

**FOR
AGENDA**

EBS/85/143
Correction 1

CONFIDENTIAL

June 25, 1985

To: Members of the Executive Board
From: The Secretary
Subject: Niger - Staff Report for the 1985 Article IV Consultation
and Review Under Stand-By Arrangement

The following correction has been made in EBS/85/143 (6/5/85):

Page 23, para. 1: add as line 9 "exogenous factors, Niger also faces
worrisome prospects of a steep rise"

A corrected page is attached.

Att: (1)

In 1984/85 Niger is having to continue the adjustment effort under much more adverse economic and financial conditions than were foreseen at the start of the current financial program. Along with the continuing strains placed by the depressed conditions of world demand for uranium and the closure of the border with Nigeria, the external accounts are under additional pressure because the severe 1984 drought has led to a large decline in nonuranium exports and a sharp rise in food imports. Apart from the short-term financial problems resulting from the above exogenous factors, Niger also faces worrisome prospects of a steep rise in the external debt service ratio and of sizable financing gaps in the balance of payments over the next three to four years if the real economy and exports do not recover quickly enough.

Given the large adverse impact of the drought and other exogenous factors, the authorities have decided to strengthen the ongoing 1984/85 program in key policy areas, in order to reduce the deficits in the nondrought-related portions of public sector financial operations and the external current account. Accordingly, additional measures will be taken to rehabilitate and restructure the public enterprise sector; liberalize the marketing and pricing of officially marketed cereals; adjust the official sales prices and tariffs of various public entities; limit public investment to the prevailing financial constraints and reorient it to the productive sectors; achieve an appropriate degree of restraint in fiscal and credit policies; and continue a policy of prudent external debt management. Largely because of these additional domestic policy adjustments, the deviations from the original program targets for 1984/85 will be limited, and the substantial improvements in financial performance achieved in 1984 will only be partially reversed in 1985. Taking the two fiscal years 1983/84-1984/85 as a whole, the Government's net recourse to bank credit (CFAF 11.7 billion) and the increase in total domestic credit (CFAF 12.2 billion) will be much less than originally programmed (CFAF 16.6 billion and CFAF 22.1 billion, respectively). Similarly, despite an expected deterioration in 1985, over the two calendar years covered by the two recent programs (1984-85), Niger's net official foreign assets position will be improving by SDR 23.7 million, as against an initially programmed deterioration of SDR 5.2 million.

The key issues facing the authorities over the medium term are how to (a) reverse the declining trend in real GDP of the past four years; (b) restore financial viability to the public enterprise sector; (c) improve overall fiscal performance; and (d) achieve substantial external adjustment. Without an early reversal of the prevailing negative exogenous factors, the task of achieving economic and financial recovery will no doubt be difficult. Nevertheless, the experience of the two programs so far implemented shows that without far-reaching domestic policy adjustments the economic and financial situation would have been much weaker than it is today.

Over the past two years, the financial operations of several enterprises have been studied with the help of foreign technical assistance programs, and followed up with the implementation of far-reaching measures, including, inter alia, the scaling down of uneconomic activities and

investments, employment cutbacks, appropriate cost recovery measures, and the liberalization of marketing and pricing policies. This process needs to be continued. In this respect, it is encouraging to note that the authorities are working with the World Bank to formulate a program of structural reform for the public enterprise sector, which, in addition to maintaining the pace of financial adjustment measures in selected enterprises, would include steps to expand the role of the private sector and discontinue the operations of nonviable enterprises. The staff feels that progress in this direction would contribute importantly to improving resource allocation, reducing financial imbalances, and strengthening the prospects for economic recovery.

The continued implementation of an appropriate public investment program would greatly help the recovery process. The size and structure of future public investment programs would have to be designed in such a way as to achieve an early recovery of production and exports of the agricultural and livestock sectors, prevent a worsening of the external debt service burden, and avoid pressures on the budget and its bank financing component. In this context, as the authorities work with the World Bank to prepare a medium-term investment plan, it would be important to 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 appropriate provisions of both recurrent and capital funding.

Over the medium term, the financial imbalances in central government operations will have to be reduced so as to achieve an adequate degree of restraint in domestic credit expansion, support the process of external adjustment, and prevent an excessive buildup of the foreign debt. Given the weak short-term prospects for revenue growth, the authorities will need to tightly restrain the growth of the wage bill and re-examine the priorities of public expenditure to ensure that both recurrent and capital funding is provided strictly for the most essential rehabilitation, maintenance, and developmental activities. Concurrently, the Government will need to implement the final phase of the tax reform program already in place, in particular, the introduction of the value-added tax. Finally, within the context of the rehabilitation programs being formulated for the public enterprises, it would be important to establish a clear picture of the domestic arrears that may exist between different enterprises, as well as between the Government and public enterprises. As was done for arrears to private enterprises and to the post and telecommunications office, the authorities should plan on progressively eliminating any such arrears also, as part of the process of aiding the rehabilitation of the public enterprise sector.

The staff feels that the financial program for the remainder of 1984/85 is a well-balanced and an adequate response to the financial problems that Niger is currently facing. Moreover, the staff has been reassured by the authorities that they intend to continue a strong adjustment effort over the medium term, and that they are working closely