club for the remainder

1/ The Agreed Minute was initialled but not signed at the meeting. Creditors indicated that a formal signing would take place as soon as Zaire is entitled to make its next purchase under the current stand-by arrangement.

2/ The package negotiated by the Steering Committee was accepted by individual banks.

of the year are estimated at US\$23 million, for a total of US\$55.6 million in 1985. This amount will cover the interest falling due in 1985 (US\$42.1 million) and repayment of interest arrears of at least US\$13.5 million. If the copper price exceeds the specified thresholds, interest arrears will be reduced further.

Zaire is continuing negotiations with creditors not participating in either the Paris or London Clubs, in order to obtain debt relief on terms no less favorable than those accorded by the Paris Club. These arrangements are also to cover the maturities due under special payments mechanisms. In this regard, specific rescheduling arrangements should be reached with creditors benefiting from the special payment mechanism of SNEL (through which external debt service payments are automatically paid from export receipts), which is administered by GECAMINES through accounts with Manufacturers Hanover Trust and Banca Nazionale del Lavoro. Payments from these accounts were effected in the early part of the year before the meeting of Paris Club creditors, and thus did not reflect re-scheduling in terms comparable to those reached at that meeting.

At the end of June 1985, a number of external debt payments due, for a total of nearly US\$10 million, had not yet been effected. Almost two thirds of the maturities were owed to banks outside of the London Club agreement, but they also included US\$1.1 million owed to a multinational development bank and about US\$0.7 million owed to official creditors outside the Paris Club. Payments on these outstanding amounts for nearly US\$0.9 million were effected in July. The authorities have indicated that the remainder will be cleared soon and that such delays will be avoided in the future.

In view of Zaire's large foreign indebtedness, the authorities will strictly limit new commitments with a maturity of more than one year on nonconcessional terms. Such borrowing will be used only for productive investment to supplement the financing obtained from multilateral and bilateral aid. Since external loans with a maturity of one year or less, which might be contracted directly by the Executive Council, would be a substitute for domestic credit, both the overall ceiling on net domestic assets and the subceiling on net credit to Government would automatically be reduced by the zaire equivalent of the net amount which the Executive Council would have borrowed abroad.

d. Financing

Despite the diminished prospects for export earnings in 1985, the medium-term outlook has not changed substantially from the scenario presented in the last staff report which was based on conservative export assumptions for the remainder of the decade. In order for Zaire to attain a moderate rate of economic growth over the medium term, exceptional financing, including debt relief, will continue to be needed, even though at a declining rate given reasonable expectations about capital inflows from bilateral, multilateral, and private sources. Financing requirements will increase sharply, however, at the beginning

of the next decade when repayments on recently rescheduled amounts start falling due. Overall, absolute amounts of required financing will remain large over the coming decade, and substantial amounts of foreign capital will be needed to support growth.

For 1986, the World Bank is planning a structural adjustment credit for the manufacturing sector which could be linked with disbursements from the facility for sub-Saharan Africa for a total commitment of some US\$75 million, of which about US\$15 million would come from IDA, and an agricultural sector loan is planned for 1987. A Consultative Group Meeting (chaired by the World Bank) has been scheduled for December 1985 in Paris and the authorities have requested Fund assistance in preparation for this conference.

In order to improve the preparation and the follow-through of projects likely to obtain financing from bilateral and multilateral sources, the authorities have recently strengthened the Committee on External Resources--a multidepartment group charged with the coordination of project proposals. A reinforcement of this Committee is particularly important in light of the forthcoming donors' conference. The authorities will also establish a "one-stop" mechanism to facilitate the completion of bureaucratic procedures required from foreign investors and donors, and intend to further encourage nondebt capital flows in the form of direct foreign investment in the context of the liberalization of the economy.

5. Performance criteria

The performance criteria specified in the stand-by arrangement approved by the Executive Board on April 24, 1985 remain unchanged (Table 7). They include 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) a net cumulative reduction of commercial and invisible arrears through cash payments in foreign exchange; (c) a net cumulative reduction of external nondebt arrears of the Treasury; (d) ceilings on new commitments by the Government or guaranteed by the Government on nonconcessional loans in the maturity ranges of 1-12 and 1-5 years (excluding commitments under rescheduling arrangements); (e) a ceiling on the stock of outstanding short-term debt of the Bank of Zaire; and (f) the standard clauses regarding the exchange and trade system. The quantitative performance criteria for March, June, September, and December 1985 are contained in Table 7. In addition, there will be another comprehensive review with the Fund of progress under the program. This review will take place not later than December 1985 and will constitute a performance criterion. During this review, understandings will be reached on performance criteria for end-March 1986.

Table 7. Zaire: Ceilings Under the Program for 1985-86

	1984		1985			1986
	Dec. 1/	Mar. 2/	June 2/	Sept. 2/	Dec. 2/	Mar. 3/
(In millions of zaires)						
Net domestic assets of the banking system (at end of month)	20,234	22,234 <u>4/</u>	23,384 <u>4/</u>	24,634 <u>4/</u>	25,384 <u>4/</u>	27,924
Net credit of the banking system to the Government (at end of month)	13,452	14,652 <u>4/</u>	14,802 <u>4/</u>	15,452 <u>4/</u>	15,602 <u>4/</u>	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)	24	5	10	15	20	5
New external borrowing by the Government or against government guarantee through end of period						
1-12 years' maturity	--	150	150	150	150	150
1-5 years' maturity	--	40	40	40	40	40
Less than 1 year <u>5/</u>	--	40	40	40	40	40

1/ 1984-85 program ceilings.

2/ Performance criteria.

3/ Targets.

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

5/ Refers to increases in the stock of outstanding and disbursed short-term debt of the Bank of Zaire.

III. Staff Appraisal

Zaire's economic and financial performance during the first six months of 1985 has been uneven. Government revenues fell short of target in the first quarter, partly on account of lower-than-expected oil royalties and partly because of delays in the implementation of the new fiscal measures. As expenditures were not adjusted sufficiently rapidly to the revenue shortfall, recourse to bank credit exceeded the amount allowed for under the program for the first quarter by 45 percent. The unfavorable fiscal developments were compounded by exceptionally large financial charges incurred by the Bank of Zaire. As a result, in spite of a lower-than-programmed expansion of credit to the private sector, net domestic assets of the banking system exceeded the expansion allowed for under the program for the first quarter by 42 percent. This non-observance of the credit ceilings has been of particular concern because the program was approved on April 24 with the specific understanding that the performance criteria at end-March were likely to be observed and that, at least, the subceiling on net credit to Government had been observed. Since the ceiling on net credit to Government at end-March was exceeded, the procedure on noncomplying purchases has been initiated in accordance with the guidelines approved by the Executive Board on November 26, 1984.

The authorities are to be commended for taking drastic measures to reverse the situation once the magnitude of the slippages in the first quarter came to their attention. While some of the measures (such as the sale of a DC10) had a once-for-all impact, there are others that will also have long-lasting effects. As a result of these various measures, net credit to Government and the net domestic assets of the banking system were reduced sharply during the second quarter, leaving margins of, respectively, Z 0.9 billion and Z 2.5 billion under the June ceilings. Credit to the private sector at the end of June was Z 0.8 billion below the program target, but this margin was obtained by a drastic curtailment at the end of the period. Since this "stop-and-go" policy is detrimental to the economy and also limits the significance of credit ceilings as performance tests, credit ceilings should not be formulated in terms of net credit outstanding on the last day of the quarter in future programs.

The stock of external nondebt arrears by the Treasury has been revised upward and repayments for the first half of the year have exceeded the minimum required. While the performance criteria relating to the reduction of these arrears have not been modified, the authorities are committed to reducing these arrears by an amount exceeding the original targets of the program.

The measures taken to improve the management of public enterprises are starting to bear fruit and the financial situation of GECAMINES, ONATRA, and the SNCZ (the two major transportation companies) has improved substantially since 1983. For the first time in years, GECAMINES and ONATRA are now paying dividends to the Treasury. Air Zaire remains unprofitable, but negotiations are under way with a foreign airline company for equity participation.

In spite of improved performance in the second quarter, the foreign exchange situation remains a subject of concern. Export earnings in SDR terms increased by 22 percent in 1984, partly due to a shift of exports from nonofficial to official channels. They were projected to increase by a further 10 percent in 1985, but the rate of export growth has now been revised downward to 5 percent on account of a temporary stagnation in the volume of oil exports due to technical factors and of lower-than-expected prices for a number of export commodities. Taking into account the understandings reached on May 24 on external debt re-scheduling with the members of the Paris and the London Clubs and on other forms of external assistance, the bulk of the external adjustment will have to be borne by the imports of goods and services. Consequently, non-oil imports are not expected to increase in real terms in 1985, and GDP growth will be lower than had been anticipated when the program was originally formulated. With credit ceilings unchanged in nominal terms, the adjustment is likely to occur mainly through a higher depreciation of the currency and a higher inflation rate than had been originally projected.

The staff has reviewed with the authorities various possible means of easing the foreign exchange constraint, notably, reducing the margin between the official and parallel exchange rates by improving the functioning of the interbank foreign exchange market; stimulating exports of gold and diamonds through official channels by eliminating the export tax, which has just been done in the case of gold; promoting exports of manufactures through appropriate tax rebates; facilitating disbursement of external assistance by establishing a "one-stop" office to cut through bureaucratic procedures and proceeding to the timely disbursement of counterpart funds; considering with potential donors means of providing foreign exchange for private sector imports through the banking system similar to a scheme being presently studied in the context of the World Bank loan for the manufacturing sector; and facilitating equity participation by foreign companies.

The authorities are committed to move in these directions. It should be noted, however, that Zaire has made substantially higher payments to foreign creditors in the last two years than would have been the case without Fund programs, but that these higher payments have not been matched so far by significant increases in capital flows from bilateral sources.

The staff considers that the authorities have forcefully implemented a series of policy measures aimed at liberalizing the economy and at normalizing Zaire's relations with its creditors. After the serious slippages incurred in the first quarter of 1985, courageous measures have been taken to bring the program on track. The staff considers that the measures taken so far are adequate to achieve the objectives of the program and believes the authorities are committed to avoiding any further slippage during the remainder of the program year.

IV. Proposed Decision

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

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

2. The letter of the President of Zaire dated August 29, 1985 together with the annexed memorandum shall be attached to the stand-by arrangement for Zaire and the letter of March 25, 1985 with annexed memorandum shall be read as supplemented by the letter of August 29, 1985 with annexed memorandum.

Kinshasa, August 29, 1985

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

Dear Mr. de Larosière:

1. The measures taken since the liberalization of the exchange system in September 1983 have made it possible to achieve a significant reduction of inflation, maintain the convertibility of the zaire, and start on the road toward a reactivation of the economy, all the while fulfilling Zaire's external commitments.
2. Despite the efforts exerted and the progress achieved by the nation, budgetary revenue did not increase as rapidly during the first quarter of 1985 as foreseen in the program supported by the stand-by arrangement approved by the Fund on April 24, 1985. This shortfall was caused largely by technical problems in oil production and delays in the implementation of certain fiscal measures. As a result, the sub-ceiling on net credit to the Government was exceeded by Z 560 million at end-March 1985. On the same date, the ceiling on net domestic assets of the banking system was exceeded by Z 1,204 million because of an unusual increase in "other net domestic assets of the banking system" during the first quarter of 1985, which was partly due to exceptionally high charges in the operating accounts of the Bank of Zaire.
3. After these overruns became known, the authorities took extremely strict measures which made it possible to reduce net domestic assets of the banking system by some Z 2.6 billion during the second quarter of 1985. As a result, net credit by the banking system to the Government was Z 909 million below the subceiling established for June 30, 1985, while total net domestic assets of the banking system were Z 2,553 million below the global ceiling for the same date. The measures described in the attached memorandum will make it possible to comply with all performance criteria set forth in the memorandum attached to my letter of March 25, 1985. The credit overruns at end-March have proven to be temporary, measures have been taken to improve the accounting system, and appropriate policies have been implemented to achieve the objectives of the program which was approved by the Executive Board of the International Monetary Fund on April 24, 1985.
4. The Executive Council believes that the policies being pursued and the measures being implemented are such that the targets for 1985 can be met and agrees to take such additional measures as may be needed to this end. In accordance with the guidelines on noncomplying purchases, the Executive Council is seeking a waiver of the non-observance regarding the purchase of SDR 40 million effected on April 29, 1985.

5. Zaire will consult with the Fund in accordance with the Fund's policies and will provide the Fund staff with all relevant information on progress achieved toward meeting the program targets.

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

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

1. The faster-than-expected increase in government expenditure during 1984 was partly offset by increased revenue and the balance financed by the net proceeds from Treasury bill issues. However, as the latter exceeded the threshold set for end-1984 by Z 192 million, the subceiling had to be reduced by the same amount. As a result, net credit to the Government on December 31, 1984 exceeded the adjusted subceiling by Z 189 million, and Zaire was unable to make the last purchase envisaged in the program that expired on March 26, 1985.

2. During the first quarter of 1985, revenue did not increase as rapidly as expected, and net credit of the banking system to the Government overshot by Z 560 million the subceiling established under the program. This excess, which was not apparent in the accounting results available in April, results from a retroactive debit of Z 686 million to net credit to Government by the Bank of Zaire. An adjustment for this amount which had been lodged in a number of suspense accounts attributable to the Treasury was found necessary following an audit of other net domestic assets of the Bank of Zaire during the first half of May; about 19 percent of this amount pertained to the regularization of operations effected in 1983 and 1984. Credit to enterprises and households was Z 543 million below the end-March target, but this room under the ceiling was absorbed by the Bank of Zaire's operating account deficit, which was worsened by exceptionally high financial charges during the first quarter of 1985. For all these reasons, the ceiling on net domestic assets of the banking system was exceeded by Z 1,204 million at March 31, 1985. The other performance criteria set for end-March were met; in each of the first five months of 1985, payments of SDR 14.25 million and US\$4 million were made regularly to the accounts of the Paris Club and London Club creditors.

3. Following the rapid introduction of forceful measures, the credit overruns observed during the first quarter were absorbed during the second quarter. As of June 30, 1985, net credit to Government by the banking system and overall net domestic assets of the banking system were below the corresponding subceiling and ceiling under the original program by Z 909 million and Z 2,553 million, respectively, and all other performance criteria for the same date were also observed.

4. The schedule for reducing external nondebt arrears of the Treasury was met for the first quarter, through payments equivalent to US\$5 million. Nevertheless, a new survey of external nondebt arrears conducted in April yielded an updated arrears figure higher than the earlier estimates. Outstanding arrears, including those of National Defense, now stand at nearly US\$85 million, more than twice the US\$37.40 million estimate for end-December 1984. As a consequence, the program for reducing external nondebt arrears of the Treasury has been significantly speeded

up during the second quarter, and arrears repayments by end-June exceeded the minimum required by SDR 8 million. Accordingly, the repayment of arrears will exceed the original target set in the program for 1985. The program for reducing domestic arrears has temporarily slowed down, since a detailed study of such claims revealed that some of them were unjustified. A domestic arrears committee, established in April 1985 to inventory and assess the validity of all government claims has been examining claims outstanding as of December 31, 1984. After reviewing arrears totaling Z 2.1 billion, the amount of valid claims was determined to be Z 1.4 billion. Some Z 0.8 billion remains to be examined by the committee. As regards the government-public enterprise matrix of cross debts, the process of offsetting the reciprocal claims between the Government and the public enterprises has begun, and a settlement schedule will be drawn up before end-September. Treasury external non-debt arrears are also being closely reviewed by the arrears committee which will establish their validity and a schedule of repayments to foreign creditors. Progress in this field will be examined during the second review.

5. Regarding budgetary revenue, the shortfall in the first quarter essentially reflects the oil revenue slowdown caused by technical difficulties and certain delays in implementing new fiscal measures. In May, the authorities took forceful steps to bring government financing back into balance and to meet the performance criteria for end-June, end-September, and end-December referred to in the memorandum attached to the letter of March 25, 1985 from the President and Founder to the Managing Director of the Fund. Measures have been taken to improve government revenue collection and expenditure control and to reduce the operating deficit of the Bank of Zaire. In addition, a series of new fiscal measures has been put into place.

6. A new method of setting prices for petroleum products was adopted on April 22, 1985, eliminating the cross-subsidization among products and regions. Final selling prices now reflect shipping costs and the differences between the cost of transporting the products over the western, eastern and southern highways. Petroleum product prices will be adjusted periodically to take developments in these provisioning costs into account. In early August 1985, a readjustment of petroleum product prices was effected, and an additional levy of Z 3.2 per liter was imposed on gasoline in the region supplied from Matadi, which is expected to bring in approximately Z 60 million per month. In addition, the tax of Z 900 per cubic meter of petroleum products originally earmarked to PETROZAIRE will be transferred to the Treasury. The levy on gasoline and diesel fuel, earmarked for the highways office, which had been raised from Z 2 to Z 3.4 per liter in January 1985, was further increased to Z 5 in April and is expected to yield some Z 2.3 billion in 1985; of this amount, Z 400 million will be used to finance projects in the investment program within the Z 2 billion target for 1985.

7. The importation and distribution of petroleum products was liberalized on June 1, 1985. The appropriate legal provisions will be promulgated in early September. In the context of this liberalization, the oil companies' payments arrears to PETROZAIRE (net of these companies' claims on the Government, Air Zaire, and the CMZ) will be transferred to the Treasury in six monthly installments. During June and July an amount of Z 405 million was transferred to the Treasury after the settlement of some Z 400 million in arrears. The remaining Z 800 million will be transferred to the Treasury before mid-December. In addition, the management savings achieved by PETROZAIRE and SOZIR will make it possible to pass on to the Treasury a portion of the taxes levied on oil products and earmarked for financing the subsidies received by these two companies. In any event, while SOZIR will continue its offloading and storage operations, it may not resume its refining activities until after the conclusions of the World Bank study have been analyzed and the World Bank participates in the working capital required to import crude.

8. The authorities have sold one Air Zaire DC-10, and the zaire equivalent of US\$25 million was credited to the Treasury in June 1985. The measures needed to rehabilitate Air Zaire and settle its liabilities according to a suitable schedule are being negotiated with a foreign airline, and decisions on Air Zaire's future will be made before the end of December 1985.

9. Forceful measures were taken in May to improve revenue collection, notably through auditing campaigns which have led to substantial adjustments for back taxes in Kinshasa and outside the capital. Related collections amounted to Z 160 million in the first half of the year and are expected to amount to Z 300 million in the second half.

10. The technical assistance being provided by Belgium to the customs administration (OFIDA) has been replaced as of August 7 for a period of three and one-half years by assistance from the EEC, with the contribution in the form of equipment from several EEC-member countries and one nonmember country. However, the implementation of this assistance program has been slower than anticipated. During the second half of 1985 the customs service will focus its efforts on the Matadi-Kinshasa highway, where the largest amount of customs fraud occurs. The customs service will be provided with more equipment, and an incentive scheme is under study.

11. A number of tax measures that had been delayed pending a detailed study by the Executive Council, notably the selective increases in the excises on alcoholic beverages, beer, and tobacco, were implemented at the end of July. As regards administrative revenue, the new collection voucher introduced by the Ministry of Finance will make it possible to track the sources of revenue more accurately and to arrive at quick decisions on possible increases in certain rates.

12. Procedures for controlling fuel, electricity, and telephone expenses have been the subject of discussions with the relevant technical departments (National Defense, Public Works, SNEL, and ONPTZ). As regards water consumption by the Government, REGIDESO has launched a waste control program, and consumption has been cut by half in the program's present area of coverage. Measures have also been taken with respect to fuel, with the implementation of a control system that will make it possible to reduce expenditures significantly. This control system will be expanded to cover the entire administration by the end of the year. Similarly, the control system for personnel has been strengthened--making it possible to reduce payrolls, particularly in the areas of education, health and the armed forces. By end-July, 3,000 fictitious government employees had been cleared from the personnel roster of the administration, and an additional reduction of 2,000 should be possible by the end of the year. These savings may, however, be offset by a strengthening of the security forces on Zaire's borders. Budget allocations other than for expenditure on personnel were cut during the first half of the year, and only a part of these cuts will be restored during the second half. Moreover, the control over the Treasury's subaccounts has improved considerably since prior approval by the Ministry of Finance is now required for all expenditures.

13. The investment program for 1985 which was set at Z 2 billion included 105 projects of which 51 projects involve majority financing from external resources. Priority in project financing expenditure will be given to this latter group with Z 400 million coming from the "Fonds des Routes" and the remainder from the budget, in order to obtain the release of 75 percent of the counterpart funds for these projects by mid-October.

14. Three measures were taken in May 1985 to improve the monitoring of credit to Government by the Bank of Zaire. First, those expenditure items which are easily programmed, such as payments for external debt for which the due dates are known, are automatically debited to the Treasury. Second, other expenditure attributable to the Treasury is posted to a special transitional account of the Bank of Zaire debited daily against the Treasury's provisional net position with the Bank of Zaire. Third, the above-mentioned transitional account is reconciled every week in the presence of the Governor of the Bank of Zaire and the Minister of Finance.

15. As regards the public enterprises, the authorities have pursued their rehabilitation efforts through management improvements, staff reductions, and tariff adjustments. SNEL electricity tariffs will gradually be adjusted to long-run marginal costs. This is expected to lead to an initial increase in early September of 30 percent on average, but some rates will be lowered while others will be raised significantly; those charged on thermally generated power, in particular, will be increased ninefold for medium voltage. ONATRA and SNCZ tariffs have been revised in May 1985 to reflect production costs, especially the price of fuel.

16. The fiscal measures described above will help contain the pressure on the external balance exerted by the decline in the world market prices of a number of Zaire's export products. These measures will be supported by the monetary policy of the Bank of Zaire, with a limit on the credit expansion to the private sector of about 20 percent during the second half of the year. Credit ceilings will remain as specified in the memorandum attached to my letter dated March 25, 1985 for the remainder of the year, but the share of crop credits may be raised within these ceilings. The interest rates applicable to rediscount facilities of the Bank of Zaire, Treasury bills, and crop credits, which were raised by two points in late May 1985, will be increased by another two points in early September 1985. To increase bank use of their external lines of credit and ease the pressure on the exchange market, the Bank of Zaire has eliminated the 50 percent reserve requirement on uncovered documentary credits on June 25, 1985, and simultaneously raised the mandatory reserve ratio in order to absorb commercial banks' excess liquidity and prevent too rapid an increase in their net exchange position. The reserve ratio will be further increased in early September.

17. The zaire depreciated rapidly during the first seven months of 1985 with rates of depreciation of the nominal and real effective exchange rates of 27 percent and 12 percent, respectively, despite the banks' imposition of a high mandatory deposit requirement for opening documentary credits. In spite of a sustained demand for foreign exchange by their customers, the banks increased their net exchange position and thus contributed to increased pressures on the interbank market, which remains fragile. The Bank of Zaire will ensure the proper functioning of the interbank market by allowing changes in the exchange rate to balance out demand and supply, so as to preserve the convertibility of the zaire. A greater exchange rate flexibility will make it possible to reduce the gap between the official and parallel market rates and encourage the proceeds from exports of gold and diamonds to flow through official channels. In addition, the gold export tax was abolished and other measures (such as the possibility of exporting gold directly from the producing regions) will be taken to promote exports through official channels.

18. In a meeting held on May 23-24 agreement in principle was reached with the Paris Club regarding rescheduling or refinancing of debt service falling due in the 15-month period ending end-March 1986. Agreement in principle was also reached with London Club creditors. The payments made by Zaire in June and July were based on the new agreed-upon payment schedules. In addition, the authorities continue to negotiate with other creditors, including those benefiting from the special payments mechanisms, with a view to obtaining comparable treatment. The results of all these negotiations should make it possible to cover the balance of payments deficit.

19. A number of delayed payments existed at the end of June 1985 with respect to external debt service owed mostly to suppliers and banks outside the London Club. Part of these late payments were effected in July, and the rest will be effected soon. Such delays will be avoided in the future.

20. Within the established ceilings, the Executive Council will borrow abroad at more than one year solely to finance productive investments. Thus, borrowing on commercial terms will be used basically to supplement the financing obtained through multilateral and bilateral aid. Since external loans contracted by the Executive Council at less than one year would be a substitute for credit granted by the domestic banking system to the Government, both the overall ceiling on net domestic assets and the subceiling on net credit of the domestic banking system to the Government would automatically be reduced by the zaire equivalent of any net disbursements from such loans.

Zaire - Relations with the Fund

(As of July 31, 1985)

I. Membership Status

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

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: SDR 291 million
- (b) Total Fund holdings of Zaire's currency: SDR 902.1 million, 310 percent of quota
- (c) Fund credit: SDR 611.1 million, 210 percent of quota
Of which: credit tranches: SDR 403.1 million, 139 percent of quota
special facilities: SDR 208.0 million, 71 percent of quota

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

- (a) Current stand-by arrangement:
 - (i) Duration: April 1985-April 1986
 - (ii) Amount: SDR 162 million
 - (iii) Utilization: SDR 40 million upon approval April 24, 1985
 - (iv) Undrawn balance: SDR 122 million
- (b) Previous stand-by and extended arrangements:
 - (i) SBA; December 27, 1983-March 26, 1985; SDR 228 million; Amount drawn: SDR 198 million
 - (ii) EFF; June 22, 1981-June 21, 1984; SDR 912 million; Amount drawn: SDR 175 million; canceled June 21, 1982
 - (iii) SBA; August 27, 1979-February 26, 1981; SDR 118 million; Amount drawn: SDR 118 million
 - (iv) SBA; April 25, 1977-April 24, 1978; SDR 45 million; Amount drawn: SDR 5 million
 - (v) SBA; March 22, 1976-March 21, 1977; SDR 40.96 million; Amount drawn: SDR 40.96 million
- (c) Special facilities:
 - (i) CFF; December 16, 1983; SDR 114.5 million
 - (ii) CFF; March 19, 1982; SDR 106.9 million
 - (iii) CFF; April 25, 1977; SDR 28.25 million
 - (iv) CFF; March 22, 1976; SDR 56.5 million

Zaire - Relations with the Fund (continued)

IV. SDR Department

- (a) Net cumulative allocation: SDR 86.3 million
- (b) Holdings: SDR 0.74 million, equivalent to 0.85 percent of net cumulative allocation

V. Administered Accounts

Trust Fund loans

- (i) Disbursed: SDR 110.43 million
- (ii) Outstanding: SDR 83.55 million

B. Nonfinancial Relations

VI. Exchange Rate Arrangement: The zaire was pegged to the SDR until September 9, 1983, when the rate was Z 1 = SDR 0.15750. Effective September 12, 1983 a dual floating exchange rate system was introduced, and the first weekly official rate was set at the equivalent of Z 1 = SDR 0.03542. As of February 24, 1984, the official rate was unified with the free market rate at Z 1 = SDR 0.02869. On August 19, 1985 the exchange rate was Z 1 = SDR 0.0188.

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

I. 1984 Consultation

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

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

Zaire - Relations with the Fund (concluded)

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

II. Stand-By Arrangement

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

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

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

VIII. Technical Assistance:

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

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

Zaire: Relations with the World Bank Group

(In millions of U.S. dollars)

Amounts outstanding as of February 28, 1985	Disbursed	Undisbursed	Total commitments
<u>Completed projects</u>	<u>358.44</u>		<u>358.44</u>
IBRD	191.58	--	191.58
IDA	166.86	--	166.86
<u>Projects in execution (IDA)</u>	<u>178.47</u>	<u>235.63</u>	<u>414.10</u>
Transportation	80.51	85.99	166.50
Agriculture and rural development	42.81	48.39	91.20
Industry and DFC	25.90	50.10	76.00
Power and utilities	22.44	29.56	52.00
Technical assistance	6.81	21.59	28.40
<u>Total</u>	<u>536.91</u>	<u>235.63</u>	<u>772.54</u>
Of which: IBRD	(191.58)	(--)	(191.58)
IDA	(345.33)	(235.63)	(580.96)
<u>Repayments</u>			
Total			<u>137.80</u>
Of which: IBRD			(135.45) ^{1/}
IDA			(2.35)
<u>Debt outstanding</u>			<u>634.74</u>
Of which: IBRD			(56.13)
IDA			(578.61)
<u>IFC net holdings ^{2/}</u>			<u>1.94</u>

Source: World Bank.

^{1/} January 31, 1985 figure.

^{2/} Does not include increases for operations scheduled for approval by the IFC's Board in the latter part of fiscal year 1985, amounting to new commitments of US\$21.25 million in loans, and US\$628,000 in equity participation.

Table I. Zaire: Exports, 1984 and 1985

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

	1984	1985		
		Original program	Revised program	Difference
Copper				
Value	659	655	688	33
GECAMINES	(618)	(608)	(639)	(31)
SODIMIZA	(41)	(47)	(49)	(2)
Volume ('000 tons)	490.4	487.3	495.3	8.0
GECAMINES	(460.0)	(452.3)	(460.3)	(8.0)
SODIMIZA	(30.4)	(35.0)	(35.0)	(--)
Unit price (US\$/lb)	62.5	61.0	63.0	2.0
Cobalt				
Value	215	230	291	61
Volume ('000 tons)	10.0	11.2	11.5	0.3
Unit price (US\$/lb)	10.0	9.3	11.5	2.2
Zinc				
Value	58	53	63	10
Volume ('000 tons)	67.8	63.5	70.6	7.1
Unit price (US\$/lb)	40.0	38.0	41.0	3.0
Silver				
Value	8	18	18	--
Volume ('000 kgs)	32.9	50.8	50.8	--
Unit price (US\$/t.oz)	8.0	10.9	10.9	--
Gold				
Value	38	44	11	-33
Volume ('000 kgs)	3.3	4.2	1.0	-3.2
Unit price (US\$/t.oz)	372.0	330.0	330.0	--
Diamonds				
Value	215	239	194	-45
Volume ('000 carats)	18.85	19.47	17.00	-2.47
Unit price (US\$/k)	11.7	12.3	11.4	-0.9
Coffee				
Value	207	234	190	-44
Volume ('000 tons)	79.6	85.0	69.4	-15.6
Unit price (US\$/lb)	1.21	1.25	1.24	-0.1
Rubber				
Value	15	15	14	-1
Volume ('000 tons)	15.25	15.25	15.25	--
Unit price (US\$/lb)	0.46	0.46	0.42	-0.4
Crude oil				
Value	315	413	310	-103
Volume (million bbl)	11.8	14.8	12.2	-2.6
Unit price (US\$/bbl)	27.4	27.9	25.5	-2.4
Other exports (value)	111	153	124	-29
Marketing and finance costs of GECAMINES	-108	-83	-90	-7
Total exports <u>1/</u>	1,733	1,971	1,813	-158

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

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

Table II. Zaire: 1985 Debt Rescheduling 1/

(In millions of U.S. dollars)

Creditors	<u>Scheduled debt service</u>			<u>Rescheduled amounts</u>			<u>Debt service effected</u>		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Paris Club	270.5	227.0	497.5	232.4	89.3	321.7	38.1	137.8	175.8
London Club	60.8	42.1	102.9	60.8	--	60.8	--	42.1	42.1 <u>2/</u>
Multilaterals <u>3/</u>	47.7	18.4	66.1	--	--	--	47.7	18.4	66.1
SNEL special payment mechanism	23.2	12.8	36.0	21.6	11.7	33.3	1.6	1.1	2.7
BNL <u>4/</u>	18.2	4.0	22.2	17.3	3.8	21.1	0.9	0.2	1.1
MHT <u>5/</u>	5.0	8.8	13.8	4.3	7.9	12.2	0.7	0.9	1.6
Other creditors	41.0	13.4	54.4	24.6	8.0	32.6	16.4	5.4	21.8
All creditors	443.2	313.7	756.9	339.4	109.0	448.4	103.8	204.8	308.6
<u>Memorandum items:</u>									
Moratorium interest on Paris Club rescheduling								16.3	
Debt service effec- ted including mor- atorium interest							103.8	221.1	324.9

Source: OGEDEP.

1/ Refers to debt service and debt relief for calendar year 1985.2/ Total payments to London Club are estimated at US\$55.6 million, including the repayment of US\$13.5 million of interest arrears.3/ Includes IMF Trust Fund and Trust GECAMINES.4/ Payments effected through GECAMINES' account with Banca Nazionale del Lavoro.5/ Payments effected through GECAMINES' account with Manufacturers Hanover Trust.

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

	1981	1982	1983		1984		1985	
			Program	Actual	Original program	Revised projections	Original program	Revised 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	3.0
GDP deflator	35.2	34.4	68.0	83.0	47.0	81.4	25.0	30.0
Consumer prices (year-to-year average)	35.4	37.2	68.0	76.0	47.0	52.1 ^{1/}	20.0	25.0
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	4.7
Copper exports, f.o.b.	-20.1	14.0	2.5	4.4	7.5	-10.5	0.2	4.4
Imports, c.i.f.	0.4	-6.2	1.8	2.1	6.3	7.3	9.9	4.7
Non-oil imports, f.o.b.	-9.0	-3.4	2.7	3.7	5.6	11.3	7.7	2.7
Export volume	-14.4	13.3	2.7	7.9	4.5	4.6	9.2	-0.6
Import volume (including oil)	-5.7	-7.8	-0.3	0.5	1.6	5.0	9.0	4.6
Terms of trade (deterioration -)	-7.5	-8.9	-0.5	-1.2	1.7	4.6	-0.9	1.4
Nominal effective exchange rate (depreciation -) ^{2/}	-34.5	10.1	...	-75.9	...	-13.9	...	...
Real effective exchange rate (depreciation -) ^{2/}	-13.4	37.5	...	-58.1	...	-11.0	...	...
Government budget								
Total revenue	30.0	28.8	76.8	75.7	84.4	136.4	52.6	50.0
Total expenditure (excluding amortization)	68.8	44.6	33.9	34.0	66.5	124.8	38.6	36.2
Money and credit								
Net domestic assets (end of period)	54.4	77.3	51.9	34.4	34.6	37.1	30.6	30.6
Government	62.4	86.5	34.0	30.0	27.5	31.2	16.0	16.0
Enterprises and households	32.3	46.9	65.9	49.2	58.1	55.9	62.0	62.0
Money and quasi-money (end of period)	37.9	72.6	50.5	73.8	35.1	34.2	24.3	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/}	-3.6	-6.0	-1.1	-2.1	0.2	-0.7	0.9	0.9
Domestic bank financing (net)	3.6	6.9	2.6	2.4	2.5	2.0	1.0	1.0
Foreign financing (net)	--	-0.9	-1.5	-0.4	-2.7	-1.4	-2.0	-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	-4.2
After rescheduling								
Including official transfers	-3.1	-4.3	-1.7	-2.7	-2.4	-3.3	...	-1.8
External medium- and long-term debt inclusive of use of Fund credit	54.8	53.9	...	48.5 ^{4/}	...	90.5	...	116.7
Debt service ratio (in percent of exports of goods and services) ^{5/}	24.9	17.9	18.4	18.4	28.1	25.8	...	26.8
(In millions of SDRs, unless otherwise specified)								
External current account deficit (-)								
Before rescheduling	-360	-392	-240	-300	-230	-227	-155	-188
After rescheduling	-239	-353	-122	-190	-116	-160	...	-81
Overall balance of payments deficit (-)								
Before rescheduling	-612	-598	-452	-433	-400	-461	-422	-451
After rescheduling	-327	-480	-86	-97	-16	-74	...	-5
Gross official reserves ^{6/} (weeks of imports, c.i.f.)	6	2	2	5	5	6	6	6
External payments arrears, end of period	530	848	...	372	...	...	...	...
Of which: commercial and invisible	(383)	(207)	(197)	(183)	(143)	(143)	(103)	(103)

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

- 1/ From January through December 1984, consumer prices increased by 20 percent.
 2/ December to December changes.
 3/ Excluding foreign-financed expenditure.
 4/ Including rescheduled and capitalized moratorium interest under the December 1983 Paris Club rescheduling.
 5/ Based on actual payments; includes reduction of commercial arrears by cash payments and Fund charges and repurchases. After taking into account the effects of the December 1983 and May 1985 Paris Club reschedulings.
 6/ Excluding gold, most of which is pledged.