

EBS/85/143
Correction 2

CONFIDENTIAL

July 5, 1985

To: Members of the Executive Board

From: The Acting Secretary

Subject: Niger - Staff Report for the 1985 Article IV Consultation
and Review Under Extended Arrangement

The following corrections have been made in EBS/85/143 (4/5/85):

Page 13, Table 6, column 2, line 4: for "19.28" read "14.94"
column 4, line 4: for "21.60" read "16.93"
column 6, line 1: for "129.00" read "121.83"
line 2: for "27.00" read "24.21"
line 4: for "23.00" read "16.82"

Page 27, para. 3(b), line 2: for "loans as specified in paragraph 19(c)"
read "loans and on the stock of net short-
term external liabilities of banks as
specified in paragraph 19"

Page 42, para. 4(a)(iv), line 1: for "short-term foreign liabilities"
read "short-term net foreign liabilities"

Corrected pages are attached.

Att: (3)

Table 6. Niger: Quantitative Performance Criteria Under the 1984/85 Program 1/

	1984				1985					
	Sept.		December		March		June		Sept.	
	Original estimate	Actual	Prog.	Actual	Prog.	Est. actual	Original targets	Prog.	Original targets	Prog.
(In billions of CFA francs; end of period)										
Net domestic credit <u>2/</u>	132.30	112.09	134.00	119.80	139.40	121.83	137.50 <u>3/</u>	131.00	141.00 <u>3/</u>	131.08
Net credit to the Government	24.60	16.08	27.00	21.61	29.40	24.21	27.50 <u>3/</u>	27.00	30.00 <u>3/</u>	25.08
Domestic arrears <u>4/</u>	2.10	4.10	...	3.40	...	3.40	...	2.10	--	--
Short-term net foreign liabilities of deposit money banks	23.0	14.94	23.00	16.93	23.00	16.82	23.00	23.00	23.00	23.00
(In millions of SDRs)										
New nonconcessional foreign borrowing contracted or guaranteed by the Government with a maturity of 0-12 years	--	--	--	--	--	--	--	--
External arrears	3.60	3.60	3.60	3.60	3.60	--	--	--	--	--

Sources: Data provided by the Nigerien authorities; Attachment III; and EBS/84/221.

1/ The program period covers the fiscal year ending September 1985.

2/ Includes any new classification of doubtful or litigious loans during the program period.

3/ Indicative limits.

4/ Excludes public agencies' arrears to the Office de Poste et Telecommunications (OPT).

IV. Report on the Discussions

In view of the very difficult situation facing the Nigerien authorities as a result of the drought, the discussions focused on the policies required to minimize the deviations from the objectives of the ongoing financial program, and prepare the basis for an eventual recovery of production and for progress toward medium-term balance of payments viability. In general, the authorities decided to strengthen the current program in a number of key policy areas, namely, to further liberalize marketing and pricing policies and rehabilitate public enterprises, to appropriately limit and restructure public investment, to achieve an adequate degree of restraint in fiscal and domestic credit policies, and to continue prudent external debt management.

1. Revised objectives for 1984/85 and medium-term prospects

During the remainder of the program period the authorities will be making a determined effort to contain the deterioration in the balance of payments and government finances. Specifically, in 1985 the expected adverse impact of exogenous factors on the external current account (SDR 85.5 million) is to be partly offset by domestic policy adjustments designed to reduce the deficit in nondrought-related transactions (by SDR 18.5 million). Thus, as shown in Table 4, the deficit in the external current account (excluding public transfers) is to be limited to SDR 219.7 million (14.6 percent of GDP), as against an initial program objective of SDR 152.7 million (9 percent of GDP). Since the net inflows of official grants and capital are projected to exceed the initial program estimates (by SDR 39.3 million and SDR 13.3 million, respectively), the overall balance of payments deficit is to be held to SDR 53.6 million, compared with an originally programmed deficit of SDR 39.2 million. The larger overall deficit would be financed by higher than earlier envisaged levels of debt relief (SDR 37.9 million) and reduction in net foreign assets (SDR 15.7 million).

The authorities have resolved to achieve a substantial improvement in overall fiscal performance during the remainder of the program period. To this end, the Government will be implementing new revenue raising and expenditure restraining measures (discussed below) to generate savings of about CFAF 2.4 billion to partially offset the expected revenue shortfall resulting from exogenous factors (CFAF 2.7 billion) and the increase in scheduled interest payments caused by the depreciation of the CFA franc (CFAF 1.4 billion). Thus, on a commitment basis, the deficit in central government operations would be held to CFAF 31.6 billion (4.6 percent of GDP), which is only about CFAF 1.7 billion more than the original program target (4.0 percent of GDP). The authorities will also be reducing existing domestic arrears by a further CFAF 2.0 billion to achieve a total cash reduction in arrears of CFAF 4.1 billion during the fiscal year. Taking this into account, and the payment earlier in the year of CFAF 1.1 billion to cover expenditures carried over from the previous fiscal year, the overall cash deficit would be limited to CFAF 36.8 billion, compared with CFAF 32.0 billion in the original program (Table 3).

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 preceding period indicates 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.

Niger--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated August 21, 1984, from the Prime Minister of Niger requesting a stand-by arrangement and setting forth the objectives, policies, and measures that the authorities of Niger will pursue for the period of this stand-by arrangement and understandings of Niger with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures to be pursued for the remaining period of this stand-by arrangement.

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

1. For a period of twelve months from December 5, 1984, Niger will have the right to make purchases from the Fund in an amount equivalent to SDR 16 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 3.2 million until February 15, 1985, SDR 6.4 million until May 15, 1985, SDR 9.6 million until August 15, 1985, and SDR 12.8 million until November 15, 1985.

(b) None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Niger's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary and borrowed resources in the ratio of 1 to 1, provided that any modification by the Fund of the proportions of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

4. Niger will not make purchases under this stand-by arrangement that would increase the Fund's holdings of Niger's currency in the credit tranches beyond 25 per cent 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

- (1) the limit on total domestic credit of the financial institutions as specified in paragraph 17 of the annexed memorandum, or

- (ii) the limit on net position of the Government vis-à-vis the banking system as specified in paragraph 17 of the annexed memorandum, or
- (iii) the target for the elimination of domestic payments arrears of the Government vis-à-vis enterprises as specified in paragraph 16 of the annexed memorandum, or
- (iv) the limit on the stock of short-term net foreign liabilities of the domestic banks referred to in paragraph 19 of the annexed memorandum

is not observed; or

(b) if Niger fails to observe the limits on contracting or guaranteeing of nonconcessional external loans as specified in paragraph 19 of the annexed memorandum; or

(c) if Niger incurs any external arrears or fails to carry out the intention specified in paragraph 20, third sentence, of the annexed memorandum; or

(d) after May 14, 1985, if the review contemplated in paragraph 5 of the attached letter, has not been completed and suitable performance clauses have not been established as contemplated in that provision, or after such clauses having been established, while they are not being observed; or

(e) 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.

When Niger is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Niger and understandings have been reached regarding the circumstances in which such purchases can be resumed.