FOR AGENDA

EBS/83/195

CONFIDENTIAL

September 9, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Niger - Use of Fund Resources - Compensatory Financing Facility

Attached for consideration by the Executive Directors is a paper on a request expected to be received from Niger for a purchase equivalent to SDR 12 million under the compensatory financing facility. A draft decision appear on page 11.

It is proposed to bring this subject, together with Niger's request for a stand-by arrangement (EBS/83/194, 9/7/83), to the agenda for discussion on Wednesday, October 5, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kaibni (ext. (5)7721).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

NIGER

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research Department and the African Department

(In consultation with the Exchange and Trade Relations,
Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and J.B. Zulu

September 9, 1983

The Managing Director has been informed that the Nigerien authorities will shortly request a purchase of SDR 12 million (50 percent of quota) under the compensatory financing decision. The request is being made with respect to a shortfall in earnings from merchandise exports for the calendar year 1983. 1/ A request for the use of Fund resources under a stand-by arrangement in an amount equivalent to SDR 18 million (75 percent of quota) is expected to be considered by the Executive Board concurrently with the compensatory financing request. If both of these requests are approved and the resources are fully utilized, the member's purchases outstanding under the compensatory financing facility would increase from 50 percent to 100 percent of quota, and Fund holdings of the member's currency from 124.4 percent to 249.4 percent of the present quota. A waiver of the limitation of Article V, Section 3(b)(iii) of the Fund's Articles of Agreement will be required and is being proposed.

As discussed in Section 2, the estimation period for certain export products exceeds the six-month limit imposed by paragraph 5 of the 1979 compensatory financing decision. Consequently, a waiver of this limitation will be required and is being proposed.

This paper, which is being circulated in advance of the formal request from Niger, is presented in five sections and an annex. The sections deal with: (1) the balance of payments position and cooperation with the Fund; (2) estimation of the export shortfall; (3) causes of the shortfall and export prospects; (4) repurchase; and (5) staff appraisal and proposed decision. The relations of Niger with the Fund are summarized in the annex.

1/ Niger made a purchase of SDR 12 million (50 percent of quota) under the compensatory financing facility in July 1983 (EBS/83/120) in respect of a shortfall of SDR 47.2 million calculated for calendar year 1982.

1. Balance of payments position and cooperation with the Fund

a. Balance of payments position

In 1982, Niger's overall balance of payments recorded a large deficit of SDR 118 million, compared with much smaller deficits in 1979-80 and a surplus in 1981. During 1979-80, exports increased sharply, mainly because of buoyant world demand for uranium (which represents more than three fourths of total exports). However, over this period, the trade deficit widened because of a more rapid expansion of imports resulting mainly from rising levels of public investment. Largely because of this development, the current account deficit widened, and recourse to net capital inflows increased substantially. Since 1981, export earnings have either declined or remained stagnant, primarily due to a weakening of world demand for uranium. As the public investment effort has slowed, the level of imports has followed a declining trend since 1981. As a consequence, the trade and current account deficits narrowed appreciably between 1981 and 1982. Net foreign borrowing, which increased rapidly up to 1981, fell sharply in 1982, both because of a jump in debt repayments and a substantial decline in loan drawings. Largely for this reason, and despite a noticeable decrease in the current account deficit, the overall balance of payments position turned into a large deficit of SDR 118 million in 1982.

The authorities expect to be able to cut the overall balance of payments deficit substantially to less than SDR 30 million in 1983, largely through the implementation of policies designed to reduce the external current account gap by more than 40 percent to about SDR 88 million (5 percent of GDP). Because a small decline is projected in the value of exports (2 percent), the targeted reduction in the current account is to be achieved entirely through further sizable reductions of imports of goods and services. The latter is to be brought about mainly by a cutback of public investment, within the context of a general effort to reduce the financial imbalances of the public sector. Henceforth, public investment is to be set at a level consistent with the existing financial constraints and reoriented to promote the development of the productive sectors (mainly those geared to export development and import substitution), rather than infrastructural projects. In 1984, a further reduction in the current account deficit is anticipated. Exports in 1984 are expected to rise by about 8 pecent, mainly on account of higher uranium exports. Given the modest improvement in the export sector, the major part of the adjustment in the external sector will again be achieved through reduction in the levels of imports (6.4 percent in 1984 compared with 13.9 percent in 1983). The major factors that will contribute to achieving this reduction in imports are further cutbacks in budgetary investment in fiscal year 1983/84, 1/ an increase in import taxation, the deceleration in domestic credit expansion, and an expected recovery in agricultural production. While the trade and current account deficits in 1984 are expected to continue to decline from their 1983 levels, net capital inflows are also expected to decline, due

1/ Fiscal years cover the period October 1-September 30.

Table 1. Niger: Balance of Payments, 1979-84

(In millions of SDRs)

	1979	1980	1981	1982	1983 1/	1984 2/
A. Current account	-168.1	-204.8	-204.0	-148.0	-88.2	-59.1
Trade balance	-145.9	-178.6	-178.7	-105.3	-49.6	-0.5
Exports, f.o.b.	(366.7)	(454.7)	(407.3)	(331.0)	(325.9)	(351.1)
Imports, c.i.f.	(-512.6)	(-633.3)	(-586.0)	(-436.3)	(-375.5)	(-351.6)
Services (net)	-82.2	-89.1	-88.4	-104.7	-97.7	-94.0
Private transfers (net)	-32.7	-42.5	-39.9	-38.3	-36.1	-37.8
Official transfers (net)	92.7	105.4	103.0	100.3	95.2	73.2
B. Capital account	146.3	186.9	231.3	55.1	60.1	20.5
Nonmonetary capital	137.2	156.4	206.6	45.5	56.4	18.1
Monetary capital, long-term	9.1	30.5	24.7	9.6	3.7	2.4
C. Net errors and omissions	15.4	-12.9	2.3	-25.6	--	--
D. SDR allocation	1.7	1.7	1.6	--	--	--
E. Overall balance	-4.7	-29.1	31.2	-118.5	-28.1	-38.6
F. Financing	4.7	29.1	-31.2	118.5	28.1	38.6
Change in net foreign assets (increase -)	4.7	29.1	-31.2	118.5	28.1	14.2
Deposit money banks	(2.0)	(-6.8)	(-24.0)	(60.6)	(-9.0)	(-7.5)
BCEAO	(2.7)	(35.9)	(-7.2)	(57.9)	(37.1)	(21.7)
of which: IMF	--	--	--	--	(30.8)	(11.2)
Exceptional financing (net)	--	--	--	--	--	24.4
Memorandum item:						
Gross international reserves 3/	100.4	99.1	94.5	25.9	14.2	...
In weeks of imports, c.i.f.	(10)	(8)	(8)	(3)	(2)	(...)

Sources: BCEAO; and staff estimates.

1/ Estimates.
2/ Projections.
3/ Including gold (national valuation).

to an expected drop in foreign loan drawings and a sharp rise in amortization payments. Based on this capital account outturn, the balance of payments is projected to record a deficit of SDR 39 million in 1984. To meet the financing need of the balance of payments in 1984, the authorities will be seeking debt relief from both the Paris Club and other creditors, as well as use of Fund resources.

b. Cooperation with the Fund

The request for a purchase under the compensatory financing facility is expected to be presented for Board consideration together with Niger's request for a stand-by arrangement in the amount of SDR 18 million (75 percent of quota). 1/ The proposed stand-by arrangement is in support of a stabilization program for the period September 1, 1983 to September 30, 1984. Under this program Niger will be initiating both internal and external adjustment policies that aim at reducing the country's financial imbalances and providing a base for recovery in overall economic activity in the medium term. The staff believes that the stricter test of cooperation is met for a compensatory financing purchase, in view of the adoption by Niger of the stabilization program for 1983/84 supported by the proposed stand-by arrangement. Niger continues to maintain an exchange system which is free of restrictions on payments and transfers for current international transactions.

2. Estimation of the export shortfall

The authorities of Niger have requested that the calendar year 1983 be treated as the shortfall year. For this purpose, they have provided actual data for uranium exports through June 1983 and, in conjunction with the staff, have estimated the data for uranium for July-December 1983 and for non-uranium exports for the whole shortfall year. Data on the latter exports, which comprise livestock and livestock products and a variety of agricultural products, and together account for 25 percent of total exports, are compiled on a calendar year basis, 2/ and the latest actual data are now available only through calendar year 1982.

Since Niger's non-uranium exports are compiled only on a calendar year basis, it is not possible to base the shortfall calculations supporting a compensatory financing request by Niger on any 12-month period other than a calendar year. In the present instance, estimating non-uranium exports for the whole shortfall year would represent a departure from the provision of the compensatory financing decision that limits the period for which

1/ See EBS/83____, _____.

2/ Data on livestock exports are based on annual surveys of cattle movements to (and prices in) Nigeria's markets, conducted by the Ministry of Rural Development. Data on exports of hides and skins are recorded quarterly by the Ministry of Commerce. Data on products classified as other exports are based on customs statistics and are compiled annually.

export data may be estimated to a maximum of six months. The staff recommends that a waiver be granted in the case of Niger on the following grounds: (1) the shortfall in total exports, which is 2 1/2 times as large as the proposed purchase, is almost entirely accounted for by a shortfall in uranium exports; (2) an expectation that the final calculation of the uranium shortfall based on actual data will turn out to be close to the one estimated in this paper (this is because the estimated exports for July-December are based on firm contracts stipulating price and quantity); and (3) non-uranium exports have exhibited little variation from year to year and the staff is not aware of any development that would suggest a significant variation of such exports in 1983.

In the shortfall year ending December 1983, Niger's export earnings are estimated to amount to SDR 326 million, a level 11 percent below average exports of SDR 367 million reached during the two pre-shortfall years. Export earnings in the two post-shortfall years are projected to recover by 8 percent per year to an average level of SDR 365 million. On the basis of these export movements, the shortfall for the calendar year 1983 is estimated at SDR 31.9 million, which is significantly larger than the proposed purchase of SDR 12 million.

Table 2. Niger: Estimation of the Export Shortfall

(In millions of SDRs)

	Calendar Years				
				Projected exports 1/	
	1981	1982	1983	1984	1985
Exports	407.3	331.1	325.9 2/	351.1	380.2
Shortfall			31.9		
Proposed purchase			12.0		

1/ Based on judgmental projections of export earnings shown in Table 3.
2/ Includes estimates of earnings from uranium exports for six months (July-December 1983) and from non-uranium exports for twelve months (January-December 1983).

3. Causes of the shortfall and export prospects 1/

The overall shortfall of SDR 32 million is predominantly related to a shortfall of SDR 28 million in uranium exports. The uranium shortfall is caused by lower prices and volumes resulting from weak international demand.

a. Uranium

Uranium accounts for three fourths of Niger's total exports, and Niger is the fourth largest producer of uranium in the world. Niger exports its uranium by way of sales contracts negotiated annually between the Government and two mining companies, SOMAIR and COMINAK. The contracts, which are concluded before the beginning of each year, stipulate a price in terms of CFA francs and quantities to be supplied. In addition, Niger's state-owned company, ONAREM, sells small quantities of uranium on the spot market, usually at lower prices. The value of uranium exports and its share in Niger's total exports soared during the period 1975-80, as the contract price more than doubled and the volume of output grew steadily. However, a contraction in world demand in recent years resulted in a substantial reduction in prices. Thus, in 1981, the contract price for Niger's uranium declined by 18 percent (28 percent in terms of SDRs), and even though export volume increased by 25 percent, export earnings fell. In 1982, the CFAF contract price recovered to its 1980 level, but the depreciation of the CFA franc limited the price recovery in SDR terms to only 2 percent, and earnings declined by a further 21 percent because of a drop in volume.

For the shortfall year, 1983, Niger has contracted to sell 3,200 tons (14 percent less than in 1982) to the mining companies at a price 15 percent higher (in terms of CFAF) than in 1982. In addition, ONAREM signed a contract at the beginning of the year with other buyers for the sale of 477 tons at a price 13 percent lower than the contract price. However, the depreciation of the CFA franc has had the effect of limiting the price increase in terms of SDRs to only 3 percent. These arrangements will result in an export value for 1983 of SDR 248 million, 2/ about 1 percent below the 1982 level.

Production of uranium in Niger, as in other producer countries, is running well below capacity and this trend is likely to continue until market conditions improve. For the first post-shortfall year, preliminary

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1/ A more detailed discussion of recent developments in Niger's exports is contained in the paper on the last compensatory financing purchase by Niger, EBS/83/120, 6/9/83. On the basis of the revised estimates for non-uranium exports for 1983 and the revised projections for all exports in 1984, and also as a result of changes in exchange rates since the previous calculations, the shortfall for calendar year 1982 is now estimated at SDR 40.8 million, compared with SDR 47.2 million estimated in EBS/83/120, still substantially above the amount purchased (SDR 12 million).

2/ This figure compares with SDR 254 million used in connection with Niger's last compensatory financing request (EBS/83/120, 6/9/83).

Table 3. Niger: Export Earnings and Shortfalls by Major Commodities

	Calendar Years								Shortfall	
	1978	1979	1980	1981	1982	1983	1984	1985	Geometric	Arithmetic
					(In millions of SDRs)					
Total exports	224.4	366.7	454.7	407.3	331.1	325.9	351.1	380.2	31.9	33.2
Uranium	165.9	287.7	352.0	317.9	249.9	247.7	271.5	298.4	28.0	29.4
Livestock and livestock products	40.6	53.2	52.9	55.5	57.1	55.1	56.0	57.7	1.2	1.2
Other exports	17.9	25.8	49.8	33.9	24.1	23.1	23.6	24.1	2.4	2.7
				(Percentage change)						
Total exports		63	24	-10	-19	-2	8	8		
Uranium		73	22	-10	-21	-1	10	10		
Livestock and livestock products		31	-1	5	3	-4	2	3		
Other exports		44	93	-32	-29	-4	2	2		

Table 4. Niger: Value, Volume, and Unit Value Indices by Major Commodities

(1983=100; in terms of SDRs)

	Value Share in Total Exports in 1983 (In percent)	Calendar Years 1978	1979	1980	1981	1982	1983	1984	1985	Shortfall in Percent of Level in Shortfall Year
Value	92.9	68	113	134	123	101	100	108	118	9.6
Uranium	76.0	67	116	142	128	101	100	110	120	11.3
Livestock and livestock products	16.9	74	97	96	101	104	100	102	105	2.4
Volume		61	90	105	129	104	100	97	97	4.8
Uranium		55	90	108	135	104	100	95	95	4.8
Livestock and livestock products		88	90	90	102	101	100	104	107	2.8
Unit Value		111	125	128	96	98	100	112	121	5.0
Uranium		121	129	132	95	97	100	115	127	6.1
Livestock and livestock products		84	107	106	99	103	100	98	98	-0.4 (excess)

negotiations with the mining companies suggest an export volume of 3,500 tons and a CFAF contract price 15 percent higher than in 1983. 1/ For calendar year 1985, export volume is projected to be the same as in 1984, and unit value is projected to increase by 10 percent. No provision is made for sales on the spot market by ONAREM in the post-shortfall period. These projections imply export values of SDR 271 million in 1984 and SDR 298 million in 1985, and a shortfall of SDR 28 million in calendar year 1983.

b. Livestock and livestock products

Niger's second most important export items are livestock and its products, mainly hides and skins. This category accounts for 17 percent of total exports. After increasing substantially during 1977-79, the value of these exports has stagnated since 1980, mainly because demand from Nigeria, Niger's largest market for these exports, has remained depressed. The average value of exports of livestock and its products for the period 1980-82 was SDR 55 million, and the same value is estimated for 1983. However, largely as a result of Niger's promotion policies, it is expected that meat exports, which have virtually dried up in recent years, will be resumed later this year. Therefore, a modest increase of 2 percent a year is projected for the post-shortfall period. On the basis of these export movements, a shortfall of SDR 1.2 million is calculated for livestock and its products.

c. "Other" exports

"Other" exports, accounting for less than 8 percent of Niger's total exports, consist mainly of agricultural products, including cowpeas, groundnuts and groundnut products, gum arabic, and onions. Like livestock, they are almost entirely exported to Nigeria. The value of these exports has fluctuated sharply in recent years because of variation in annual production due to changing weather conditions. It reached a high level of SDR 50 million in 1980, but fell sharply in 1981 and 1982 due to drought and plant disease. As the weather has been more favorable in 1983, a smaller decline (4 percent) in the value of these exports to SDR 23 million is estimated. For the post-shortfall period, an average annual increase of 2 percent is projected. On the basis of these movements in export values, a shortfall of SDR 2.4 million is calculated for "other" exports in 1983.

1/ The 1984 projections used in EBS/83/120 called for an export volume of 4,000 tons (a sale of 3,200 tons to the mining companies at a price 5 percent higher than in 1983, and of 800 tons at lower prices on the spot market). But as a result of exchange rate changes, SDR value of uranium exports for 1984 is not expected to change much and is now calculated at SDR 271.5 million compared with SDR 273.8 million used in EBS/83/120.

4. Repurchase

In accordance with paragraph 7 of the compensatory financing decision, the authorities of Niger are expected to represent that they will make a prompt repurchase in respect of any outstanding part of this purchase, if the amount purchased on the basis of partly estimated data exceeds the amount that could have been purchased on the basis of actual data for the entire shortfall year.

5. Staff appraisal and proposed decision

Niger is expected to request a purchase of SDR 12 million (equivalent to 50 percent of quota) under the compensatory financing facility in respect of a shortfall in export earnings for the calendar year 1983. The proposed purchase would raise Niger's outstanding compensatory financing purchases to 100 percent of quota. The calculation of the export shortfall for calendar year 1983 is based on actual export data for uranium through June 1983, and estimated data for uranium for July-December 1983 and for non-uranium exports for the whole shortfall year. Thus, the period for which estimates for part of Niger's exports have been made extends beyond the six-month limit stipulated by paragraph 5 of the compensatory financing decision. This is because Niger compiles its data on uranium exports, which account for three fourths of total exports, on a quarterly basis, and the data on non-uranium exports are finalized once a year on a calendar year basis. Because of this statistical feature, it is not possible to base a compensatory financing request by Niger on a shortfall year other than a calendar year. The staff recommends a waiver of the six-month limit on estimated exports on the basis of a judgment that the final shortfall to be calculated when the actual data for the calendar year become available will be much larger than the proposed purchase.

Niger's external current account deficit, after increasing substantially from SDR 168 million in 1979 to SDR 204 million in 1981, has been declining since then. In 1982, notwithstanding a 19 percent drop in merchandise exports due largely to a sizable shortfall in uranium exports, the current account deficit narrowed as a result of a large decline in imports. However, as the recourse to net capital inflows dropped sharply from the rapidly rising levels of earlier years, the overall balance of payments switched from a surplus of SDR 31 million in 1981 to a deficit of SDR 118 million in 1982. Although the current account and overall balance of payments deficits are expected to decline substantially in 1983, largely as a result of a further sizable reduction in imports through cutbacks in public investment, Niger's balance of payments will continue to be in a difficult position, mainly because debt service payments are projected to remain high and foreign borrowing will have to be contained to levels lower than those of 1979-81. The staff considers that Niger's balance of payments need justifies the proposed purchase under the compensatory financing decision.

In view of the adoption by Niger of a stabilization program supported by use of Fund resources under a stand-by arrangement, the request for which is expected to be considered by the Executive Board concurrently with the compensatory financing request, the staff believes that the stricter test of cooperation is met for the proposed purchase. The request for a compensatory financing purchase is expected to include a representation that Niger will cooperate with the Fund in efforts to find appropriate solutions for its balance of payments difficulties.

The aggregate value of merchandise exports, after registering an average annual growth rate of more than 50 percent during the period 1978-80, declined by an average of 13 percent per year in 1981 and 1982, and is expected to decline by another 2 percent in the shortfall year. Exports are projected to recover at an annual rate of 8 percent during 1984-85. In the overall calculated export shortfall of SDR 31.9 million, uranium's contribution is by far the largest, SDR 28 million; much smaller shortfalls are estimated for livestock and livestock products (SDR 1.2 million) and "other" exports (SDR 2.4 million). The shortfall for uranium exports reflects both lower prices and volumes due to weak international demand, while the shortfalls for non-uranium exports were mainly the result of lower volumes resulting from reduced demand by Nigeria, the main outlet for Niger's non-uranium products. For these reasons, the staff considers that the shortfall in Niger's export earnings for the calendar year 1983 is largely attributable to factors beyond the member's control, and that, in view of the projected recovery, it is temporary in character.

The staff considers that the request by Niger under the compensatory financing decision meets all the requirements set forth in the decision, subject to the waiver proposed below being granted. Accordingly, the following draft decision is proposed for adoption by the Executive Board, after a duly authenticated request has been received:

1. The Fund has received a request from the Government of Niger for a purchase of SDR 12 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979).

2. The Fund notes the representations of Niger and approves the purchase in accordance with the request.

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

4. The Fund waives the limitation of six months for the estimation of merchandise exports imposed by paragraph 5 of Executive Board Decision No. 6224-(79/135).

Niger--Relations with the Fund

(As of July 31, 1983)

Date of membership:	April 24, 1963
Status:	Article XIV
Quota:	SDR 24 million
Proposed quota:	SDR 33.7 million
Intervention currency and the rate:	French franc; CFAF 1 = F 0.02
SDR/local currency equivalent:	SDR 1 = CFAF 420.04
Fund holdings of currency:	SDR 29.86 million (or 124.43 percent of quota), of which SDR 12 million is under the compensatory financing facility.
SDR holdings:	SDR 7.44 million (79.1 percent of net cumulative allocation of SDR 9.41 million).
Direct distribution of profits from gold sales:	US$2.09 million
Distribution of gold:	11,124.5 fine ounces
Trust Fund loans outstanding:	SDR 12.70 million
Recent contacts:	Last Article IV consultation discussions with Niger took place during January 4-20, 1983, and the Staff Report, SM/83/28, 5/24/83, was considered by the Executive Board on July 1, 1983. Use of Fund resources mission visited Niger in July 1983.