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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 85/104

10:00 a.m., July 8, 1985

R. D. Erb, Acting Chairman

Executive Directors	Alternate Executive Directors
A. Alfidja	
	M. K. Bush
	G. Ercel, Temporary
B. de Maulde	
	A. Mustafa, Temporary
	K. Murakami, Temporary
G. Grosche	
	Jaafar A.
	L. Leonard
	H. A. Arias
	A. K. Juusela, Temporary
	A. Abdallah
	J. M. Jones, Temporary
	M. A. Weitz, Temporary
	E. M. Ainley, Temporary
	J. de la Herrân, Temporary
J. J. Polak	
	A. J. Tregilgas, Temporary
	H. Alaoui-Abdallaoui, Temporary
	A. S. Jayawardena
	D. J. Robinson, Temporary
	L. Tornetta, Temporary
Zhang Z.	

L. Van Houtven, Secretary
K. S. Friedman, Assistant

Also Present

IBRD: L. E. Hinkle, C. J. Poortman, Western Africa Regional Office. African Department: A. Basu, J.-C. K. Brou, A. Tahari, P. C. Ugolini. Exchange and Trade Relations Department: K. B. Dillion. Legal Department: J. K. Oh. Advisors to Executive Directors: G. R. Castellanos, D. Hammann, N. Toé, A. Vasudevan, K. Yao. Assistants to Executive Directors: S. de Forges, A. R. Ismael, Z. b. Ismail, M. Lundsager, A. A. Scholten, Yang W.

1. NIGER - 1985 ARTICLE IV CONSULTATION AND REVIEW UNDER STAND-BY ARRANGEMENT

The Executive Directors considered the staff report for the 1985 Article IV consultation with Niger and the review under the one-year stand-by arrangement for Niger approved in December 1984 (EBS/85/143, 6/5/85; Cor. 1, 6/25/85; Cor. 2, 7/5/85; and Sup. 1, 7/5/85). They also had before them a report on recent economic developments in Niger (SM/85/165, 6/13/85).

Mr. Alfidja made the following statement:

During the Executive Board's discussion of Niger's request for the present stand-by arrangement, I stated that a number of adverse factors beyond the control of my authorities were frustrating their efforts to restore internal and external balance in the economy. These include the recurrent drought affecting the region, the continued closure of the Nigerien borders, the depressed world demand for Niger's main export (uranium), and the depreciation of the CFA franc against the U.S. dollar. During the 1985 Article IV consultation and the review of the stand-by arrangement, it became clear that the impact of these adverse factors was and would be much more severe than previously anticipated. In particular, real GDP decreased sharply and inflation accelerated. On the other hand, although the central government budget deficit (on a commitment basis) as a percentage of GDP increased slightly in absolute terms, it was lower than estimated. Likewise, the external current account deficit slowed compared to early estimates.

The effects of the 1984 drought were dominant in the real sector: real GDP decreased much faster--16 percent--than was assumed (3.8 percent) at the inception of the program. Agricultural output fell by 40 percent in 1983/84 from its 1982/83 level, and the livestock herds were decimated with losses ranging from 30 percent to 46 percent during the same period. The cereal deficit in 1983/84 is estimated at around 400,000 tons. Though aid from the international community would meet an important part of this deficit, locally financed imports on commercial terms of about 100,000 tons will nevertheless be needed in 1984/85. To cope with the emergency situation arising from the drought, the Government initiated an emergency farmer assistance and livestock rescue program and encouraged the production of off-season crops. In view of the general success of this off-season program, the authorities intend to broaden its scope. In a longer-term perspective, the Government is pursuing a reorientation of its investment policies, emphasizing the most productive sectors, especially agriculture, with a view to laying down the foundation for a resumption of economic growth when more clement weather conditions return. Policies in the agricultural sector would include granting more remunerative producer prices to farmers. In this context, in 1984 the prices of sorghum, cowpeas, millet, and groundnuts were raised by 43 percent, 33 percent, 25 percent, and 10 percent, respectively.

In the fiscal sector, notwithstanding the adverse effects of the continued closure by Nigeria of its borders and of the decline in economic activity on revenues, the Government was able to reduce the budget deficit (on a commitment basis) from 7.3 percent of GDP in 1982/83 to 5 percent of GDP in 1983/84. Moreover, a sizable reduction of domestic payment arrears was effected. This outcome was achieved chiefly through substantial cuts in capital expenditure and the effects of stringent control on current outlays. Emphasis was also placed on revenue-increasing measures. In this context, the Nigerien authorities have implemented most of the measures recommended by a Fund fiscal mission. Yet, in 1983/84 tax revenue decreased by 6 percent owing mainly to a drop in tax receipts on external trade and in taxes on income and profit. Despite this shortfall in revenues, the authorities hope that the growth of government receipts will resume as economic activity recovers and the full impact of the revenue-increasing measures and the improvement in the tax administration take hold.

Substantial progress was registered in the financial performance of the major public enterprises in 1983/84. As indicated in Table 7 of SM/85/165, six of the seven public enterprises for which specific actions were taken under the 1983/84 financial program recorded significant improvement in their net operating results. For example, the financial situation of the OPVN (cereal marketing agency) and NIGELEC (utility company) shifted from net operating losses in 1982/83 to surpluses one year later. The operating surplus of COPRO NIGER (imports and distribution of consumer goods) rose by 21 percent in 1983/84. As regards OFEDES (underground water supply company) and SONICHAR (thermal power company), their operating losses were reduced by 28 percent and 24 percent, respectively, in 1983/84. These encouraging results have strengthened the resolve of the Nigerien authorities to rehabilitate the public enterprise sector and to pursue a flexible pricing policy. Further steps are being taken in the context of the structural adjustment program under preparation with assistance from the World Bank. In this regard, two enterprises (UNCC and SONIFAME) have been liquidated and steps toward the privatization of seven others have been initiated. As to pricing policy, the upward adjustment of the prices of goods and services provided by the major public enterprises enacted in November 1984 was followed by another round of price increases in May 1985.

In the external sector, the current account deficit was halved to 3.4 percent of GDP in 1984. This significant reduction was achieved mainly through a sharp reduction in imports (17 percent) and in net private transfers (38 percent) while exports decreased marginally (2 percent). However, reflecting the slowdown in the implementation of the investment program, the capital account deteriorated significantly by about the same magnitude as the improvement of the current account. As a result, a small overall deficit representing 0.7 percent of GDP was recorded. The severe drought afflicting the country is expected to cause a surge in food imports in 1985 and a substantial reduction of exports of agricultural and livestock products. Moreover, it is now anticipated that the volume and price of uranium exports will be lower. The effects of these and other developments could be a sharp deterioration in the current account deficit in 1985 (some SDR 85.5 million or 6.6 percent of GDP).

It should be noted that despite the negative effects of the exogenous factors on the implementation of the program, all the performance criteria for end-December 1984 and end-March 1985 have been observed. The Nigerien authorities have shown a great deal of determination in adhering to the adjustment efforts under way in spite of exceptionally trying conditions. They are committed to furthering these efforts. In this respect, following a three-day special cabinet meeting on June 26-28, 1985, the Government announced a number of measures geared at improving the performance of the various sectors of the economy and addressing the structural maladjustments facing the economy. Since I have forwarded to Directors the English translation of the text of the communiqué issued by the Nigerien Government early in July 1985 containing the measures, I will limit myself to mentioning some of them. In the area of government finance, the Government decided to improve tax collection at the levels of both the Central Government and local authorities and to pursue a general reform of the tax system. Existing regulations, especially with respect to housing, travel and transportation, will be strictly enforced. Other measures aimed at restraining the growth of government outlays include an in-depth review of the procedures for awarding scholarships and the amount of these scholarships, a shift in the responsibility of the purchase of school supplies from the Government to school children's parents and the stricter enforcement of current regulations with respect to charges for consultation, examination, hospitalization, and medical transport. Furthermore, the Government decided: to pursue and strengthen efforts under way to achieve better control and sounder management of civil service; to enforce more strictly the regulations concerning promotion within the civil service; to place particular emphasis on the training needs of sectors most deficient in technical personnel; to place in immediate retirement any government servant who has reached the age limit; to amend the regulations concerning assignment to training and departure for training courses; to enforce strictly the current regulations concerning the dismissal of government employees.

In the area of the public and parastatal enterprises it has been decided to continue the reorganization process through rehabilitation, privatization, and liquidation, as appropriate and to revise the price-setting system.

Concerning rural development, the Nigerien Government decided to eliminate subsidies on farm and livestock inputs other than fertilizers. Investment projects of a scope that is beyond the capacity of the population will no longer be undertaken. Those already in progress will be reoriented. The institutional setting of rural sector credit, especially for agriculture, will be reviewed thoroughly and changed if necessary. Policies regarding the marketing and supply of food products will be revised.

Many of these courageous measures are clearly intended to have a favorable impact on future expenditure developments. They give sufficient evidence of the resolve of the Nigerien authorities to take forceful and unpopular actions to deal with the various consequences of the drought as well as lay the ground for a lasting improvement in the economic performance of the country. It is also evident that these efforts are not likely to succeed in the absence of a sustained and substantial inflow of external grants and concessional loans together with the continued assistance of the Fund and the World Bank.

Mr. de Maulde commented that the problems facing Niger's economy were more difficult than those facing any other sub-Saharan African country recently examined by the Executive Board and had been handled with great courage and determination by the authorities. Niger's natural resource endowment was limited; only the most southern part of the country was suitable for grazing and rain-fed agriculture, and the known mineral resources were limited to uranium and coal. Those resources had been managed cautiously: the uranium boom of the late 1970s had triggered a significant increase in capital expenditure, most of which had been economically and socially warranted. There had been few unwarranted development projects in Niger.

The problems facing the economy were due to three unrelated events, Mr. de Maulde noted. First, the world market for uranium had collapsed in 1981, limiting Niger's exports and government revenue at a time when public investment had been increasing. Second, a major drought in 1984 had destroyed 40 percent of the livestock herd and drastically reduced the production of major food crops, thereby undermining the efforts to diversify production and exports away from uranium. Third, the closure of the border with Nigeria had disrupted the well-established trading relations in the region.

Given those difficult circumstances, one would have naturally expected the authorities' Fund-supported program to become derailed, Mr. de Maulde continued. That the program had remained on track was remarkable; after all, most of the assumptions behind the program had proven incorrect. However, the authorities had taken courageous and imaginative steps. For example, when it had become clear that the drought was likely to be substantial, the authorities had immediately corrected the level of prices of various agricultural crops and with the help of nongovernmental organizations had launched a nationwide program to develop out-of-season cultivation based on low-cost irrigation. The authorities had not merely waited for emergency food assistance to be provided.

The several exogenous factors he had mentioned had obviously undermined the achievement of the program's financial objectives, Mr. de Maulde commented. Revenues had fallen short of the initial projections, and scheduled interest payments had increased, owing mainly to the appreciation of the U.S. dollar. However, the authorities had reacted quickly, raising additional revenues and curtailing expenditure, for example, by reducing the number of civil servants even though the prospects for employment in the private sector were not bright. The cutting of the external current account deficit by more than half in 1984 compared with 1983 was a clear sign of the energy of the authorities' overall short-term adjustment effort.

In its appraisal the staff had noted that the most important issues facing the authorities had to do with medium-term supply-side policies, Mr. de Maulde remarked. The World Bank had already spent considerable time working on a possible comprehensive structural adjustment program that would include the main required policy measures. Agreement with the authorities on such a program had not yet been reached, and the World Bank representative could usefully comment on the program's contents and implementation timetable. It was clear that in the coming period the leadership role in assisting Niger should be taken over by the World Bank. Finally, the new policy package approved at the end of June 1985 was welcome.

Mr. Grosche noted that the program had remained basically on track despite major adverse external developments. The drought, the closure of the border with Nigeria, and the weak foreign demand for uranium had considerably affected the trade balance, growth, and the rate of inflation. The adverse effects of those developments and of the unexpectedly large debt service payments on the overall balance of payments had been mitigated by the higher than expected levels of public transfer payments and capital inflows.

The authorities' decision to strengthen their policies in various important areas of the domestic economy was encouraging, Mr. Grosche said. The additional measures to rehabilitate and restructure the public enterprise sector were particularly welcome. The more flexible pricing policy and the preparation--with the assistance of the World Bank--of a structural reform program should help to eliminate the deep-rooted weaknesses in the public enterprise sector. To that end, the authorities must identify parastatals that could be transferred to the private sector, liquidated, or thoroughly rehabilitated. Two enterprises had already been liquidated, and the authorities had decided to transfer ownership of seven others to the private sector. The authorities obviously were genuinely committed to reforming the public enterprise sector.

The drought and related problems had forced the authorities to streamline public investment outlays and to concentrate investment on quick-yielding projects, Mr. Grosche stated. In addition, actual wage payments had remained below the original program estimate, at least in the first quarter of 1985. That development was appropriate. In Niger, which belonged to a currency union, the brunt of the adjustment effort had to be borne by fiscal policy. For that reason, and given the precarious debt situation, a restrictive budget policy was essential.

Reducing the credit ceilings would help the authorities to achieve the various program targets, Mr. Grosche considered. There had been an unexpectedly rapid rate of increase in the GDP deflator and a relatively significant expansion of domestic liquidity. The lower credit ceilings would affect the conduct of fiscal policy by limiting the authorities' recourse to domestic bank financing.

He was pleased that the authorities had begun liberalizing the system of domestic grain procurement and marketing to ensure that the farming sector would receive adequate prices, Mr. Grosche commented; that more market-oriented approach recently included a second round of cereal price increases.

The balance of payments and debt service scenario was based on the explicit assumption that drought conditions would not recur in the coming period, Mr. Grosche observed. He wondered whether that assumption was realistic and might not lead to incorrect policy conclusions. Due attention should be paid to any significant changes in the natural environment not only in Niger but also in the entire region. During the recent discussion on Togo (EBM/85/135, 9/10/85) a number of Executive Directors had commended the authorities for having paid due regard to environmental developments in that country.

The Nigerien authorities' commitment to come to grips with the substantial external imbalances was amply demonstrated by their perseverance in implementing financial and structural policies and by their determination to tighten fiscal policy further if necessary, Mr. Grosche said in concluding. The proposed decision was acceptable.

Mr. Jones remarked that although there was clearly strong political support in Niger for the Government's adjustment efforts, the authorities were fighting against great odds. The improvement in the budget position in 1983/84 had been due largely to deep cuts in development expenditure, and the improvement in the external current account had been caused by import compression. Adjustment had obviously taken place, but it had imposed a heavy burden on Niger and had not contributed to economic growth. Moreover, the adverse effects of the drought had been compounded by the slow recovery in the international market for uranium, Niger's principal export commodity. It was therefore not surprising that the authorities were having difficulty in meeting the fiscal and monetary targets. The various unfavorable exogenous factors had caused revenue to fall below the initially estimated level. With the benefit of hindsight, the assumptions on which the program was based seemed excessively optimistic. The authorities had correctly decided to persevere in their efforts to stabilize the economy even though additional austerity measures would certainly increase the adjustment burden.

The adverse effects of the drought were reflected most clearly in the poor performance of the real economy over the previous three years, Mr. Jones went on. Although the policy of maintaining adequate producer prices was a step in the right direction, it could have the maximum beneficial effect on agricultural production only if weather conditions improved. The projection for real GDP growth in 1985 had been revised upward by 4 percentage points, compared with the negative growth of about 16 percent in 1984, but the staff report contained little information justifying the revision. Indeed, on page 11 the staff had drawn attention to the deep recession in the commercial and industrial sectors, and on page 12 it had described the shortfall in both uranium and agricultural exports. The staff should comment further on the reasons for the slow pace of public investment; he wondered whether the authorities were seeking World Bank assistance to accelerate the pace.

The steps taken to improve the performance of public corporations were in the right direction, and additional steps must be taken in the coming period, Mr. Jones considered. Success in that area would make a significant contribution to strengthening the Government's overall financial position. Given the price increases by public corporations and the effects of the depreciation of the CFA franc, he wondered whether the inflation target was achievable.

Debt service payments were expected to be a major constraint on the economy through the rest of the 1980s, Mr. Jones noted. The authorities must avoid short-term commercial borrowing to the extent possible, and donor countries could make an important contribution to Niger's development by maintaining a steady flow of concessional aid over the coming several years. The expectation that Niger could obtain a viable external payments position over the medium term was welcome, but much would depend on developments in both the agricultural and livestock sectors and the world uranium market.

The adverse effects of exogenous factors on Niger had been ameliorated somewhat, but the economy continued to be vulnerable, Mr. Jones stated in concluding. The authorities must maintain prudent financial policies and their effort to broaden the productive base. Finally, the proposed decisions were acceptable.

Mr. Jaafar said that he broadly agreed with the staff appraisal. The proposed decision should be approved. During the previous discussion on Niger his chair had supported the country's request for a stand-by arrangement so that the authorities could consolidate the progress they had made toward achieving a viable medium-term balance of payments position. Since then, however, the factors affecting Niger's economic and financial conditions had been much more unfavorable than had been foreseen: the world demand for uranium remained depressed; the border with Nigeria had been closed; and the external accounts were under additional pressure owing to the effects of the severe drought, including the sharp decline in nontraditional exports and the significant increase in food imports.

That the program had remained on track despite those unfavorable developments was most encouraging, Mr. Jaafar went on. The authorities had continued to make far-reaching domestic policy adjustments; without them, Niger's economic and financial position would have been much weaker than at present. The authorities were to be commended for the additional restrictive measures they had introduced in various important areas to support the adjustment program. Because of those measures, the deviations from the original program targets for 1984/85 would be limited and the substantial improvements in financial performance in 1984 would be only partially reversed in 1985.

Neverthless, much remained to be done in the medium term, Mr. Jaafar said. The effects of the authorities' appropriate policy steps thus far were visible in several areas. First, in the area of the financial operations of the public sector enterprises, the Government had implemented far-reaching measures to scale down uneconomic activities and investment, cut employment, and liberalize marketing and pricing policies. The authorities were working with the World Bank to formulate a program of structural reform for the public enterprise sector, and he hoped that it would help to expand the role of the private sector and would lead to the termination of operations of nonviable enterprises. Second, the authorities were also working with the World Bank on a medium-term investment plan. The World Bank staff representative should comment on the plan's content and on the schedule for its implementation. Third, considerable progress had been made in reducing the imbalance in central government operations. Nonetheless, serious problems remained, and the authorities should tightly restrain the growth of the wage bill and limit expenditure to the most essential rehabilitation, maintenance, and development activities. That approach was especially called for because of the unfavorable short-term outlook for revenue. Strict expenditure control was essential if the authorities were to achieve adequate restraint of domestic credit expansion, maintain the process of external adjustment, and avoid an excessive accumulation of foreign debt.

Mr. Polak noted that the economy had been hit hard by a number of exogenous factors, including a severe drought. At best, only a partial recovery of the economy was possible in 1985. The medium-term outlook for the economy was even less favorable than hitherto, but given the strength of the measures agreed by the staff and the authorities for the coming period and the impressive adjustment steps taken over the previous two years, the current stand-by arrangement should be continued. However, the pace of the restructuring of the parastatal sector should be increased; he hoped that an early start could be made on the implementation of the measures envisaged under the structural adjustment program supported by the World Bank.

A follow-up stand-by arrangement should be based on a thorough and realistic examination of the prospects for the recovery of the real economy from the drought, Mr. Polak considered. If the recovery were to take unexpectedly long, the consequent further delay in attaining a viable external position would raise a fundamental policy question: how should the Fund respond to a member's prolonged use of its resources necessitated by unforeseen external circumstances? That issue could become complex if the member's use of Fund resources placed a substantial burden on the country in the short run. In that connection, he fully agreed with Mr. de Maulde that while the Fund should remain involved in Niger, the main source of assistance in coming years would have to be the World Bank; structural adjustment credits, which were available on concessional terms, would be especially important. Finally, the proposed decisions were acceptable.

Mr. Leonard stated that the proposed decisions should be adopted. It was already clear during the previous discussion on Niger that, even with the full implementation of the adjustment program, the return to external and internal balance would be slow and the beneficial effects on the population would at best be uncertain; in addition, a more favorable outcome could be hoped for only if the economy were well managed and factors beyond the control of the authorities were positive. Recent developments showed that that forecast had been fully correct.

The careful management of the economy in 1983/84 had caused a sizable reduction in the deficit in central government operations from 7.3 percent of GDP to 5 percent and a narrowing of the external current account deficit from 7 percent of GDP to 3.4 percent, Mr. Leonard continued. Moreover, there had been improvements in other important areas, and the performance criteria for end-December 1984 had been fully observed.

Real economic growth in 1984 had been negative for the third consecutive year as a result of the drought and poor harvest, Mr. Leonard went on. In addition, the rate of inflation had accelerated and exogenous factors had led to a weakening of the Government's fiscal effort and to a greater than expected recourse by the Government to domestic credit. As a result of the unfavorable prospects for the economy, some corrections in the course of the stand-by arrangement had been required.

He generally favored the authorities' present policies and objectives, Mr. Leonard said. The reform of the public enterprises and the introduction of policies to improve the performance of the productive sectors were especially welcome. The future performance of the economy would depend significantly on the Government's investment program. In its appraisal the staff had concluded that the continued implementation of an appropriate public investment program would greatly help the recovery process, and that the size and structure of future public investment programs should be designed to achieve an early recovery of production and exports of the agricultural and livestock sectors, prevent a worsening of the external debt burden, and avoid pressures on the budget and its bank financing component. The staff had further concluded that as the authorities worked with the World Bank to prepare a medium-term investment program, they should give due consideration both to financial constraints and to the urgent need to rehabilitate the key productive sectors--especially the agricultural and livestock sectors--through the provision of appropriate recurrent and capital funding. The staff's conclusions were a prescription for an ideal outcome. The World Bank's close involvement in the preparation and implementation of the investment program should greatly contribute to the program's success, but he doubted whether the World Bank expected all the program objectives to be reached. The staff had also concluded that without an early reversal of the negative effects of exogenous factors the achievement of economic and financial recovery would be difficult. Continued involvement by the Fund and the World Bank in Niger as well as further debt relief and concessional financing would probably be required for several years.

Ms. Bush remarked that the drought and other exogenous factors had contributed to the problems facing the economy. In addition, the performance of uranium exports had not been as favorable as the authorities had expected. The generous debt rescheduling apparently would close the financing gap in 1985, and the sustainability of Niger's balance of payments in the medium term was the main cause for concern. Although weather conditions were expected to improve and imports would therefore be lower than expected, the medium-term balance of payments outlook was bleak, owing mainly to the poor prospects for exports. Indeed, the projections for uranium exports over the medium term had been revised downward. The uranium export market had been soft for some time, and she wondered why the previous uranium export projections had been so far off target.

The fiscal deficit in 1985 was expected to be 4.6 percent of GDP rather than 4 percent as originally programmed, Ms. Bush noted. The revenue shortfall apparently had been due to the effects of the drought, and the authorities had reduced expenditure: personnel and other non-interest current expenditure, as well as capital expenditure, were lower under the revised program than under the original program. That step was an appropriate response to the revenue shortfall, but she wondered what other steps the authorities might be planning to adjust to the reduced availability of resources. The difficulty in making fiscal adjustments was understandable, but given Niger's membership in the regional currency union it would also be difficult for the authorities to maintain exchange rate flexibility and to adjust interest rates to positive real levels. Credit expansion apparently had been rapid in 1984 but very restrained in the first quarter of 1985. Credit policy should be kept on an even keel to enable producers to plan their activities.

She welcomed the continued liberalization of pricing policy, including the adjustments in producer and other prices mentioned in the supplement to the staff report, Ms. Bush said. The improved marketing arrangements and the rehabilitation of the public enterprises should improve the medium-term outlook. The authorities had appropriately taken steps to liquidate two public enterprises and to rehabilitate many others. A comment on the timetable for the sale of certain public corporations to the private sector would be helpful. The World Bank's involvement in Niger, especially through the structural adjustment program, was fully appropriate.

Given the unfavorable medium-term outlook, the staff could usefully provide additional information on the rescheduling that was expected to cover the balance of payments financing gap in 1985, Ms. Bush commented. It would be particularly useful to know when the non-Paris Club reschedulings were to be completed.

Exogenous factors had made it difficult for the authorities to achieve the program targets, Ms. Bush noted. The export shortfall was not expected to be reversed soon, and additional adjustment apparently would be required if the authorities were to attain a viable payments position in the medium term. The authorities seemed to be committed to maintaining the thrust of the present adjustment program, and the proposed decisions should be approved.

Mr. Jayawardena remarked that the serious deterioration in the economy in the early 1980s had been due mainly to the substantial decline in the terms of trade and the adverse effects of the lingering drought. The authorities had wisely undertaken a stand-by arrangement covering 1983 to reduce the financial imbalances, which were a reflection of the absorption of a high level of capital inflows in earlier years. The stand-by arrangement had somewhat reduced the financial imbalances, but a host of new problems had arisen and a second stand-by arrangement, covering 1984/85, had been required.

Niger was one of the poorest countries in the world, Mr. Jayawardena noted. Its per capita income was just SDR 223, and it did not have a substantial natural resource base. An economy like Niger's was vulnerable to external shocks, and Niger had in fact had to face the collapse of the uranium market, a continuing drought, and the closure of the border with Nigeria. Ideally Niger would not have to face further shocks, including those caused by excessively strong adjustment, and he wondered whether the 46 percent cut in public capital investment under the previous stand-by arrangement had been helpful. As a member of a currency union Niger admittedly had fewer economic policy options than some other members, but adjustment measures should be calibrated cautiously so that they would not cause severe shocks to the economy. The revised objectives of the current stand-by arrangement were appropriate. Strong supply-side policies were the key to rehabilitating the economy, and the measures that had already been introduced to liberalize markets and prices were welcome. The steps that had been taken to restore fiscal balance were appropriate, but the fiscal adjustment would depend crucially upon the recovery of the economy and its revenue potential. In seeking fiscal adjustment the authorities should not rely upon revenue enhancement alone; with World Bank assistance, steps should be taken to curtail current expenditure in general and transfers to public enterprises in particular. The ongoing preparation of a medium-term public investment program with the help of the World Bank was encouraging.

The authorities were clearly determined to take firm steps to handle the difficult economic situation, and the proposed decisions should be accepted, Mr. Jayawardena stated. The staff and the authorities should stand ready to correct and revise the program targets if exogenous factors continued to affect the economy adversely. World Bank and donor assistance would greatly help the authorities to solve the problems facing the economy in the coming period.

The staff representative from the African Department commented that the staff had been cautious in making the assumptions on which the medium-term scenario was based. To that end the staff had reviewed the recovery from the previous drought, in 1973/74, and it was on the basis of that experience that the assumption of a full recovery of agriculture in coming years had been made. Moreover, the upward revision in real GDP growth in 1985 seemed reasonable: agricultural output--which accounted for some 45 percent of GDP--had fallen by 40 percent during the drought, and the projected increase in output from the very low level in 1984 might well occur if normal weather conditions returned. Nevertheless, the projection of the recovery of real GDP growth was tentative. Additional data were required to make firmer and more detailed projections.

The slow pace of public investment was due partly to the authorities' cautious approach to expenditure, the staff representative explained. With the assistance of the World Bank the authorities were reviewing their investment program to ensure that it was consistent with their targets for the real economy and with the availability of financial resources. There was usually a bunching of investment expenditure toward the end of the fiscal year. Realizing that the investment effort had to be reviewed and placed on a more rational footing, the authorities had felt that the appropriate response to the revenue shortfall was a cut in investment expenditure for the time being.

The inflation target seemed reasonable for several reasons, the staff representative said. The import plans included a substantial volume of food items provided by donors and commercial sources. In addition, the authorities were maintaining tight monetary and credit policies, and weather conditions had begun to improve.

The main reason for the weak demand for uranium in world markets was the decline in the construction of nuclear energy plants in many countries, the staff representative commented. Another major factor was the large uranium stocks held in purchasing countries. In the absence of a revival of demand for uranium for nuclear energy plants, a recovery of uranium exports was unlikely to occur. The staff projection for uranium exports in 1985 was based partly on the latest developments in the bilateral contracts between uranium producers in Niger and purchasers abroad.

During the staff's visit to Niger, the authorities had discussed the sale of six public sector enterprises with possible private investors, the staff representative recalled. Given the absence of a number of qualified purchasers it was difficult to establish a firm timetable for privatization. The authorities were certainly willing to discuss with investors the possible transfer of ownership of public sector enterprises, but the process took considerable time. The World Bank would probably wish to review the process in due course.

At the time of the staff visit to Niger, the authorities had asked all their non-Paris Club creditors for rescheduling on terms similar to those provided by Paris Club creditors, the staff representative explained. Since then, the authorities had indicated that they had received some relief from the non-Paris Club creditors; no detailed data were yet available.

The question had been raised whether the sharp cuts in public investment had harmed the economic situation rather than improved it, the staff representative from the African Department recalled. The authorities had felt that the cuts were a necessary part of their efforts to maintain a prudent fiscal policy and to make the financial situation more manageable.

The staff representative from the World Bank said that the main objective of the program supported by the World Bank was to help the Government to make fundamental reforms in the structure of the economy. The prospects for long-term development were more unfavorable in Niger than in most other countries. In the long run, economic growth could be achieved only if a major effort to restructure the economy were undertaken. The World Bank staff assumed that the restructuring would take a long time and would require a series of structural adjustment credits. The first of those credits would support three broad policy reform objectives. That credit's primary goal would be to rehabilitate the public enterprise sector by rationalizing prices and reforming institutional policies and arrangements to increase the efficiency of enterprises and to reduce their burden on the economy. The second objective would be to ensure that Niger's limited resources would be used in the most effective way possible under the public investment program. Priority would be given to maintaining existing assets and to ensuring that the investment program was financially viable. A third aim of the initial structural adjustment credit would be to improve the performance of agriculture. The authorities hoped to minimize subsidies to that sector, reform agricultural credit, and pay increasing attention to meeting agricultural research needs.

The World Bank had been assisting the authorities for several years in the effort to come to grips with some of the main problems facing the economy, the staff representative commented. The World Bank staff had initially focused on providing technical assistance to address some of the key problems facing the economy. That assistance had been provided under an $11 million technical assistance project approved by the Bank's Executive Board in May 1984. After that project had been approved by the Executive Board, the staff had begun discussions with the authorities on the possible content of a structural adjustment program; the first staff mission for that purpose had visited Niger in May 1984. Since then, several staff missions had visited Niger to discuss the possible contents of a program, the most recent mission having been in June 1985. The elements of a program proposed by the World Bank staff were being considered by the authorities, and there were indications that the response was positive. It might be best to schedule the next World Bank mission to Niger to follow the next visit of the Fund staff. At present, the World Bank staff expected a structural adjustment credit for Niger to be approved in early 1986.

The World Bank staff had assisted the authorities in preparing the public investment program as a part of the technical assistance project approved by the Executive Board in May 1984, the staff representative from the World Bank said. At the Government's request, the staff had reviewed public expenditure in general, and the public investment program in particular, in 1984 and early 1985. The staff's report on public expenditure had been discussed with the authorities in May 1985, and the staff expected that a public investment program for 1986-88 would be a main feature of the structural adjustment effort. However, Niger faced severe resource constraints, and the investment program was likely to be much more limited than the staff, the Government, and the aid community would wish it to be. Given the harsh environmental constraints in Niger, it would be very difficult to restore long-term economic growth.

Mr. Alfidja commented that the authorities were clearly willing to transfer the ownership of public enterprises to the private sector. It was difficult to find competent and financially qualified takers so that the transfers would not place an unduly large burden on the government budget. The World Bank had been offering technical assistance on the matter. Finally, the authorities were paying particular attention to unproductive investments with a view to limiting capital outlays.

The Acting Chairman made the following summing up:

> Directors were in general agreement with the views expressed in the staff appraisal in the report for the 1985 Article IV consultation with Niger. Directors noted that during the past two years Niger had courageously implemented an adjustment program in

the face of repeated droughts, deteriorating external terms of trade, the closing of the border with Nigeria, weak world demand conditions for the main export--uranium--rising external debt service payments, and sharply declining GDP in real terms. They commended the authorities for improving overall fiscal performance through tax reform and expenditure restraining measures. They felt that the steps taken to reorient public investment to the productive sectors and to improve the financial performance of parastatals through appropriate price adjustments, combined with domestic trade liberalization and cost-cutting measures, had helped to reduce domestic financial imbalances and had led to an improvement in the external position. They welcomed the forecast revival of GDP in 1985 following the previous several years' continuing decline in economic activity. They noted that, owing mainly to the continuing drought, Niger's inflation rate and the fiscal and external current account deficits would be higher than programmed for 1985.

Directors expressed concern about Niger's medium-term outlook. As Niger will be facing a sharp rise in the external debt service ratio and sizable balance of payments financing gaps over the next four years, Directors urged the authorities to continue the adjustment effort. In this context, they placed particular emphasis on the following elements. First, with regard to central government operations, Directors stressed that the overall deficit should be reduced to contain foreign borrowing and curb the Government's net recourse to domestic bank financing. To this end, it would be important to achieve economies in recurrent outlays--particularly the wage bill--and to maintain prudent limits on development expenditure and to complete the ongoing tax reform program. Second, the acceleration of price increases underscored the need to maintain appropriately tight credit policies. Third, the size and structure of future public investment programs should be designed to achieve an early recovery of production and exports of agricultural and livestock products, prevent a worsening of the external debt service burden, and help establish an appropriate balance between recurrent and capital outlays. Fourth, the process of rehabilitation and structural reform in the public enterprise sector should be continued, with particular attention being given to marketing and price liberalization measures, discontinuing the operations of nonviable entities, and expanding the role of the private sector.

Directors welcomed the economic and financial rehabilitation measures taken by the Nigerien authorities on June 26-28, 1985, with particular emphasis on the improvement of the fiscal position and the operations of state enterprises and on strengthening the focus of the development effort.

Directors encouraged the authorities to continue to work closely with the World Bank in formulating and carrying out appropriate public investment policies, especially in the areas of agriculture and livestock, as well as policies for the rehabilitation of the public enterprise sector. More generally, and given the importance of supply-side structural adjustments for an improvement in Niger's future growth and balance of payments prospects, Directors noted the need for the World Bank to continue to play a primary financial and advisory role in the coming years.

Directors recommended that the next Article IV consultation with Niger 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 1985 Article XIV consultation with Niger in the light of the 1985 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. 8019-(85/104), adopted
July 8, 1985

Review Under Stand-By Arrangement

1. Niger has consulted with the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Niger (EBS/84/221, Sup. 1, 11/28/84) and paragraph 5 of the letter dated August 21, 1984 from the Prime Minister of Niger, in order to review progress made by Niger in implementing its program, including the implementation of measures to rehabilitate the public enterprises and the balance of payments financing, and to reach understandings with the Fund regarding policies, measures, and performance clauses for the remaining period of the stand-by arrangement ending December 4, 1985.

2. The letter, with annexed memorandum, dated March 26, 1985 from the Prime Minister shall be attached to the stand-by arrangement for Niger and the letter dated August 21, 1984, together with the annexed memorandum, shall be read as supplemented by these communications.

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 18(a) of the memorandum annexed to the letter dated March 26, 1985;

(ii) the limit on net position of the Government vis-à-vis the banking system as specified in paragraph 18(b) of the memorandum annexed to the letter dated March 26, 1985; or

(iii) the target for the elimination of domestic payments arrears of the Government vis-à-vis enterprises as specified in paragraph 18(c) of the memorandum annexed to the letter dated March 26, 1985;

is not observed; or

(b) if Niger fails to observe the limits on contracting or guaranteeing of nonconcessional external loans and on the stock of net short-term external liabilities of banks as specified in paragraph 19, third and fifth sentences, of the memorandum annexed to the letter dated August 21, 1984; or

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

(d) if Niger

(i) imposes 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. In accordance with Executive Board Decision No. 7908-(85/26), adopted February 20, 1985 pertaining to members' overdue payments to the Fund, the stand-by arrangement for Niger is amended to read as set out in Attachment I to EBS/85/143.

Decision No. 8020-(85/104), adopted
July 8, 1985

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/85/103 (7/3/85) and EBM/85/104 (7/8/85).

2. BURUNDI - REPRESENTATIVE RATE FOR BURUNDI FRANC

The Fund finds, after consultation with the authorities of Burundi, that the representative exchange rate for the Burundi franc, under Rule O-2(b)(iii), is its fixed relationship to the SDR, which is SDR 1 = FBu 122.70. The Banque de la Rêpublique du Burundi will promptly advise the Fund of any change in the representative rate. (EBD/85/162, 7/1/85)

Decision No. 8021-(85/104) G/S, adopted
July 5, 1985

3. GRENADA - EXCHANGE SYSTEM

The approval of Grenada's multiple currency practice under Decision No. 7845-(84/168), adopted November 21, 1984, is extended until December 31, 1985 or the completion of the next Article IV consultation with Grenada, whichever is earlier. (EBD/85/161, 6/28/85)

Decision No. 8022-(85/104), adopted
July 3, 1985

4. CHILE - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Chile to not later than July 15, 1985. (EBD/85/133, Sup. 1, 7/1/85)

Decision No. 8023-(85/104), adopted
July 3, 1985

5. NIGER - 1985 ARTICLE IV CONSULTATION - POSTPONEMENT

Notwithstanding the period of three months specified in Procedure II of the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, the Executive Board agrees to extend the period for completing the 1985 Article IV consultation with Niger to not later than July 8, 1985. (EBD/85/163, 7/2/85)

Decision No. 8024-(85/104), adopted
July 5, 1985

6. APPROVAL OF MINUTES

The minutes of Executive Board Meetings 84/141 and 84/142 are approved. (EBD/85/159, 6/26/85)

Adopted July 3, 1985

APPROVED: April 9, 1986

LEO VAN HOUTVEN
Secretary