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IMF Executive Board Concludes 2008 Article IV Consultation with Niger

On December 19, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Niger.[1] It also completed the first review of Niger's performance under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement approved on May 28, 2008.

Background

Niger's main challenge continues to be boosting economic growth to sustainably reduce poverty. The landlocked country, heavily dependent upon drought-prone subsistence agriculture, ranks 174th out of 177 countries on the United Nations Human Development Index. The population is not only among the poorest but also one of the fastest growing in the world (3.3 percent a year).

Since 2000, political stability has been restored; the authorities have followed prudent macroeconomic policies, supported by three successive PRGF arrangements; and GDP growth (averaging 4.4 percent per year) has kept ahead of population growth, except during two devastating droughts. During the previous PRGF-supported program (2005-2008), which expired in May 2008, significant progress was achieved in macroeconomic stability, revenue mobilization, expenditure management, and restoration of creditworthiness. Debt relief from the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) granted in 2004–06 and prudent borrowing policies have greatly relieved the debt burden and increased fiscal space. Critical factors required to achieve higher growth and reduce

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

poverty, in line with the Poverty Reduction Strategy for 2008–12, are (i) continued prudent macroeconomic management; (ii) improvements in the investment climate; and (iii) considerable external assistance on very concessional terms.

Macroeconomic performance was satisfactory in 2007, although growth decelerated. It slowed to 3.3 percent in 2007 as the harvest returned to normal after two years of exceptional growth and averaged 5.8 percent for 2005–07. Growth rebounded in 2008, to an expected 5.9 percent, supported by major investments in mining and petroleum and a harvest that benefited from good rains. As a result of higher world prices for food and fuel, inflation accelerated in the first eight months of 2008 but is now decelerating. Although exports increased in 2007 and 2008 because of higher uranium export prices, the external current account deficit widened, reflecting investment-related imports.

As a member of the CFA franc zone, Niger has no independent monetary policy. Credit to the economy was buoyant in 2007 and the first eight months of 2008, reflecting loans to the mining, telecommunication and transportation sectors. As evidenced by the recent Financial System Stability Assessment, the banking system is relatively sound, but the regional supervisor should ensure that banks increase their capital to comply with the new regional regulations. Also, microfinance institutions should be strengthened. The focus of the government in strengthening the financial system should be on improving the business environment, supervision and regulation, rather than creating specialized banks.

Budget performance was satisfactory in 2007 and the first half of 2008. In 2007, both tax and nontax revenue performed well. Despite a strong increase in current expenditures and domestically-financed public investment, the basic budget deficit remained moderate and below target (at 0.9 percent of GDP). The reduction of domestic arrears, which has been ongoing since 2001, was broadly on track at 0.7 percent of GDP. Public expenditures on education, health, and the rural sector amounted to 9 percent of GDP (marginally below the level of 2006). In the first half of 2008 the basic budget deficit, excluding an exceptional petroleum signature bonus received in June (US$300 million or CFAF 123.4 billion, 5.3 percent of GDP) was lower than programmed, as revenue was in line with the program and domestically-financed expenditure remained well below programmed level. Public financial management has been strengthened through closer monitoring of budgetary execution, and stronger expenditure controls and auditing.

Executive Board Assessment

Executive Directors commended the Nigerien authorities on the overall favorable performance of the economy since the last Article IV consultation in 2006. GDP growth, albeit slowing, kept ahead of population growth in 2007, and rebounded in 2008 underpinned by high investment and progress in economic diversification. Following two years of relative stability, inflation fluctuated in 2008, moving broadly in step with first the sharp rise and then the easing in global food and fuel prices during the year.

Directors commended the authorities' response to the major challenge posed by the food and fuel crisis earlier this year, noting the reactivation of well-targeted food security operations and the resort to costly tax suspensions for only a limited time. It will be important to ensure that the targeted assistance mechanisms continue to be well funded, and that the authorities release in a timely manner the government contributions to these arrangements, supplementing those of the donor community.

Directors noted that Niger faces many challenges, given its susceptibility to external shocks and widespread poverty. They therefore welcomed the significant investments under way in a number of sectors—including mining, transportation, irrigation, and telecommunication—which are expected to bolster activity in 2009. However, a prolonged global downturn could deter future mining exploration and dampen Niger's medium-term prospects.

Directors stressed that the present climate of heightened uncertainty makes it even more important to support Niger's growth by comprehensive efforts to enhance competitiveness. In this context, Directors noted that the exchange rate is broadly aligned with fundamentals but structural reforms—such as improved training of the labor force, better access to finance, reduction in the cost of business, and improved transport infrastructure—are needed to improve the business climate and productivity. Budgetary aid in support of priority sectors remains essential to achieve Niger's growth objectives and improve its social indicators.

Directors considered the authorities' economic program for 2009 appropriate, with its focus on better managing the public finances, closely aligning the budget to Poverty Reduction Strategy Paper (PRSP) priorities, streamlining company taxation to improve the investment climate, and furthering reforms of the financial sector. They welcomed the comprehensive actions taken to strengthen public financial management, and supported the authorities' efforts to cast budget preparation in a medium-term framework. The planned reform in corporate taxation should help improve the investment climate, attract foreign direct investment, and further diversify the economy. The allocation of the exceptional resources from the petroleum sector to infrastructure and the social sectors is appropriate.

Directors commended the efforts undertaken to strengthen debt management. Noting that the updated Debt Sustainability Analysis still rates Niger as at moderate risk of debt distress, they underscored that the debt contracted for ambitious infrastructure projects, including a major dam on the Niger river, should be at very concessional terms and consistent with debt sustainability.

Directors agreed that deepening financial intermediation is crucial to support economic activity, including in housing and agriculture. They encouraged the authorities to promote credit to these sectors but emphasized the need to avoid establishing narrowly based institutions that could carry excessive risks, as indicated in the recent Financial Sector Stability Assessment report. Directors endorsed the Financial Sector Assessment Program recommendations and welcomed the authorities' intention to carry forward financial sector reforms aimed at strengthening banks and microfinancial institutions, and improving financial sector supervision.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Niger: Selected Economic Indicators, 2006-10					
	2006	2007	2008	2009	2010
		Est.	Proj.	Projections	
	(Annual percentage changes, unless otherwise indicated)				
National income and prices					
GDP at constant prices	5.8	3.3	5.9	4.5	4.5
4GDP deflator	1.4	3.3	8.3	2.2	2.3
Consumer price index					
Annual average	0.1	0.1	9.0	2.5	2.3
End of Period	0.4	4.7	8.5	2.0	2.0
Money and credit					
Credit to the government (net)[1]	-31.6	-14.7	-1.6	13.8	5.4
Credit to the economy[1]	15.4	11.2	6.1	8.9	9.9
Broad money	16.2	23.0	24.1	18.7	12.2
	(Percent of GDP, unless otherwise indicated)				
Government finances					
Total revenue	13.0	15.2	17.5	12.2	12.3
Of which: exceptional mining receipts	1.6	1.4	5.3	...	...
Total expenditure and net lending	19.8	23.4	24.2	26.0	23.4
Capital expenditure	10.6	11.6	11.3	13.3	11.5
Basic balance (excluding grants)[2]	0.30	-0.9	-0.64	-5.3	-2.9
Overall balance (commitment basis, excluding grants)	-6.8	-8.2	-6.7	-13.8	-11.1
Investment/saving					
Gross investment	23.6	23.6	26.3	36.6	44.1
Of which: non-government investment	16.8	17.2	19.4	28.6	37.2
government	6.8	6.4	6.8	8.0	6.9
Gross national savings	15.4	14.7	16.4	14.0	13.5
Of which: non-government	11.6	11.3	11.9	9.3	8.0
Domestic savings	11.9	11.6	13.4	7.8	10.8
External sector					
Exports, f.o.b. (in CFA francs), annual percentage changes	6.0	24.7	15.3	6.5	12.4
Imports, f.o.b (in CFA francs), annual percentage changes	-0.9	14.5	20.7	60.3	20.7
External current account balance					
Excluding official grants	-10.5	-11.1	-12.3	-26.9	-33.2
Including official grants	-8.2	-8.9	-9.9	-22.5	-30.6
Overall balance of payments (billions of CFA francs)	98.2	69.0	96.5	-15.2	-13.9
NPV of external debt	10.2	10.5	9.2	10.7	11.6
Foreign Aid	9.1	9.8	7.8	12.3	10.8

Sources: Nigerien authorities; and IMF staff estimates and projections.
[1]Percent of beginning-of-period broad money stock.
[2]Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.