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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 86/99

10:00 a.m., June 20, 1986

J. de Larosière, Chairman
R. D. Erb, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	Mawakani Samba
C. H. Dallara	M. Lundsager, Temporary
	H. G. Schneider
M. Finaish	T. Alhaimus
H. Fujino	M. Sugita
	B. Goos
	A. Bertuch-Samuels, Temporary
	Jiang H.
	Jaafar A.
	H. A. Arias
T. P. Lankester	M. Foot
	H. Fugmann
M. Massé	L. Leonard
E. I. M. Mtei	A. Abdallah
F. L. Nebbia	
	J. E. Suraisry
	G. Ortiz
H. Ploix	S. de Forges
J. J. Polak	J. de Beaufort Wijnholds
	A. V. Romuáldez
G. Salehkhou	O. Kabbaj
A. K. Sengupta	
S. Zecchini	N. Kyriazidis

L. Van Houtven, Secretary
A. Akanda, Assistant

Also Present

IBRD: L. E. Hinkle, Western Africa Regional Office. African Department: A. D. Ouattara, Director; E. L. Bornemann, J. P. Briffaux, E. A. Calamitsis, J. A. Clement, K. Enders, M. G. Fiator, T. P. McLoughlin, S. M. Nsouli. Exchange and Trade Relations Department: S. J. Anjaria. Legal Department: H. Elizalde. Personal Assistant to the Managing Director: R. M. G. Brown. Advisors to Executive Directors: L. P. Ebrill, M. B. Chatah, S. Ganjarerndee, G. D. Hodgson, J. Hospedales, H.-S. Lee, K. Murakami, A. Ouanes, M. Z. M. Qureshi, N. Toé, A. Vasudevan. Assistants to Executive Directors: H. Alaoui-Abdallaoui, O. S.-M. Bethel, B. Bogdanovic, J. de la Herrán, J. J. Dreizzen, W. N. Engert, R. Fox, V. Govindarajan, G. K. Hodges, L. Hubloue, O. Isleifsson, J. M. Jones, S. King, T. Morita, R. Msadek, J. Reddy, J. E. Rodríguez, V. Rousset, C. A. Salinas, S. Simonsen, B. Tamami, H. van der Burg, E. L. Walker, B. D. White.

1. NIGER - 1986 ARTICLE IV CONSULTATION AND REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1986 Article IV consultation with Niger and the midterm review under the 12-month stand-by arrangement approved on November 18, 1985 (EBS/86/109, 5/16/86). They also had before them a staff report on recent economic developments in Niger (SM/86/119, 6/2/86).

The staff representative from the African Department said that the Nigerien authorities had confirmed that the end-March 1986 performance criteria had been observed.

Mr. Alfidja made the following statement:

> As indicated in the staff report, the 1986 Article IV consultation provided an opportunity to the Nigerien authorities and the Fund staff to undertake a midterm review of the economic and financial program being implemented by Niger. On the basis of the conclusions drawn from this review, satisfactory progress continues to be made in several areas and all the performance criteria set under the supporting stand-by arrangement were observed.
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> Economic and financial developments in 1985
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> Following the several years of decrease in total output that ended in 1984, real GDP was estimated to have expanded by 7 percent in 1985. The principal contributory factor to this long-awaited upturn was the recovery of the production of food crops, notably millet and sorghum. Indeed, thanks to the clement weather that prevailed during the normal life cycle of these crops, their total output rose by more than 70 percent in 1985/86, in sharp contrast with the nearly 40 percent decrease recorded in the preceding year due to the drought. In the mining sector, uranium production decreased owing to sluggish demand. Contrary to the 1984 outturn and expectations under the program, overall consumer prices fell in 1985, reflecting the considerable improvement in food supplies and the very restrictive financial policies pursued by the Government.
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> The fiscal situation was characterized in 1984/85 by a decrease, on a cash basis, of the budget deficit by nearly 2 percentage points in conformity with the program projections. Determined efforts to meet revenue objectives, under such adverse circumstances as the closure of the Nigerian border and weak uranium sales, and attempts to restrain expenditure growth were instrumental in containing the budget deficit. On the revenue side, several measures were taken to speed up collections and to recover back taxes. Additional receipts were obtained by raising taxes on petroleum products. Only the most essential

expenditures were undertaken. Besides higher interest obligations, the increase in expenditure on goods and other services in 1984/85 was prompted by the need to avoid impairing seriously the normal functioning of the public administration.

Credit expansion in 1985 evolved below expectation as demand for bank financing emanating from the private sector receded. The moderate recourse to bank credit by the private sector, especially during the second half of 1985, reflected essentially the more comfortable cash flow position of some major enterprises and the impact of the restrictive monetary policies implemented. Credit to the Government was limited because deposits made by treasury correspondents were large enough to accommodate the immediate needs of the Government.

In the external sector, the 1985 deficit of the current account, though substantially higher than the amount recorded in 1984, was nevertheless lower than the program projection. A noticeable drop in export earnings was registered on account of lower export prices, weak demand for uranium, and reduced livestock for export. On the whole, the positive effects associated with the fall in imports and higher grant inflows outweighed the negative impact of the lower exports, which explained the lower level of deficits in the current and overall balance of payments recorded in 1985 relative to the program targets. The tight financial policies put into effect also contributed to the generally more satisfactory results achieved in relation to earlier expectations.

Prospects and policies for 1986

Following the recovery from the deep recession recorded in 1984, real GDP is projected to increase by 4 percent in 1986. The livestock population which was decimated by several years of drought is recovering slowly. No impetus is expected from the mining sector because the slump in demand for uranium is likely to persist. It is hoped that the recent opening of the Nigerian borders will stimulate production and trade between the two countries. The increased emphasis on implementing directly productive projects in the context of the public investment program together with the restructuring of the public enterprise sector and enhanced pricing and marketing incentives accorded to the private sector are expected to boost economic activity in several sectors.

The financial situation of the Central Government in 1985/86 is now forecast to be characterized by a small shortfall in tax revenue attributable to lower export duties on uranium and indirect taxes. To compensate for the decrease in revenue, the authorities decided to transfer to the Treasury part of the windfall profit arising from the recent fall in oil prices. As indicated by the staff, wide-ranging measures have been enacted in Niger during the past three years, including the introduction of the value-added tax, an increase in tax rates applicable to several dutiable commodities and government services. In the light of this, the authorities do not intend to introduce additional tax measures, but instead will concentrate on improving the tax administration, in particular tax collection. Expenditure developments are expected to conform to earlier projections. To this end, the austere policies in force over the past several years are being continued. Over time, the recently enacted policy of replacing free government accommodation with housing allowances will result in some savings to the Government.

In the monetary sector, the authorities intend to continue to implement credit policies that, while consistent with the general stance of financial restraint and discipline, will nevertheless provide sufficient resources to the productive sectors of the economy.

Regarding the external sector, in comparison with the original projections made in August 1985, export earnings have been revised downward to reflect an anticipated decrease in uranium sales. This shortfall is forecast to be only partly compensated by the lower outflows on account of import and service payments. Consequently, the external current account deficit is now forecast to widen moderately. However, taking into consideration the beneficial impact of the depreciation of the U.S. dollar on the amortization of the external debt, the balance of the capital account will strengthen, leading to better prospects for the overall position of the external accounts. The authorities are of the view that the various measures designed to stimulate private sector initiative and directly productive investment together with the opening of the Nigerian border will over time help to strengthen the balance of payments position.

Mr. Suraisry said that he welcomed the progress made under the stand-by arrangement in redressing Niger's internal and external imbalances. He commended the authorities for implementing all the measures envisaged under the program and for observing all the performance criteria for end-March, 1986. The authorities had clearly demonstrated their strong commitment to the smooth and timely implementation of the needed measures.

Despite the substantial overall progress made since 1983 and the high rate of growth attained in 1985, Mr. Suraisry continued, Niger's medium-term growth prospects, like those of many other sub-Saharan African countries, remained severely limited by a number of major structural problems. Niger had a meager resource base, rapid population growth, and a very low savings ratio. While the high rate of population growth had resulted in the overexploitation of the soil and associated desertification, the low savings ratio had severely constrained domestic investments. In fact, the investment ratio had remained very low, despite the increases in the country's external debt and the large inflow of foreign assistance. That situation was clearly a cause for concern because it would have significant adverse effects on future growth prospects and might compromise the attainment of sustainable growth with a viable external position. For example, under the five scenarios presented in the staff report, the ratio of investment to GDP was not expected to increase beyond 14 percent by 1990. During the same period, GDP growth was expected to average less than 2 percent per year while the population growth rate was projected at nearly 3 percent, implying a substantial erosion in per capita income. The projected GDP growth rates were the same in all scenarios, despite significant differences in the assumed investment profile. The staff should comment on the lack of the sensitivity of economic growth to changes in the investment ratio.

A lasting solution to Niger's economic problems must involve a strengthening of the country's resource base, an increase in the efficiency of the use of existing resources, and the creation of an appropriate environment for private sector growth, Mr. Suraisry said. In that context, Niger was a classic case in which the active involvement of the World Bank was not only desirable but also necessary to the success of the country's Fund programs. Therefore, the recent approval by the World Bank of a structural adjustment credit was welcome. The policies associated with that credit would both benefit from and enhance the effectiveness of the present stand-by arrangement. In that connection, the emphasis on the agricultural sector was appropriate and timely, and was consistent with the recent Priority Program adopted by the Organization of African Unity. Further, the structural adjustment credit and the Fund stand-by arrangement could usefully be followed by assistance under the structural adjustment facility (SAF). The staff should comment on the the possibility of a drawing under that facility in 1986.

Niger's relatively high debt-service ratio was a cause for concern, Mr. Suraisry continued. The high level of indebtedness had not only drained much needed resources, but had also constrained the country's future borrowing capacity. In that context, the emphasis that the authorities were now placing on grant-financed investments was welcome. However, given the scarcity of resources, both domestic and external, and the country's financing needs, it was essential that such resources be utilized in the most efficient and productive way. The authorities' firm commitment to redress the imbalances in the economy and to strengthen the economic base was commendable and deserved the support of the international community.

Mrs. Ploix said that the progress achieved in 1985/86 in the adjustment of their Nigerien economy was commendable. The progress had resulted from the Nigerien authorities' determination to introduce on schedule the measures agreed under the stand-by arrangement approved in late November 1985. All the measures advocated had been rigorously implemented, and all the performance criteria for end-March 1986 had been observed.

The prospects for 1986 were good, despite the disappointing stagnation of the price of uranium, which had been expected to rise by 5 percent under the program's assumptions, Mrs. Ploix continued. Fortunately, Niger would benefit from some favorable developments which would offset the effect of the sluggishness of uranium receipts on the balance of payments: a good agricultural harvest, the reopening of Niger's borders with Nigeria, the drop in oil prices, and the depreciation of the U.S. dollar vis-à-vis the CFA franc. Pointing out that uranium accounted for 77 percent of Niger's exports, she welcomed the determination of the authorities to pursue a tight financial policy, which was fully warranted by the vulnerability of Niger to factors beyond the authorities' control.

Commenting on medium-term issues and prospects, Mrs. Ploix noted that the adjustment of the economy had progressed well, and increasing emphasis had been put on structural policies that would create conditions for the development of the productive sector over the medium term. With the help of close collaboration between the Fund and the World Bank, far-reaching changes had already been achieved in several areas. The most important measures had been to liberalize prices and marketing, restructure public enterprises, streamline the public investment program and reorient it toward productive sectors, consolidate the budget and improve its monitoring, identify and eliminate cross-debts, and direct a larger share of domestic credit toward the private sector. Those policies would considerably reduce the distortions and regulations that had greatly hampered the initiatives of the private productive sector thus far. The authorities should continue those policies in the sectors that were most likely to take advantage of them, namely, the agricultural and small-scale industrial sectors.

The close and constructive collaboration between the Fund and the World Bank in Niger was welcome, Mrs. Ploix continued. The positive results of the collaboration could be found in the design of coordinated and consistent adjustment policies, including structural policies, and through the financial support of the two institutions. The collaboration had also produced a welcome set of common medium-term alternative scenarios; they made it clear that Niger could attain a viable balance of payments and growth rate consistent with the stabilization of per capita income by 1990. Niger would be an ideal candidate for assistance under the structural adjustment facility.

Mr. Romuáldez congratulated the authorities for their achievements to date and their readiness to adjust to changing circumstances. They should maintain their strong commitment to adjustment. He took particular note of the rigor of their public enterprise program. Although Niger's medium-term prospects had significantly improved, the authorities had not relaxed their adjustment efforts. Indeed, the improvements had encouraged the authorities to remain cautious and maintain their stance of adjustment. Recognizing the country's limited natural resource base, the authorities had sought to increase the efficiency of the economy and had formulated a medium-term framework for structural adjustment under the World Bank's auspices.

Much remained to be done, particularly in strengthening the structure of the economy, Mr. Romuâldez continued. Efforts should be maintained to consolidate whatever gains were made in the current year as well as in the future. His authorities had particularly appreciated the full complementarity of the Fund and World Bank's assistance packages, and encouraged international support for Niger, including assistance under the structural adjustment facility.

Mr. Bertuch-Samuels commended the authorities for their rigorous adherence to the adjustment program, as well their commitment to persevere with their efforts now that the external environment was showing signs of improvement and the economy was recovering from the recession. The steady progress being made in liberalizing prices and marketing policies and in carrying out the structural reform of the public enterprise sector was particularly encouraging. He welcomed the objective of further reducing the fiscal deficit, to 3.8 percent of GDP in FY 1985/86, and the concomitant smaller recourse to domestic bank credit by the Government, which should make an important contribution to increasing the role of the private sector in Niger's economy. The planned course of monetary policy and the authorities' intention to continue their prudent external borrowing policies were appropriate.

Although further success of the stabilization program seemed likely, Mr. Bertuch-Samuels said, the medium-term outlook was bleak. Although it was encouraging to learn from the revised projections that Niger could attain balance of payments viability by 1990, provided that it continued its adjustment efforts, there were some important caveats. First, the scenarios were rather sensitive to external factors, particularly to the development of uranium prices. In his view, external viability would not be achieved by 1990, even under the somewhat unrealistic assumption that petroleum prices would not rise over the next three years, unless there would be at least a moderate improvement in the price of uranium.

Second, even under the most optimistic scenario, which incorporated the structural adjustment program to be undertaken with World Bank assistance, growth prospects would remain disappointing for as long as ten years, Mr. Bertuch-Samuels continued. The staff report indicated that per capita income in 1991-95 could stabilize or fall. The authorities understandably felt that a more vigorous policy to stimulate growth would be needed to achieve acceptable living standards. However, it was clear that that goal could not be attained by merely stimulating demand.

He agreed with the basic policy emphasis to promote structural change and private sector activity through a comprehensive liberalization effort while pursuing sound financial policies and improving investment programs, Mr. Bertuch-Samuels stated. However, Niger's meager resource base, the degradation of its soils, the rapid population growth, and the extremely low education enrollment ratios did not bode well for a return to more buoyant economic growth. He wondered whether there were any plans to deal with those problems, particularly by improving the human capital base and identifying sectors with adequate growth potential.

Issues such as population trends, education, and geographic and climatic constraints needed to be adequately addressed in a comprehensive framework, particularly when they were considered in a time horizon as long as ten years.

The rising share of the Fund's financial exposure in the overall indebtedness of Niger was worrying, Mr. Bertuch-Samuels said. Niger's external debt position was expected to remain difficult, and the authorities' policy of not contracting any new nonconcessional loans with a maturity of up to 12 years, therefore, was appropriate. The same caution, however, should also be applied to the use of the relatively expensive regular Fund resources. While the Fund definitely needed to play an important role in Niger's future adjustment efforts, the Fund's regular resources should be replaced to the extent possible by the concessional resources of the structural adjustment facility. That would avoid adding to Niger's already heavy debt-service burden.

Ms. Lundsager noted that a combination of several favorable exogenous developments and the continued adjustment effort had resulted in a resumption of real economic growth and a better than expected outcome in Niger's external accounts. Although policy performance under the program had remained on track, the medium-term outlook was fragile, given the continued dependence on uranium exports. Thus, the structural adjustment effort was crucial if suitable domestic and foreign financing for the years ahead was to be secured.

At EBM/85/167 (11/18/85), when the program had been approved, there had been a broad discussion on many policy and financing issues, a few of which she would like to mention again in an effort to assess the course of the medium-term policy effort, Ms. Lundsager continued. In the context of the general liberalization effort, it was clear that the Nigerien authorities had taken significant steps to deregulate the productive sector, particularly agriculture. Price controls had been removed, save on a few sensitive products. Monopolies and monopsonies had been disbanded, increasing the role of competitive forces. The staff had mentioned that the effort to improve the medium-term outlook would require a further liberalization of pricing and marketing policies, and she wondered what specific measures would be needed.

Progress was clearly being made in the reform of the public enterprises, in which the World Bank was also involved, Ms. Lundsager said. Efforts were being made to privatize entities that did not produce public goods, thus permitting an increased role for the private sector. It appeared from the staff report that the recent extension of credit to the private sector had been somewhat modest, although the demand for credit had reportedly decreased in several areas of the private sector. She requested clarification on how the credit structure for the private sector was being developed and whether it could maintain adequate financing.

Fiscal policy, Ms. Lundsager noted, had in general been restrained over the past three years. Wages had been frozen, and new recruitment into the civil service had been limited, permitting restraint on current expenditures. The staff should assess the relative attractiveness of the public versus private sector for new labor market entrants, which was related to the need to stimulate activity in the directly productive sectors and to the need to transfer domestic resources between sectors. Difficult as it might be, further consolidation of the fiscal effort, particularly on the expenditure side, would require the strengthening of the productive sector. Such efforts could assist the authorities in mobilizing the concessional assistance that could permit the higher investment levels underlying World Bank projections shown in one of the scenarios on the medium-term outlook.

Given the need to promote efficient investment and to stimulate production, Ms. Lundsager said, a staff comment on the role of the domestic tax system in mobilizing savings would be helpful. At the previous Executive Board discussion on Niger it had been noted that the effects of earlier tax reforms would be felt over the next several years. The current tax effort would be centered on improving tax administration, and would not necessarily include new measures. Any additional suggestions on ways in which to strengthen the medium-term growth prospects and payments position would be helpful.

While joining other speakers in supporting the proposed decisions, and taking into account that the Nigerien authorities had implemented their adjustment programs with consistency, Ms. Lundsager said that it was discouraging that there would not be much growth over the medium term, and would not be seen until sometime during the next decade. Nonetheless, it was important to maintain the effort to achieve growth and adjustment.

Mr. Leonard said that he broadly agreed with the staff's assessment of the economic and financial developments in Niger. He welcomed Niger's effective implementation of all the measures envisaged under successive stand-by arrangements and its observance of the performance criteria for end-March 1986. The understanding reached between the Fund and the authorities on policies and measures for 1986 and on performance clauses for end-June and end-September 1986 were appropriate.

During the previous discussion on Niger his chair had shown particular interest in the complementary features of firm demand management, structural reform, and supply-side action that would have to be pursued if the modest degree of progress envisaged for Niger over the remainder of the decade were to materalize, Mr. Leonard recalled. Regarding the management of demand under the the stand-by arrangement, all indications were that the authorities were determined to keep aggregate demand in line with available resources. The financial policy stance remained tight, with the consolidated budget deficit being held to 3.8 percent of GDP, with a cut in budgetary expenditure in real terms, and with the implementation of several tax measures to offset falling receipts and to augment revenues. The authorities should be congratulated for having taken advantage of the fall in oil prices to enhance revenues, and for ensuring that savings as a result of falling interest rates would improve the fiscal position and not be dissipated through a loosening of expenditure restraint.

He had been puzzled by a reference in the staff report to the reduction of expenditure on scholarships, Mr. Leonard said. That appeared odd, given the need to develop human resources in Niger. Although scholarships could be a form of patronage and their use could be abused, he inquired why expenditure on scholarships in Niger had been reduced.

It was disappointing to note that despite the current revenue measures and the windfall gains from falling oil prices, government revenues were projected to rise by only 6.5 percent at a time when nominal GDP was expected to rise by 11 percent, Mr. Leonard commented. That trend--which his chair had noted in November 1985--underscored the inelasticity of the tax system, the yield from which amounted to about 11 percent of GDP in 1980/81 and only 9 percent in 1984/1985. There seemed to be a growing need for a further detailed look at the system to identify means of making it more responsive to the changing structure of the economy and its development needs.

On the monetary side, limiting net claims on the Government and providing more generous credit to the private sector, in the context of a cautious overall policy, usefully complemented the fiscal stance and was in line with the expressed thrust of economic management, Mr. Leonard said.

In effecting structural change and enhancing the supply-side response of the economy, a great deal depended on the composition and implementation of the 1985/86-1987/88 investment program, Mr. Leonard continued. As was noted somewhat unclearly in the staff report, the program was appropriate to Niger's present needs and medium-term prospects as perceived by the World Bank. Mr. Leonard considered that judgment to be correct in relation to the provision made for the directly productive sectors over the period of the program but he had reservations about the increase in resources going to the social sectors and the fall in the share of resources allocated to infrastructural projects. The problem might be only one of classification, since the improvements in water supply were classified as social investments but could be regarded as infrastructural investment. Given Niger's situation, infrastructural investment was as often as not a necessary complement to directly productive investment, and might also be a precondition for the greater private enterprise needed for the future growth of the economy. Accordingly, the lesser relative importance that was apparently attached to investment in infrastructure was puzzling.

The prospects for the economy as indicated by the medium-term scenarios were a source of concern, Mr. Leonard remarked. Even on the basis of the scenario that took account of the structural adjustment program supported by the World Bank, the growth rate would be less than 2 percent by 1990, as against a population growth of 2.8 percent a year and current per capita GDP of SDR 250. Furthermore, balance of payments viability would not be reached until about 1990 and, in the meantime, debt service would claim a large part of export proceeds. The outlook underlined the need for a continued commitment by the authorities to rigorous demand management over the remainder of the decade and the need to encourage the expansion of private sector activities in the modern sector of the economy from their current narrow base if the thrust of the present development strategy was to prove justified. Finally, the need for maximum concessional aid was obvious and required continued generous response from the international community.

Mr. Sengupta stated that he fully supported the proposed decisions. Niger had vigorously implemented all the measures envisaged under the stand-by arrangement, and the performance criteria for end-December 1985 and end-March 1986 had been observed. Although favorable weather conditions, the reopening of the border with Nigeria, the drop in petroleum prices, and depreciation of the dollar had had a beneficial impact, the results achieved had been to a large extent a consequence of Niger's impressive adjustment efforts, such as the liberalization of pricing and marketing policies, including a virtual abolition of all import monopolies and quasi-monopolies, and the comprehensive public sector reform program to improve the sector's financial position and operational efficiency. In addition, a three-year rolling public investment program had been formulated with emphasis on projects that were directly productive.

The authorities had also maintained appropriate financial policies to ensure that aggregate demand remained in line with available resources, Mr. Sengupta observed. To that end, stringent expenditure measures had been introduced including a ban on new recruitment and a denial of any cost of living adjustment to government employees. Investment growth had been contained, and measures had been implemented to increase revenues. The reduced recourse to net bank financing in the current year had helped to make room for the provision of adequate credit to the private sector despite the austere monetary policy.

Although he had no doubt that those policies would help Niger to achieve the program objectives, he was worried about the medium-term outlook, Mr. Sengupta remarked. While growth could be even lower if appropriate policies were not pursued it might be appropriate to look at alternative growth strategies that would enable a poor country like Niger to achieve a reasonable increase in per capita income in the coming years. Niger was clearly a case in which what was lacking was not the authorities' willingness to pursue appropriate policies of both balance of payments and structural adjustment, but an increase in investment, which would enable the economy to diversify. Such a course of action would not only improve Niger's growth prospects but also enable it to improve its export base and achieve the necessary structural changes in the productive base of the economy. There appeared to be a need for a higher level of external resources for a considerable period. With the 1986 debt service ratio at about 45 percent, Niger could not be expected to borrow those resources on commercial terms. Together with debt rescheduling, a generous increase in concessional assistance was essential if Niger were to maintain a viable growth path. With the inclusion of a three-year investment program aimed at achieving structural adjustment and with its prudent policies, Niger appeared to be a suitable candidate for assistance under the structural adjustment facility. He wondered whether, with the stand-by arrangement already in operation, it might be possible to make resources available under the structural adjustment facility to Niger together with supplemental flows from the World Bank as early as possible.

Mr. Finaish noted that to date Niger had fully implemented the stand-by arrangement; the two previous consecutive stand-by arrangements had also been fully implemented. The authorities deserved to be commended for their continuing commitment to the course of adjustment. As a result of the firmness that had been shown in implementing adjustment policies, domestic and external financial imbalances had declined, and the process of significant structural reform had been set in motion. The revised projections for 1986 indicated that the overall performance was in line with the program targets. The proposed decisions were acceptable, and he broadly agreed with the thrust of policies and the policy targets for the remaining period of the current arrangement.

In view of his broad agreement with the staff appraisal and the ground covered by previous speakers, Mr. Finaish said, he would restrict his remarks to the economy's medium-term growth prospects, about which some speakers had already expressed concern. The staff report had shown that, while progress continued to be made in reducing financial imbalances--there were prospects for attaining balance of payments viabilities by the end of the decade provided current adjustment policies were sustained--the authorities were understandably concerned about the economy's growth prospects. According to World Bank estimates, per capita income in Niger had been on a long-term downward trend, having declined at an average annual rate of over 1.5 percent from 1960 to 1984, with the cumulative fall in per capita income over the period amounting to about one third. During 1985 and 1986 there had been some growth in per capita income, but the staff's medium-term growth projections showed that that revival would be short lived. Even on the assumption that current adjustment policies would be continued, the average GDP growth rate for the rest of the decade was projected to be 2 percent, which implied a continued decline in per capita income, given the population growth of about 2.8 percent. The average GDP growth rate was projected to reach the level of population growth rate during 1991-95 and to begin exceeding it--and thus recouping some of the large income losses incurred up to 1990--only in the second half of the 1990s.

The growth outlook was indeed grim, and called for more vigorous efforts to revitalize growth in the period ahead, Mr. Finaish continued. Although appropriate macroeconomic policies would continue to be needed to sustain progress toward achieving domestic and external financial stability, greater emphasis than hitherto would have to be placed on growth-promoting structural adjustments, combined with measures to restore investment to adequate levels and to enhance its quality. In that regard, the adoption of a three-year investment program prepared in consultation with the World Bank, and a Bank-supported structural adjustment program should prove to be useful. In order to provide adequate resources to support adjustment with growth, domestic resource mobilization would need to be enhanced and supplemented with adequate external financial assistance on terms consistent with the country's debt-carrying capacity.

In connection with the preparation of the 1984/85 stand-by arrangement, the staff had projected an average GDP growth rate of 3 percent for the second half of the current decade, slightly exceeding the population growth rate, Mr. Finaish observed. In the present projections the average growth rate for the same period was 2 percent, which would fall to about 1.6 percent if the current year were excluded, both well below the population growth rate. A GDP growth rate slightly exceeding the population growth rate was projected to be attained only in the second half of the next decade--a decade later than in the earlier projection. The downward revision of the growth projections between 1985 and 1986 appeared rather enigmatic, as developments in the interim appeared to have been largely favorable, including the continued full and effective implementation of Fund adjustment programs, the adoption of World Bank-supported investment and structural adjustment programs, the improvement in weather conditions, and certain external developments offsetting the stagnation in the uranium export price. He asked whether the staff's 1985 medium-term growth forecast was to be regarded as optimistic, or the 1986 forecast to be pessimistic.

The projected growth rates for 1986-90 in Scenario V were the same as those in the base line scenario, Mr. Finaish noted. However, compared to the base line scenario, Scenario V--on which the structural adjustment program with the World Bank was based--assumed a significantly higher level of investment and larger flows of external assistance to finance more capital imports. He wondered whether it was not to be expected that the projected growth rates in Scenario V would be higher than in the base-line scenario for those reasons, other things remaining the same. Finally, he shared Mr. Leonard's concern about the reduced expenditure on scholarships.

Mr. Mtei said that the authorities were to be commended for implementing their adjustment program under trying conditions. Among other things, the economy had faced a severe drought, weak demand for its major export, uranium, and the difficulty of having to pursue adjustment measures in the face of declining real incomes.

The staff had stressed the continued commitment of the authorities to the adjustment process and the role of domestic economic policies in producing the favorable outcome that had been recorded in a number of areas, Mr. Mtei noted. Niger had benefited from several exogenous factors, notably good weather conditions toward the end of 1985--which had contributed to an abundant harvest for the 1985/86 season--and the drop in the price of imported petroleum. The 1985/86 program appeared to be on track, and the immediate outlook was encouraging, as recovery was expected to continue in 1986, and a further drop in inflation was anticipated. The fiscal situation was expected to turn out as planned, and the balance of payments position was projected to improve. The policies for the remainder of the program period appeared to be consistent with the objective of redressing the financial imbalances and enhancing the productive capacity of the economy.

The possibility for increasing economic growth remained constrained largely by the narrow resource base of the country, Mr. Mtei remarked. Taking into account the beneficial effects of the adjustment policies, the staff had projected that the economy would grow at an annual average rate of only 2 percent for the rest of the decade, and 2.9 percent during 1991-95. Thus the standard of living was unlikely to improve for the next decade unless something were done to curb the high rate of population growth, which was estimated in 1985 to be about 2.8 percent.

Niger would continue to rely heavily on external financial assistance, Mr. Mtei continued. Debt rescheduling would provide only a short-term breathing space, and even that would involve a high cost. The country would need substantial concessional financing to enable it to successfully implement its development and structural program. The staff had projected that balance of payments viability could be achieved by 1990, Mr. Mtei observed. Although that projection might be accurate, the objectives of a viable position would be gained while economic growth remained slow and per capita income was falling. That outlook was hardly satisfactory; it indicated that achieving balance of payments viability should not be an end in itself.

He welcomed the constructive role of the World Bank in Niger, Mr. Mtei said. He hoped that, in collaboration with the Fund, through its structural adjustment facility, the World Bank would be able to provide additional assistance in support of the structural adjustment effort in Niger.

Mr. Salehkhou remarked that the staff report provided an excellent opportunity to assess the effectiveness of the Fund program in promoting Niger's economic growth and financial stability. Since 1983, Niger had been pursuing a policy of structural adjustment, supported by both the World Bank and the Fund. However, a weak resource base and a number of unfavorable exogenous factors had prevented a significant turnaround in the economy. The sluggish world demand for uranium, Niger's main export product, and the persistent drought that had plagued the Sahel had left Niger no chance to improve its trade performance. Until recently, the closing of the border with Nigeria had also exacerbated the country's trading problems.

Since the 1985 Article IV consultation, the Nigerien authorities had made a great effort in the fiscal and monetary fields to reduce the imbalances inherent in the economy, Mr. Salehkhou said. The authorities were to be commended for the depth and seriousness of the measures they had applied, particularly in view of the great hardship to the population and lack of the opportunity for immediate improvement in living standards. A proper function of the Fund was to mitigate the impact of the adjustment measures through the pursuit of economic development. In that context, Niger had adhered strictly to the recommendations of the Fund and the World Bank, had fulfilled all the performance criteria set under the stand-by arrangement, and had implemented far-reaching decisions to overhaul the structure of the economy through tax measures, public enterprise reform, and the prudent external borrowing policy.

In the fiscal sector, the authorities had aimed at containing the fiscal deficit by refraining from internal and external borrowing and by curbing the growth of current expenditures, while widening the scope of the tax system, Mr. Salehkhou commented. They had also oriented the investment program toward productive projects with a view to improving production and promoting exports. They had acted decisively on a broad plan to reform public expenditures, eliminating those entities which had drawn heavily on the Government's budget and restructuring those which were potentially profitable. Those measures had been accompanied by liberalization schemes, and had given more impetus to marketing and private initiative. The reduction in oil prices had also helped reduce the budget deficit.

To complement fiscal measures, monetary and credit policies had been tightened by limiting the growth of net bank credit to the Government to 2.5 percent and credit to the private sector to 9.1 percent, Mr. Salehkhou observed. The sharp rise in credit to the private sector reflected a change from the stagnation of 1985, and improvement in the agricultural sector in 1985/86. Measures had been intended to maintain the rate of growth at 4 percent in real terms and the rate of inflation at 7 percent. The growth rate of domestic liquidity had been maintained at 8 percent, which was less than the growth of nominal GDP of 11.2 percent.

The effect of the structural imbalances in Niger's economy was most apparent in the external sector, where the pressure on the balance of payments and the debt service had reached unsustainable limits, Mr. Salehkhou continued. The already depressed market for uranium, coupled with the appreciation of the CFA franc in relation to the dollar, had caused the external current account, excluding official transfers, to reach 13.9 percent of GDP in 1985, compared with 9.2 percent in 1984. In 1986, the current account deficit was expected to decrease as a result of the good harvest, a lower oil import bill, the reopening of the Nigerian border, and the tight financial policy pursued by the authorities. The net effect of trade and capital transfers in 1986 had been estimated to lead to a balance of payments deficit slightly higher than in 1985, owing to lower official transfers. The greatest burden on Niger's financial resources was the servicing of its debt; the ratio of debt to exports of goods and services was expected to reach 45 percent in 1986. While Niger had been endeavoring to service its debt on schedule, it apparently had not enjoyed relief commensurate with its strong adjustment measures and the difficult circumstances that had prevailed for a number of years. Further assistance should be extended to Niger, particularly as the country was implementing a Fund program that would prove to be in the best interest of the Fund and Niger.

The staff representative from the African Department said that there had been a shift in investment toward the directly productive sectors and that a lower priority than hitherto had been given to infrastructure under the new three-year rolling public investment program. Previous investment programs had given a high priority to infrastructure and, therefore, there had been considerable investment in infrastructural projects. Those investments had been made at a time when allocations to meet recurrent costs in the maintenance of the infrastructure had been inadequate. The new three-year rolling public investment program would attempt to achieve a more balanced overall investment strategy. Given the investments that had already taken place in the infrastructural sector, it was more appropriate to contribute to the economy's growth by emphasizing the more directly productive sectors. As such, about 45 percent of total investment in the three-year rolling public investment program would be allocated to support the directly productive sectors that would reflect the gradual approach taken by the authorities over the past few years to shift their investment priorities.

There had been a major liberalization of pricing and marketing policies under the stand-by arrangement, the staff representative continued. All import monopolies, with the exception of that for petroleum products, had been abolished. All cereal imports had been fully liberalized, and the cereals marketing agency had adopted a system of tenders and bids in order to align its prices with market conditions. Regarding the price control system, the latest step taken had been to reduce the number of products and services subject to price control from 27 to 7--petroleum, salt, water, electricity, bread, flour, and transportation; some products were still subject to a system of preset profit margins, while the price of others were to be determined by market conditions. The introduction of further flexibility in the pricing system was under consideration by the authorities. Industries had fixed their prices freely without any government intervention, except those that wished to avail themselves of the benefits of the Investment Code. However, further flexibility for industries had recently been introduced, even for those availing themselves of the benefits of the Investment Code, by allowing them to increase their prices automatically, without prior authorization, by up to 7 percent per year. The preset profit margins and the price regulation of industries availing themselves of benefits under the Investment Code would be reviewed in the future by the Fund and the authorities.

There had been a substantial improvement in the overall budget position; the deficit had been reduced from about 5.2 percent of GDP in 1984/85 to an estimated 3.8 percent in 1985/86, the staff representative remarked. The authorities had reviewed most of the expenditure categories in an attempt to reduce financial imbalances by maintaining expenditures constant in nominal terms.

Scholarships had been provided mainly for students studying abroad, the staff representative said. The authorities were currently choosing students more selectively and discontinuing scholarships for those abroad who had not been performing well. Such measures had been taken to ensure that the scarce resources available would be used in the most efficient and effective manner possible.

The authorities, the staff representative went on, had introduced a number of measures under the current program to increase the elasticity of the tax system. The latest measures were the introduction of the value-added tax, an increase in effective customs duties by making them closer to an ad valorem basis, and adjustments in a number of specific taxes to an ad valorem basis. Although the effects of all those measures had not yet been fully felt, it was expected that they would increase the elasticity of the tax system over the medium term. However, in Niger, where the movements in GDP were affected primarily by the agricultural sector, full elasticity of the tax system would require further measures to widen the coverage of the tax system, the appropriateness of which would require further study.

Although the program had provided for a higher rate of growth than previously, credit to the private sector had grown by only 3 percent at a time when there had been sharp growth in economic activity, the staff representative noted. The considerably slower growth of credit to the private sector in 1985 reflected two factors: the large amount of medium-term debts that the mining companies had repaid to the banking sector; and the favorable liquidity position of the cereal marketing agency that required less use of bank credit. However, in 1986, credit to the private sector was projected to grow by about 9 percent; that projection took into account both the growth in economic activity and the expectation that the two factors that prevailed in 1985 would not recur in 1986.

The authorities fully shared the concern of Directors about the rising debt service burden of Niger, the staff representative remarked. In 1986, the debt service ratio before debt rescheduling would reach 45 percent; after rescheduling by the Paris and London Clubs, it would drop to about 31 percent. Without rescheduling, and assuming that the authorities would continue to pursue a prudent external debt service policy, the ratio would drop to about 30 percent in 1990. The share of the Fund in overall external debt would rise from 5.6 percent in 1986 to about 17.4 percent in 1988, and drop to 5.6 percent in 1990. The rise in the share of the debt service ratio to the Fund reflected the repurchases that were due, as well as the emphasis on more grant-financed investments.

Having been integrated into the three-year structural adjustment program supported by the World Bank, the 1985/86 stand-by arrangement effectively constituted the first year of the program, the staff representative noted. Notwithstanding the progress that had been achieved in recent years, Niger continued to suffer from major structural problems as well as deficiencies in public resource management. Although significant measures had been taken to improve its position, the public enterprise sector remained large and inefficient. The problems in that sector had only recently begun to be addressed through a comprehensive program launched in late 1985. The modern private sector was at a low level of development, and Niger had a very weak resource base. Those structural factors had been compounded by financial imbalances, with both the budget and the balance of payments continuing to be unsustainable and showing financing gaps through 1989. The debt service burden weighed heavily both on the budget and the balance of payments position. The thrust of policies over the medium term would be to generate a favorable environment for fostering private sector economic activity, which would include a shift in employment from the public to the private sector, a further liberalization of pricing and marketing policies, the further reform in the public enterprise sectors--including the settling of cross debts in the public sector--emphasis on productive investments, a reduction in the reliance on external borrowing and greater emphasis on grants, and an improvement in public resource management. In that context, there was a need to undertake further measures to reform the tax system to enhance its elasticity. The authorities would also have to review the issue of civil service employment. More attention would have to be given to making adequate provisions in the budget for recurrent expenditures and expanding the scope of cost recovery. Furthermore, to increase the effectiveness of public resource management there would be a need to expand the coverage of the budget to include all investment expenditures.

The same growth rates had been assumed for all five medium-term growth scenarios, the staff representative noted. There were two reasons for the assumption. First, none of the scenarios envisaged a readaptation of policies to take into account more adverse circumstances. If a readaptation of policies to achieve balance of payments viability by 1990 had been assumed, such policies--which would have necessitated a cut back in demand--would have been reflected in lower growth rates. Second, the analysis showed that there would be no major direct impact of investment on economic growth during the period under consideration; the effects would be felt only after 1990. Furthermore, the investment ratio in all the scenarios remained in a fairly narrow range of about 10-13 percent; there would have to be much more variation to affect the growth rate during the period. Thus, with the lower investment ratio, growth prospects during the period would not be considerably diminished; nonetheless, there would be implications for economic growth in the following decade.

The base line scenario envisaged an increase in the ratio of savings to GDP from 5 to 7 percent, which was consistent with the thrust of the authorities' policies to mobilize additional savings to cover a higher proportion of investment, the staff representative explained. However, during the period under consideration the investment ratio would not rise as much, which would result in a reduction in the resource gap that would be consistent with the objective of achieving balance of payments viability by 1990.

Responding to Directors' comments on the fairly low average annual growth rate during the period 1986-95, the staff representative said that, in the context of the stand-by arrangements, the authorities' policies had been designed to maximize the growth potential of the economy. Aided by an improvement in growth conditions, growth rates of 7 percent in 1985 and 4 percent in 1986 were estimated to have been achieved. Nonetheless, without adjustment policies, the growth prospects for the Nigerien economy appeared to be fairly dim, with the growth rate projected to be about 1.2 percent over the ten-year period 1986-95. With the introduction of structural adjustment policies, the growth rate was estimated by the World Bank to increase to an average annual rate of about 2 percent in 1986/90, and further to 2.9 percent in 1991-95. The downward revision of the growth projections reflected two factors: the weakening prospects for uranium, and the review by the World Bank of the impact of investment on economic growth. The authorities' concern about the fairly low rate of economic growth in the projections was shared by the Fund staff; the authorities had indicated that they wished to review different policies that could help improve the country's growth prospects. The sectors that had potential for economic growth in Niger were the agricultural sector and the small-scale industrial sector.

The Fund had been working closely with the World Bank and the Nigerien authorities on a possible request to use the structural adjustment facility, and preparations to formulate a medium-term policy framework were already under way, the staff representative remarked. A Fund mission was scheduled to visit Niger in August 1986 to discuss that framework, which could be used as a basis for a request to use the structural adjustment facility.

Mr. Leonard said that he understood from the staff report and the staff representative's remarks that: the present infrastructural investment was generally regarded as adequate relative to the existing level of directly productive investment; there was no need to concentrate on the maintenance of existing infrastructural investments, with which he fully agreed, although he was uncertain as to whether expenditure for that purpose was classified by the staff as current or capital; the infrastructural investment program was emphasizing the identification of bottlenecks on directly productive investment, and an effort was being made to eliminate those bottlenecks through planned expenditures.

The Chairman asked the World Bank representative to comment on the significant rehabilitation of the 54 public enterprises in Niger, which was one of the boldest actions in restructuring the public sector that he had encountered for some time. Among the six most problematic public enterprises, the greatest losses had been incurred by SONICHAR, which was in charge of coal-based power generation; the losses had been about CFAF 6-7 billion annually during the past three or four years, a significant amount for the Nigerien economy, representing nearly 1 percent of GDP. He wondered if there were any data on SONICHAR's operations for 1984/85.

The staff representative from the World Bank commented that the reform of the public enterprise sector, which represented one of the three main components of the World Bank-supported structural adjustment program, was one of the most impressive in Africa. Many measures had been taken even before the structural adjustment loan had been approved by the World Bank, mainly rationalizing the size of the sector, limiting the sector to genuinely strategic enterprises and public utilities. A new legal framework for the sector had been adopted, various monopolies had been eliminated, and price controls had been eased. A structural adjustment credit to support, among other actions, the Government's public enterprise reform program had been approved by the World Bank Board in February 1986; a midterm review was expected in October. The World Bank was holding discussions with the authorities on the possibility of a follow-up Public Enterprise Rehabilitation project to continue support of the reforms.

The bleak prospects for long-term growth greatly concerned the World Bank, the World Bank representative remarked. The issue had been extensively debated within the World Bank during the discussions of the structural adjustment program, and serious concern had been expressed about the difficulty of achieving acceptable growth rates in per capita income, given the constraints posed by the limited resource base of the country. The Government and the World Bank faced the challenge of devising an investment program that could accelerate growth in the face of limited physical resources, underdeveloped human resources, and adverse external conditions.

The key sector for growth was agriculture, and the Bank had an active program to promote agricultural development, the World Bank representative noted. The serious drought had led a number of the World Bank's ongoing projects to be substantially redesigned as pilot projects under the special action program of 1982-84. As part of its effort to encourage agricultural growth, the World Bank was considering a grant under the special project preparation facility for a study to develop a strategy that would draw upon the lessons of prior pilot projects. The World Bank was cooperating with the authorities in preparing an agricultural research project to develop new technologies because the technological base for agricultural development in Niger was limited, owing to the dry land conditions and variability in rainfall. In addition, the World Bank was assisting the authorities in the preparation of a small rural operations program. Agricultural development was the main priority under the World Bank's lending program for Niger. While continued assistance in that sector was anticipated, Niger's agricultural situation was, nevertheless, one of the most unfavorable in the world, and progress would be difficult.

A second major thrust of the World Bank's program for Niger was human resource development, the staff representative from the World Bank continued. Human resources were very underdeveloped in Niger, and greater efforts were needed in the health and education areas. In the health sector, assistance to improve the productivity of the population by reducing sickness was being provided by a basic health project of approximately $28 million approved by the World Bank in April 1986. The World Bank anticipated continuing involvement in that sector. In the education sector, the main priorities were primary education and the education of workers and farmers to increase their productivity. Approval of a basic education project was anticipated in the coming fiscal year.

The third area of World Bank involvement was infrastructure, the World Bank representative said. Infrastructural development had proceeded more rapidly than the development of human resources and agriculture in the late 1970s and early 1980s. Thus, the World Bank program in the sector focused primarily on the maintenance of existing assets, with selective new investments only for high-priority projects to eliminate constraint on the expansion of productive activities. The overall implication for the investment programs would be a contraction of the share of investment in infrastructure relative to investment in human resources, agriculture, and the directly productive sectors.

The effect of the investment programs on growth was a difficult one to estimate, the staff representative from the World Bank remarked. The limited resource base of the country and the difficult nature of the developmental problems indicated that the benefits from the ongoing investments probably would not be seen until the 1990s. Under the scenario projected in the World Bank's analysis of the structural adjustment program, there would be a higher level of investment financed by a higher level of capital flows, with the same level of growth until the end of the 1980s; the benefits of the higher investment level would not be realized until the 1990s. Although the higher level of investment projected by the Bank was still relatively unsatisfactory, it was the highest that was achievable on the basis of the available financial assistance. There remained a significant gap between the capital flows to Niger assumed under the Bank's structural adjustment program and the flows currently available, as reflected in the Fund program.

A $60 million structural adjustment credit had recently been provided by the World Bank, followed by a transport sector adjustment credit of $50 million, financed from IDA's regular resources and the Special Facility for Africa, the staff representative from the World Bank said. The World Bank anticipated providing continuing support for the Government's reform efforts and for agricultural and human resource development, and encouraged other donors to assist Niger in a similar fashion.

Mr. Alfidja said that in his opening statement he had not addressed the issue of the medium-term scenario because, first, during the staff's visit to Niger, time constraints had made it impossible for the authorities and the staff to discuss fully the assumptions on which the scenario was based. Therefore, it had been agreed to have an exchange of views on the issue before the next Fund mission to Niger. Second, in the view of the preliminary reactions of the authorities conveyed to him prior to the Executive Board meeting, including an indication of possible disagreements with several of the assumptions, he had thought it preferable to discuss the authorities' views with the staff before elaborating on them eventually during a meeting of the Executive Board. The target rate of economic growth was certainly one of the issues on which further discussion would be necessary.

In recent years, the role of the mining sector in the economy had become minimal, Mr. Alfidja continued. The role of agriculture had been crucial in achieving the 7 percent growth in 1985, and would be important for the projected 4 percent growth for 1986. It was difficult to explain why the rate of economic growth would fall from 4 percent in 1986 to less than 2 percent in 1987, if, among other things, the adjustment measures, in particular the liberalization efforts, are pursued and similar weather conditions prevail in both years. The authorities would like to continue discussion on the outlook for the economy with both the World Bank and the Fund.

Regarding the use of Fund resources, Mr. Alfidja said that his authorities recognized that those resources might not be the most suitable for Niger. However, they would not rule out such a recourse in the future. They expected that Niger's use of Fund resources would stabilize decrease in coming years. He had some difficulty with the suggestion that soft loans could be substituted for normal Fund loans, Mr. Alfidja continued. He had doubts about the interpretation of the discussions on the strucutral adjustment facility in such a manner.

The importance of the private sector in Niger should not be overstated, Mr. Alfidja said. If the agricultural sector, where the role of "private entrepreneurs" was important, were excluded, the private sector in Niger would be very small. That fact should be kept in mind in assessing the employment situation in general and the way in which there could be a possible shift in employment from the public to the private sector. Although it would be a long time before the private sector expands significantly, the authorities were committed to its development.

The question of the external debt had also been only very briefly discussed during the last Fund mission to Niger, Mr. Adfidja noted. The authorities would like to continue their exchange of views with the World Bank and the Fund on the subject and work out a strategy to deal with the external debt problem. While they agreed that they would have relied more on grants and less on borrowing, they had certain views on concessional loans, and on the extent to which public and private enterprises should be encouraged to borrow for well-justified projects that they were capable of undertaking.

Regarding SONICHAR, Mr. Alfidja said that the latest information had indicated that, through the intervention of friendly countries, the enterprise was being fully rehabilitated and might have recorded some profits during the previous year; however, that would have to be confirmed.

Mr. Finaish noted that the medium-term growth forecast had been revised from 3 percent to 2 percent--possibly 1.6 percent. The staff had said that the main reason for the revision was the doubtful prospects for uranium prices; it had originally been assumed that prices would increase over the period of the forecasts. Although the forecast rate of growth had been reduced, the uranium price assumption was higher for growth--5 percent. Hence, there must be another reason for the downward revision for growth.

The staff representative from the African Department said that the main reason why the growth projections had been revised downward was not uranium prices, but the weakening of the world demand for uranium. The weaker growth was therefore a reflection of expected developments in the uranium production and exports over the medium term. As a result of negotiations, uranium prices in 1986 had remained constant. A second important element was the revision that the World Bank staff had made with regard to the impact of investments during the period under consideration; the Fund had been more optimistic in its expectations in the original assumptions. The periods covered by the original and revised projections were slightly different. In 1985 there had been a growth rate of 7 percent, whereas in 1986 there had been a growth rate of 4 percent, which had started to taper off. Had the revised projections covered the period 1985-90, the average would have been higher than the 2 percent shown in the report.

The Chairman made the following summing up:

> Directors were in general agreement with the views expressed in the staff appraisal in the report for the 1986 Article IV consultation with Niger. They noted that, since 1983, Niger had implemented rigorously a series of adjustment programs aimed at resolving the structural and financial imbalances facing the economy. Directors commended the authorities for maintaining their adjustment efforts on track, and for observing all the performance criteria through end-March 1986.
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> Directors observed that, compared with the difficult conditions that had faced the country under previous programs, Niger had benefited in 1985/86 from favorable weather conditions, the reopening of the border with Nigeria, the drop in the prices of petroleum products, and the depreciation of the U.S. dollar vis-à-vis the CFA franc. While these factors might facilitate the attainment of the objectives of the 1985/86 program, Directors noted the continued weakening of world demand for uranium, and welcomed the determination of the authorities to persevere with the structural policies envisaged under the program and to maintain a tight financial policy stance. In particular, Directors commended the authorities for implementing wide-ranging supply-oriented measures aimed at fostering the conditions for sustained economic growth. In this regard, they noted the importance of the steps taken to liberalize pricing

and marketing policies, reform the public enterprise sector, and strengthen public investment programming. Directors stressed that the improved budgetary position would permit a more adequate provision of credit to the private sector, while maintaining the growth of domestic liquidity within limits consonant with the objective of reducing the financial imbalances.

Notwithstanding the progress achieved thus far, Directors noted that Niger's medium-term prospects were seriously constrained by its limited natural resource base and high population growth. Thus, they emphasized that Niger needed to pursue its adjustment efforts to achieve balance of payments viability toward the end of this decade, and to move toward a growth rate of real GDP that would be closer to the population growth rate. A number of Directors observed that Niger's weak medium-term growth prospects were a cause of serious concern, and underscored the country's need for increased concessional financing of productive investment. Directors felt that the thrust of policies under the current program were appropriate. They placed particular emphasis on the pursuit of a market-oriented pricing policy, the completion of the restructuring and rehabilitation program for the public enterprise sector, and a further shift in investment toward directly productive sector activity, particularly in agriculture.

In order to reinforce the effects of these structural policies, Directors urged the authorities to maintain prudent financial policies. They viewed a continued tight fiscal policy to be essential in order to eliminate the financing gaps in the budget and raise the domestic savings ratio; accordingly, both a reduction in budget expenditures in real terms, and a further improvement in the tax system to expand the revenue base and improve its elasticity were needed. In this regard, Directors encouraged the authorities to continue to use the windfall revenue from the oil sector to reduce the budget deficits. Directors noted that the tight fiscal stance was consistent with the objective of the authorities to release resources to foster the growth of the private sector.

Directors welcomed the strict external debt management policy being pursued by the authorities. While recognizing the importance of foreign financing, particularly for the investment budget, they stressed that, in view of Niger's debt and balance of payments positions, external borrowing should be limited to that on concessional terms. They also noted that the policy of emphasizing grant-financed investments was a critical element in reducing the external debt service burden over the medium term.

Directors welcomed the close collaboration between the Fund and World Bank staff in the elaboration of the medium-term policy issues and projections. They encouraged the authorities to continue working closely with the two institutions to map out a comprehensive medium-term economic and financial framework that could provide the basis for use of Fund resources under the structural adjustment facility. They emphasized the importance of continued World Bank financial and technical assistance to Niger.

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

The Executive Board then took the following decisions:

Decision Concluding Article XIV Consultation

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Niger in the light of the 1986 Article IV consultation with Niger conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Niger continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

Decision No. 8308-(86/99), adopted
June 20, 1986

Review Under Stand-By Arrangement

1. Niger has consulted with the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Niger (EBS/85/231, 10/21/85) and paragraph 5 of the letter dated September 3, 1985 from the Prime Minister of Niger, in order to review progress made by Niger in implementing its program, to reach understandings with the Fund regarding policies and measures that the authorities intend to pursue for 1986, and to establish performance clauses for end-June and end-September 1986.

2. The letter dated March 18, 1986 from the Prime Minister shall be attached to the stand-by arrangement for Niger, and the letter dated September 3, 1985, together with the annexed memorandum, shall be read as modified and supplemented by the letter of March 18, 1986.

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

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

(i) the limit on total domestic credit of the financial institutions as specified in paragraph 8 of the letter dated March 18, 1986, or

(ii) the limit on net claims on Government by the banking system as specified in paragraph 8 of the letter dated March 18, 1986, or

(iii) the nonaccumulation of domestic payments arrears of the Government as specified in paragraph 6 of the letter dated March 18, 1986;

is not observed; or

(b) if Niger fails to observe the limits on contracting or guaranteeing of nonconcessional external loans as specified in paragraph 13 of the letter dated March 18, 1986; or

(c) if the Government incurs any arrears on its external financial obligations; or

(d) if Niger

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

(ii) introduces or modifies multiple currency practices, or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies restrictions on imports for balance of payments reasons.

4. The Fund decides, pursuant to paragraph 4(c) of the stand-by arrangement, that the midterm review provided for in paragraph 5 of the letter from the Prime Minister dated September 3, 1985 is completed.

Decision No. 8309-(86/99), adopted
June 20, 1986

2. INCOME POSITION FOR FY 1986 AND FY 1987 - REVIEW AND RELATED ISSUES

Mr. Nebbia requested that the discussion of the staff paper on the Fund's income position for FY 1986 and FY 1987 (EBS/86/116, 5/28/86) be postponed from the morning until the afternoon to give a number of Executive Directors an opportunity to take into account certain recent developments.

Mr. Foot asked when the discussion would be continued, if sufficient progress could not be made during the first round of the discussion.

The Treasurer, in response to a question by the Chairman, explained that before the External Auditors could report to the External Audit Committee they would have to be in a position to know what income to certify as being a fair and true representation of the Fund's financial position for the financial year which had ended on April 30, 1986. So far, the income reported as net income was provisionally recorded as such, pending a decision by the Executive Board on the disposition of net income for FY 1986. In addition, as explained in the staff paper, the Executive Board was in a position to take various other related decisions, including a further reduction of the rate of charge for FY 1986, and an increase in the rate of remuneration. However, the only decision that needed to be taken before the External Auditors left Washington on June 30, 1986, concerned the disposition of net income for FY 1986.

The Chairman noted that since the decision on the disposition of net income for FY 1986 could be taken separately from decisions on the rate of charge, the remuneration coefficient, and the manner of sharing the cost of deferred charges, the discussion on the latter three issues could be continued during the month of July.

After a brief discussion the Executive Directors agreed to discuss the Fund's income position and related issues in the afternoon.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/86/98 (6/19/86) and EBM/86/99 (6/20/86).

3. EXECUTIVE BOARD TRAVEL

Travel by Advisors to Executive Directors as set forth in EBAP/86/145 (6/18/86) is approved.

APPROVED: March 3, 1987

LEO VAN HOUTVEN
Secretary