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EBS/85/143

CONFIDENTIAL

June 5, 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

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Niger and the review under the stand-by arrangement. Draft decisions appear on pages 26-28.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Basu (ext. 6511) or Mr. Tahari (ext. 6931) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

NIGER

Staff Report for the 1985 Article IV Consultation and Review Under Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by E.L. Bornemann and S. Kanesa-Thasan

June 4, 1985

I. Introduction

The 1985 Article IV consultation discussions with Niger, together with a review of Niger's performance under the financial program supported by the current one-year stand-by arrangement, were held in Niamey during the period March 10-26, 1985. The representatives of Niger included Mr. Boukary Adji, Minister of Finance; Mr. Nouhou Amadou, Minister of Commerce and Transport; Mr. Soumaila Almoustapha, Minister Delegate for the Plan; Mr. Mamadou Diop, National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); and other senior officials concerned with economic and financial matters. The staff mission also had the opportunity to discuss Niger's economic and financial situation with General Seyni Kountché, President of the Republic, and Mr. Hamid Algabid, Prime Minister. The staff representatives were Messrs. A. Basu (head), A. Tahari, J.P. Briffaux, J.C. Brou, A. Tas (all-AFR), and Ms. V. Slocum (secretary-INST). Mr. Alfidja, Executive Director for Niger, participated in the policy discussions.

The current one-year stand-by arrangement, which became effective on December 5, 1984, provides for total purchases equivalent to SDR 16 million (47.5 percent of quota) (Table 1). Niger made the first purchase of SDR 3.2 million upon Executive Board approval of the arrangement, and a second purchase of the same amount following the observance of the performance criteria for end-December 1984. The remaining amount would be available in three further purchases, each of SDR 3.2 million, after satisfactory completion of the present review with the Fund and subject to the satisfaction of the performance criteria for end-March, end-June, and end-September 1985, respectively. If all the purchases under the current arrangement are made, Niger's outstanding use of Fund credit would rise by the end of the arrangement to the equivalent of 172.1 percent of quota (100.9 percent of quota if purchases under the compensatory financing facility are excluded).

Table 1. Niger: Fund Position During Period of Arrangement, 1984-85

	Outstanding at beginning of arrangement	1984 Dec. 14	1985 Feb. 15-May 14	1985 May 15-Aug. 14	1985 Aug. 15-Nov. 14	1985 Nov. 15-Dec. 5
		(In millions of SDRs)				
Transactions under tranche policies (net)						
Purchases	--	3.20	3.20	3.20	3.20	3.20
Ordinary resources	--	1.60	1.60	1.60	1.60	1.60
Enlarged access resources	--	1.60	1.60	1.60	1.60	1.60
Repurchases	--	--	--	--	--	--
Ordinary resources	--	--	--	--	--	--
Enlarged access resources	--	--	--	--	--	--
Transactions under special facilities (net)						
Purchases	--	--	--	--	--	--
Repurchases	--	--	--	--	--	--
Total Fund credit outstanding (end of period)	42.00	45.20	48.40	51.60	54.80	58.00
Tranche policies	18.00	21.20	24.40	27.60	30.80	34.00
Special facilities 1/	24.00	24.00	24.00	24.00	24.00	24.00
		(In percent of quota)				
Total Fund credit outstanding (end of period)	124.63	134.12	143.62	153.12	162.61	172.11
Tranche policies	53.41	62.90	72.40	81.90	91.39	100.89
Special facilities 1/	71.22	71.22	71.22	71.22	71.22	71.22

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.

A World Bank staff mission visited Niamey in March-April 1985 and a further mission is scheduled for May to continue discussions with the Government on a set of policy reforms to be supported by a first Structural Adjustment Credit (SAC). These reforms will fall in three areas: (i) management of public resources and expenditure (including investment), (ii) parastatal sector reforms, and (iii) agricultural policies. The specific policy measures to be supported by the SAC are scheduled to be appraised by the World Bank in September and their implementation is likely to begin toward the end of 1985 and in early 1986. The Fund and World Bank staffs continue to cooperate closely on these and other matters.

Niger continues to avail itself of the transitional arrangements of Article XIV. Summaries of Niger's relations with the Fund and the World Bank Group are provided in Appendices I and II, respectively. Selected economic and financial indicators are shown in Table 2, and supporting basic data and a note on statistical issues are contained in Appendix III. An amended stand-by arrangement, the letter of intent of the Government of Niger, and the annexed memorandum of economic and financial policies for the remaining period of the current financial program are presented in Attachments I, II, and III.

II. Recent Economic Developments

Niger experienced a rapid deterioration in its economic and financial situation in the early 1980s, mainly because world demand conditions weakened for Niger's main export (uranium), the external terms of trade deteriorated sharply, weather conditions were unfavorable, and foreign aid inflows declined. At the same time, the country's public enterprises were engulfed increasingly by financial problems due to weak management and inadequate pricing policies. In the fiscal years 1980/81-1982/83 1/ the deficits in central government operations, on a commitment basis, averaged 8.5 percent of GDP, owing largely to high levels of public investment and budgetary suppport for public enterprises, as well as to a declining trend in government revenues. Despite heavy recourse to net foreign borrowing and domestic bank credit, these deficits led to an accumulation of substantial domestic arrears. The large financial imbalances in the public sector were accompanied by sizeable deficits in the external current account, which, including official grants, averaged 9.6 percent of GDP during 1980-83. 2/ As a result of heavy recourse to foreign borrowing, partly on nonconcessional terms, scheduled external debt service payments increased markedly, from 22.4 percent of exports in 1980 to 41.3 percent of exports in 1983. 3/ Along with the deterioration in the financial situation, Niger's real gross domestic product (GDP) declined by 2.3 percent during 1981-83, compared with an average

1/ The fiscal year covers the period from October 1 to September 30.
2/ Excluding grants, the deficits averaged 15.7 percent of GDP.
3/ The debt service payments are expressed as a ratio of exports of goods and nonfactor services throughout this paper.

Table 2. Niger: Selected Economic and Financial Indicators, 1982-85

	1982	1983		1984		1985	
		Program	Actuals	Program	Est.	Program	Rev.
				(Annual percentage changes, unless otherwise specified)			
National income and prices							
GDP at constant prices	-0.8	-1.5	-2.6	0.4	-16.1	3.1	7.1
GDP deflator	9.8	7.0	7.8	5.0	7.7	6.5	8.5
Consumer prices	10.4	7.0	2.1	4.0	8.4	7.0	10.4
External sector (on the basis of SDRs)							
Exports, f.o.b.	-17.2	-5.6	-7.9	-9.7	-2.0	5.1	-13.8
Imports, c.i.f.	-19.1	-23.0	-16.9	-13.5	-17.3	0.9	9.9
Export volume	-20.2	-3.9	-8.2	0.5	0.7	0.3	-1.6
Import volume	-23.0	-22.4	-14.5	-8.9	-18.7	-2.1	5.1
Terms of trade (deterioration -)	-1.2	-1.0	3.9	-5.4	-4.3	0.8	-16.3
Nominal effective exchange rate 1/ (depreciation -)	-2.9	-5.0	-3.2	...	-2.5	...	...
Real effective exchange rate 1/ (depreciation -)	-1.5	-3.4	-12.9	...	0.5	...	...
Government budget (fiscal years ending September 30)							
Revenue (excluding grants)	-1.8	-2.6	-6.8	3.2	-2.0	6.6	1.5
Expenditure (commitment basis)	-14.6	-6.3	-1.2	-14.3	-15.8	2.0	1.2
Money and credit (end of period)							
Domestic credit 2/	29.5	12.8	-1.7	11.5	-6.7	11.0	15.7
Government 2/	20.6	6.9	2.1	2.9	4.2	4.4	4.4
Private sector 2/	8.9	5.9	-3.8	8.6	-10.9	6.6	11.3
Money and quasi-money (M2)	-11.7	1.3	-1.0	5.0	22.5	7.4	7.4
Velocity (GDP relative to M2)	7.8	8.2	8.2	8.4	6.1	7.8	6.6
Interest rate (annual rate, one year savings deposits)	10.0	9.0	9.0	9.0	9.0	9.0	9.0
				(In percent of GDP)			
Central government budget deficit (on the basis of fiscal years)							
Commitment basis	-7.1	-6.2	-7.3	-4.2	-5.0	-4.0	-4.6
Cash basis	-4.9	-6.5	-7.3	-6.0	-6.8	-4.3	-5.4
Domestic bank financing	1.3	1.4	0.7	1.4	0.8	0.7	1.3
Foreign financing (net)	3.2	4.7	6.3	4.4	5.5	3.8	4.2
External current account deficit							
Including grants	-9.0	-5.3	-7.0	-3.3	-3.4	-2.8	-5.0
Excluding grants	-16.3	-11.0	-13.8	-9.4	-10.9	-9.0	-14.6
External debt 3/	46.1	...	53.5	51.8	68.8	51.6	64.1
				(In percent of exports) 4/			
Debt service ratio 5/							
Without debt relief	46.4	31.8	41.3	36.0	46.0	35.9	47.0
With debt relief	...	...	38.8	27.3	31.4	37.9	33.7
Interest payments 5/							
Without debt relief	19.6	13.3	17.7	13.5	19.4	12.5	19.8
With debt relief	...	...	16.8	10.9	14.7	13.6	17.2
				(In millions of SDRs)			
Overall balance of payments	-117.6	-28.1	5.0	-32.3	-8.4	-39.2	-53.6
Change in external payments arrears	--	--	3.6	--	--	-3.6	-3.6

Sources: Data provided by the Nigerien authorities; and staff estimates.

1/ Import-weighted.
2/ Expressed in percent of beginning-of-period money stock.
3/ Outstanding disbursed public and private debt, including IMF and the short-term foreign liabilities of the commercial banks.
4/ Exports of goods and nonfactor services.
5/ Service on public and private debts.

annual real growth rate of 8 percent during the years of the uranium boom from 1978 to 1980. As measured by the implicit GDP deflator, the domestic inflation rate slowed from about 16 percent in 1980 to 8 percent in 1983.

In 1983/84, under a financial program supported by a stand-by arrangement from the Fund, Niger made considerable progress toward reducing its domestic and external financial imbalances but, due primarily to a severe drought, experienced a large decline in real GDP and an upturn in the domestic inflation rate. On a commitment basis, the deficit in central government operations was reduced from CFAF 48.6 billion (7.3 percent of GDP) in 1982/83 to CFAF 31.4 billion (5.0 percent of GDP) in 1983/84 (Table 3). The deficit in the external current account (including public transfers) narrowed from SDR 116.1 million (7.0 percent of GDP) in 1983 to SDR 46.4 million (3.4 percent of GDP) in 1984 1/; the latter was SDR 14.4 million lower than the program target (Table 4). Moreover, in 1984 the net inflow of public transfers and capital and the size of external debt relief were significantly higher than the initial program estimates. Reflecting these developments, the overall balance of payments deficit amounted to only SDR 8.4 million, SDR 30.4 million less than programmed; and, instead of a programmed reduction (of SDR 6.3 million) in net foreign assets, there was an increase (of SDR 39.4 million) in such assets. 2/

Real GDP is officially estimated to have declined for the third successive year in 1984 (by 16 percent). Owing to a severe drought, the main agricultural harvests in the last quarter of 1984 were exceptionally poor; in particular, the output of the major food crops was 30-40 percent below normal levels. Moreover, about 40 percent of the livestock herd is reported to have been lost. The increase in the consumer price index is estimated to have accelerated from 2 percent in 1983 to about 8 percent in 1984. The upward pressures on domestic prices resulting from the poor 1984 harvest have so far been partly cushioned by both imports and a drawdown of domestic stocks of food grains.

In 1983/84 the reduction in the deficit in central government operations (on a commitment basis) was achieved primarily through a large cut (46 percent) in development expenditure. Concurrently, the growth of current outlays, other than interest payments, was held to some 6 percent to achieve a reduction (of about 2 percent) in real terms, and the first phase of a two-year tax reform program was implemented in line with the recommendations of a Fund technical assistance report. 3/ With the large reduction in the deficit in central government operations (on a commitment basis), the Government was able to curb markedly its domestic arrears to

1/ Excluding public transfers, the deficit decreased from 13.8 percent of GDP to 10.9 percent of GDP.

2/ Gross official foreign reserves increased from SDR 50.8 million at end-1983 to SDR 90.5 million (3.3 months of imports) at end-1984.

3/ A description of the reform measures is presented in EBS/84/221, dated October 29, 1984.

Table 3. Niger: Central Government Operations, 1981/82-1984/85

(In billions of CFA francs)

	1981/82	1982/83	1983/84		1984/85	
			Program	Prel. actual	Program	Revised program
Revenue	73.8	68.8	71.0	67.4	70.8	68.4
Tax revenue	65.9	62.6	64.4	58.9	62.4	61.0
Custom duties	(25.4)	(26.5)	(27.0)	(24.0)	(25.3)	(24.8)
Other	(40.5)	(36.1)	(37.4)	(34.9)	(37.1)	(36.2)
Nontax revenue 1/	7.9	6.2	6.6	8.5	8.4	7.4
Expenditure 2/	118.8	117.4	100.6	98.8	100.7	100.0
Current budget	57.3	55.4	62.4	63.6	69.7	70.0
Interest on public debt 3/	(7.1)	(9.2)	(13.6)	(14.6)	(15.7)	(17.1)
Personnel	(20.3)	(22.2)	(25.3)	(23.2)	(26.3)	(25.3)
Other current	(29.9)	(24.0)	(23.5)	(25.8)	(27.7)	(27.6)
Development	37.9	58.7	36.8	31.5	31.0	30.0
Budget	(11.7)	(9.5)	(6.4)	(5.0)	(6.0)	(5.0)
Extrabudgetary	(26.2)	(49.2)	(30.4)	(26.5)	(25.0)	(25.0)
Other expenditure and net lending	23.6	3.3	1.4	3.7	--	--
Deficit (commitment basis)	-45.0	-48.6	-29.6	-31.4	-29.9	-31.6
Change in arrears (decrease -)	14.4	-1.7	-10.5	-12.4	-2.1	-4.1
Of which: to the banks	(...)	(-1.4) 4/	(-1.0) 4/	(-2.6) 4/	(--)	(--)
Change in check float 5/	--	1.9	-1.9	-1.1	--	-1.1
Deficit (cash basis)	-30.6	-48.4	-42.0	-42.7	-32.0	-36.8
Financing 2/	30.6	48.4	42.0	42.7	32.0	36.8
External	20.2	42.3	30.9	34.5	28.2	28.6
Debt relief	(--)	(--)	(15.0)	(15.9)	(13.8)	(17.0)
Gross drawings	(26.2)	(49.9)	(30.4)	(32.9)	(30.0)	(31.1)
Repayments 3/	(-6.0)	(-7.6)	(-14.5)	(-14.3)	(-15.6)	(-19.5)
Domestic (net)	10.4	6.1	11.1	8.2	3.8	8.2
Monetary authorities	(5.9)	(1.7)	(10.1)	(3.9)	(5.4)	(9.0)
Banks	(5.5)	(2.7) 4/	(--) 4/	(1.4) 4/	(--)	(--)
Others	(-1.0)	(1.7)	(1.0)	(2.9)	(-1.6)	(-0.8)

Sources: Data provided by the Nigerien authorities; and staff estimates.

1/ Includes receipts earmarked for annexed budgets.
2/ Does not include grant-financed outlays, mainly for investment projects, estimated at around CFAF 40 billion annually.
3/ Scheduled payments.
4/ Net bank financing differs from the monetary data because the Government's reduction of arrears owed to commercial banks is shown separately for monitoring purposes, rather than as a normal reduction of net credit to Government.
5/ The float item arose from the Government's regularization of certain expenditures in the last quarter of the fiscal year.

Table 4. Niger: Balance of Payments, 1983-90

(In millions of SDRs)

	1983	1984		1985		1986	1987	1988	1989	1990
		Prog.	Prel.	Prog.	Rev. prog.	Projections				
Trade balance	-93.7	-45.3	-30.2	-32.8	-104.8	-39.6	-24.1	-22.4	-20.7	-18.4
Exports, f.o.b.	308.0	303.6	302.0	319.1	260.2	293.1	321.9	337.4	353.5	370.8
Uranium	231.4	232.4	224.5	244.9	216.4	230.0	239.2	248.8	258.7	269.1
Other	76.6	71.2	77.5	74.2	43.8	63.1	82.7	88.6	94.8	101.7
Imports, c.i.f.	401.7	348.9	332.2	351.9	365.0	332.7	346.0	359.8	374.2	389.2
Services, net	-101.5	-93.8	-98.8	-93.8	-90.4	-92.8	-97.1	-98.7	-97.8	-95.4
Of which: scheduled interest	-59.5	-48.3	-63.6	-43.4	-56.4	-57.4	-54.8	-54.7	-52.2	-47.8
Transfers	79.1	78.3	82.6	78.4	119.3	86.4	89.8	93.3	97.1	100.9
Private	-32.6	-26.1	-20.1	-26.1	-24.5	-27.1	-28.2	-29.4	-30.5	-31.8
Public	111.7	104.4	102.7	104.5	143.8	113.5	118.0	122.7	127.8	132.7
Current account balance	-116.1	-60.8	-46.4	-48.2	-75.9	-46.0	-31.4	-27.8	-21.4	-12.9
Excluding public transfers	-227.8	-165.2	-149.1	-152.7	-219.7	-159.5	-149.4	-150.5	-149.2	-145.6
Nonmonetary capital, net	93.7	21.9	28.8	9.0	22.3	0.6	10.4	11.4	17.1	23.3
Public long term, net	80.0	44.4	43.7	23.6	31.9	6.8	15.2	16.4	24.1	32.6
Disbursements	118.9	94.6	99.8	81.7	81.9 1/	73.2	76.1	79.1	82.3	85.6
Amortization	38.9	50.2	56.1	58.1	50.0	66.4	60.9	62.7	58.2	53.0
Private, net	-26.5	-22.5	-9.6	-14.6	-9.6	-6.2	-4.8	-5.0	-7.0	-9.3
Short term, net	40.1	--	-5.3	--	--	--	--	--	--	--
Errors/omissions/SDR allocation	27.3	--	9.2	--	--	--	--	--	--	--
Overall balance	4.9	-38.8	-8.4	-39.2	-53.6	-45.4	-21.0	-16.4	-4.3	10.4
Financing	-4.9	38.8	8.4	5.2	53.6	...	...	...	...	...
Net foreign assets	-13.3	6.3	-39.4	5.2	15.7	...	...	...	...	...
Deposit money banks	-23.9	-8.2	-6.3	--	--	...	...	...	...	...
BCEAO	10.6	14.5	-33.1	5.2	15.7	...	...	...	...	...
Of which: IMF	30.8	14.4	14.4	12.8	12.8	-1.5	-16.1	-22.3	-10.9	-4.0
Debt relief	8.4	32.5	47.8	--	37.9 1/	--	--	--	--	--
Financing gap	--	--	--	34.0	--	46.9	37.1	38.7	15.2	--

Sources: Data provided by the Nigerien authorities; and staff estimates and projections.

1/ Includes the refinancing (SDR 6.5 million) expected from official creditors that did not participate in the Paris Club.

enterprises and banks (by CFAF 9.8 billion and CFAF 2.6 billion, respectively). Moreover, despite a reduced level of net foreign borrowing (including debt relief), the Government's recourse to domestic bank credit, net of repayments of government arrears to banks, was slightly lower than in 1982/83.

Public investment was not only cut substantially in 1983/84, to reflect the prevailing financial and absorptive capacity constraints, but its sectoral pattern was also adjusted to put more emphasis on projects in the productive sectors rather than on social and infrastructural projects. Of the total investments implemented, projects in the productive sectors accounted for about 42 percent (compared with 35 percent in 1979-83); those for social and economic infrastructure accounted for 43 percent (as against 50 percent in 1979-83); and the remainder represented outlays for technical assistance services and various project appraisal studies.

Under the 1983/84 financial program, significant steps were taken to begin rehabilitating the public enterprise sector. With the help of World Bank and bilateral technical assistance, the authorities completed studies on the operations of the enterprises most seriously in difficulty. Thereafter, to improve the financial position of selected public enterprises, appropriate measures were taken to strengthen management, reduce operating costs, and adjust pricing policies. 1/

The authorities implemented significantly tighter domestic credit policies in 1983-84. After an average annual increase of almost 30 percent in 1980-82, domestic credit declined by 1.7 and 6.7 percent of the beginning stock of broad money in 1983 and 1984, respectively (Table 5). 2/ Along with the tighter credit policies, the banking system's long-term foreign liabilities declined marginally, and its net short-term external position improved substantially (from net liabilities of CFAF 15.8 billion at end-1983 to net assets of CFAF 1.9 billion at end-1984). Concurrent with this improvement in the external position, broad money increased by 22.5 percent in 1984 (as against a 1 percent decline during the preceding year).

In 1984 the deficit in the external current account narrowed mainly because of a reduction of more than two thirds in the trade deficit. As exports declined by some 2 percent, the decrease in the trade deficit was due entirely to a 17 percent reduction in imports. The adjustment was brought about mainly by the large cutback in public investment; tax reform; expenditure saving and pricing measures to reduce the financial imbalances in the public enterprise sector; and a curtailment of domestic bank credit.

1/ A description of the measures that were taken is contained in EBS/84/221, dated October 29, 1984.

2/ All growth rates of domestic credit are expressed as percentages of the beginning stock of broad money.

Table 5. Niger: Monetary Survey, 1983-85 1/

(In billions of CFA francs; end of period)

	1983		1984				1985				
	Sept.	Dec.	Sept.		Dec.		March		June	Sept.	Dec.
			Orig. est.	Actual	Prog.	Actual	Prog.	Est.	Prog.	Prog.	Prog.
Net foreign assets	-17.91	-15.77	-8.77	4.61	-14.77	1.87	-14.77	--	-1.85	-3.73	-5.53
Central Bank	(2.98)	(4.00)	(7.43)	(19.55)	(1.43)	(18.80)	(1.43)	(16.93)	(15.08)	(13.20)	(11.40)
Deposit money banks	(-20.89)	(-19.77)	(-16.20)	(-14.94)	(-16.20)	(-16.93)	(-16.20)	(-16.93)	(-16.93)	(-16.93)	(-16.93)
Domestic credit	118.86	125.28	128.60	112.09	134.00	119.80	139.40	129.00	131.00	131.08	135.60
Net claims on Government	(13.41)	(18.12)	(24.60)	(16.08)	(27.00)	(21.61)	(29.40)	(27.00)	(27.00)	(25.08)	(26.00)
Central Bank	4.24	7.51	14.84	8.09	17.24	14.27	19.64	19.66	19.66	17.09	18.01
Other	9.17	10.61	9.76	7.99	9.76	7.34	9.76	7.34	7.34	7.99	7.99
Credit to the private sector	(105.45)2/	(107.16)2/	(104.00)2/	(96.01)2/	(107.00)3/	(98.19)	(100.00)3/	(102.00)	(104.00)3/	(106.00)3/	(109.60)
Money and quasi-money	76.10	82.11	91.99	96.29	90.39	100.62	95.79	106.95	107.10	105.30	108.02
Long-term foreign liabilities	27.80	28.76	28.68	28.16	28.68	28.01	28.68	28.01	28.01	28.01	28.01
Other items (net)	-2.95	-1.36	-0.84	-7.75	0.16	-6.96	0.16	-5.96	-5.96	-5.96	-5.96

Sources: BCEAO, Statistiques Economiques et Monétaires; and data provided by the Nigerien authorities.

1/ The current financial program covers the period from October 1984 to September 1985.
2/ Excluding reclassification at end-1983 of doubtful or litigious loans estimated at CFAF 3.74 billion.
3/ No reclassification of doubtful or litigious loans is provided for under the program. The ceilings, therefore, include any amount which the authorities may reclassify during the program period.

In support of its adjustment effort, Niger obtained debt relief from the Paris Club in November 1983 and from foreign commercial banks in early 1984, covering the periods October 1983-September 1984 and October 1983-September 1985, respectively. 1/ As a result of the debt relief, the external public debt service ratio declined from 22.7 percent to 20.2 percent in 1983 and from 30.6 percent to 16 percent in 1984. In 1984 service payments on the private (nonguaranteed) foreign debt (mainly of the mining sector) decreased noticeably (by 19.0 percent) for the second successive year; they represented about 15.4 percent of exports.

Between end-1980 and the first quarter of 1985, the import-weighted effective exchange rate of the CFA franc, which is pegged to the French franc at the rate of CFAF 50 = F 1, depreciated by about 14 percent in nominal terms and by roughly the same magnitude in real terms (Chart 1). Niger's exchange and trade system is similar to that of other franc area countries which maintain an operations account with the French Treasury and remain free of restrictions on payments and transfers for current international transactions.

III. Review of the 1984/85 Program

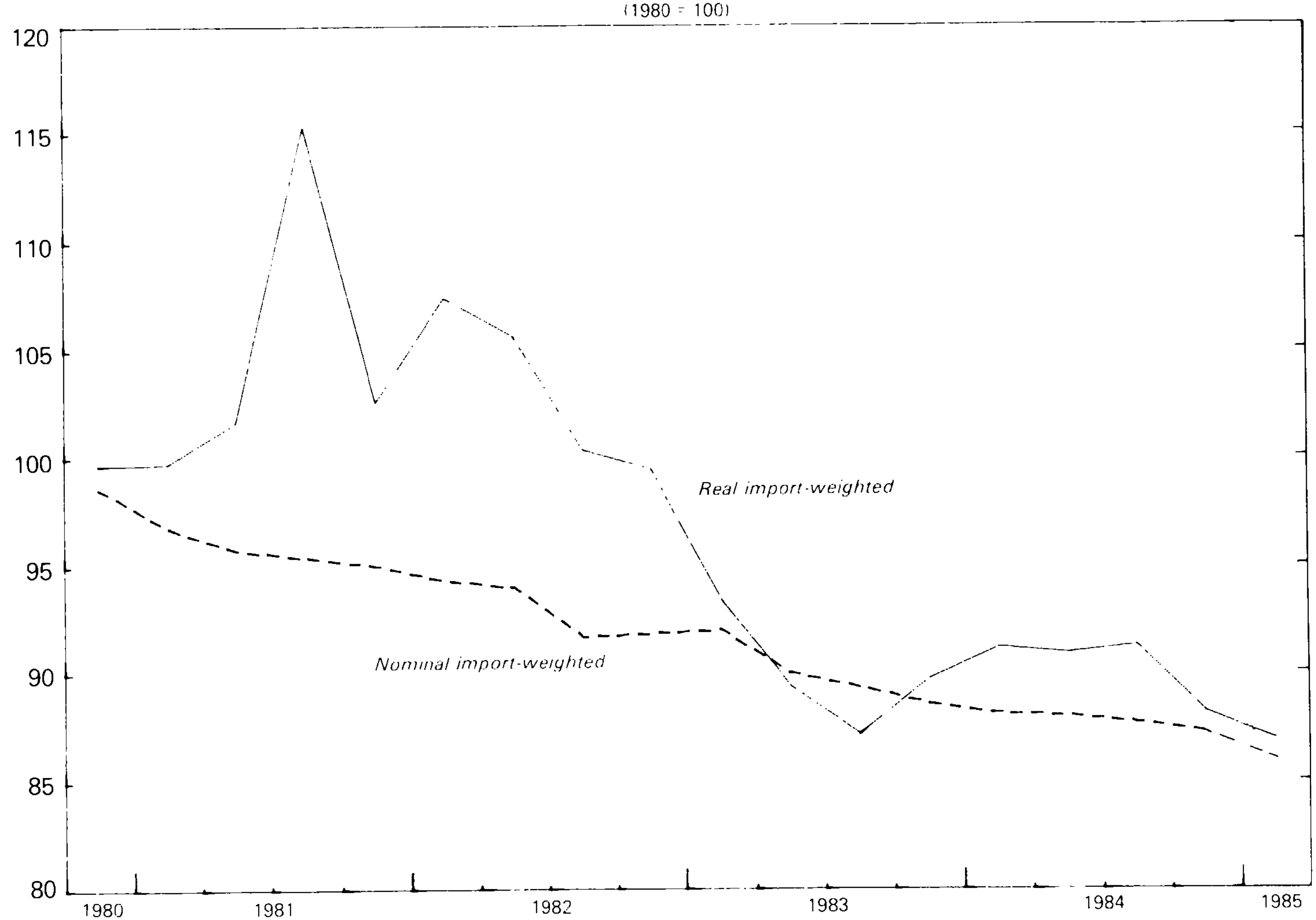
The broad objectives of the 1984/85 program were to generate a moderate increase in real GDP (3 percent), to achieve a slight reduction in the rate of inflation as measured by the GDP deflator (to 6.5 percent), and to narrow the external current account deficit (including grants) by about 1 percentage point to 2.8 percent of GDP with a view to limiting the overall balance of payments deficit to SDR 39.2 million. For the Central Government's financial operations, the objectives were to reduce the overall deficit (on a commitment basis) from 5.0 percent of GDP in 1983/84 to 4.0 percent in 1984/85, and to realize a cash reduction in the Government's domestic arrears of CFAF 2.1 billion. To achieve these objectives, the program called for rehabilitation measures in the public enterprise sector, the liberalization of marketing and pricing policies, an appropriate investment program, a budget with specific revenue raising measures and expenditure cutbacks, a restrictive credit policy, and continued prudent management of the external debt.

At the time of the review in March 1985, the financial outlook for 1984/85 (and calendar 1985) was reassessed to be much less favorable than had been assumed under the program. This was primarily due to fact that the adverse repercussions of the late 1984 drought, the closure of the border with Nigeria, and the continuation of weak world demand conditions for uranium were estimated to be more severe for both the 1984/85 government budget and the 1985 balance of payments.

Based on preliminary data and official estimates for the first six months, overall fiscal performance has so far been weaker than initially

1/ Commercial banks' rescheduling for the second year was conditional on further rescheduling by the Paris Club for the same period.

CHART 1
NIGER
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, Q4 1980 - Q1 1985
(1980 = 100)



programmed. Between end-September 1984 and end-March 1985 the Government's net recourse to domestic bank financing is estimated to have amounted to nearly CFAF 11 billion (11.3 percent of the beginning stock of broad money), about twice the amount programmed for the whole year. 1/ The weak fiscal performance of the first six months reflects to some extent a seasonal low in government revenues, but more importantly it is attributable to a number of exogenous factors whose adverse effects on revenues are likely to be felt throughout the fiscal year. Specifically, for the year as a whole, even with new measures to improve tax collections (discussed below), shortfalls from the original program targets are expected in revenues from customs duties (CFAF 0.5 billion) and other (domestic) taxes (CFAF 1.2 billion), and in nontax receipts (about CFAF 1.0 billion from the grain marketing agency (OPVN)). 2/ The shortfall in customs duty receipts is due to a shift in the composition of imports from taxable items to nontaxable commodities (essentially food grains and foreign aid financed imports). As a result of a deeper recession in the commercial and industrial sectors, revenue collections from other (domestic) taxes are lagging behind initial estimates. The OPVN will not be able to make a contribution to the budget, as initially envisaged, because the drought-related cereal distribution costs will be higher. Finally, the Government's large recourse to bank financing in the first six months of 1984/85 also reflects the implementation of development outlays for which foreign financing was obtained in the previous fiscal year, 3/ and an unanticipated payment of CFAF 1.1 billion on account of other expenditures carried over from the previous fiscal year.

Between end-September 1984 and end-March 1985 bank credit to the economy (the nongovernment sectors) is estimated to have increased by CFAF 6.0 billion (6.2 percent of the beginning stock of broad money). Including the strong expansion in net credit to the Government, total domestic credit rose by 17.5 percent of the beginning stock of broad money, whereas an increase of 11.7 percent had been programmed initially. Despite the larger-than-programmed expansion in total domestic credit, the banking system's net short-term external position is estimated to have deteriorated (CFAF 4.6 billion) somewhat less than initially targeted (CFAF 6.0 billion). Consequently, during the first six months, broad money is estimated to have increased (11 percent) much more rapidly than programmed (4.1 percent). Notwithstanding the expansionary trends in credit, largely because at end-September 1984 total domestic credit and net credit to the Government were substantially lower than the initial program estimates, their levels at end-March 1984 are estimated

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1/ According to final official data, in the last quarter of 1984 net credit to the Government increased by CFAF 5.5 billion, which is slightly more than what had been initially programmed for the fiscal year 1984/85 as a whole. However, since net credit to the Government was much lower than programmed at end-September 1984, its level is projected to remain below the program ceiling for end-March 1985.

2/ OPVN = Office des Produits Vivriers du Niger.

3/ In 1983/84 the unutilized foreign financing was held as government deposits in the banking system.

to have remained lower than initially programmed by about CFAF 10.4 billion and CFAF 2.4 billion, respectively.

The deterioration in the banking system's net external position is believed to have resulted primarily from serious pressures on the current account; the underlying factors contributing to these pressures were largely beyond the Government's control. In 1985 the drought-induced commercial imports of cereals are projected to amount to SDR 26.5 million. The drought is also expected to lead to a shortfall of SDR 30.4 million in agricultural exports. Moreover, uranium exports are now expected to record a shortfall of SDR 28.6 million, mainly because the purchases by the foreign companies in the mining sector are projected to be lower than the initial program estimate. Thus, the prospective overall deterioration in the trade balance resulting from the above exogenous factors is projected to be large, amounting to SDR 85.5 million.

In November 1984 Niger obtained debt relief from official creditors participating in the Paris Club. 1/ The authorities have also written to other official creditors to request debt relief on the same terms as those accorded by the Paris Club. 2/ In addition, the authorities have been able to obtain a rescheduling of SDR 3.6 million of external arrears on the publicly guaranteed debt (these arrears had been incurred before October 1983). 3/ For 1985, the debt relief obtained from the Paris Club and foreign banks amounts to SDR 37.9 million, about 11.5 percent more than the initial program estimate. Before rescheduling, external public debt service payments 4/ were projected to decrease from SDR 100.2 million (30.6 percent of exports) in 1984 to SDR 90.9 million (32 percent of exports) in 1985. After rescheduling, the debt service ratio is estimated to be reduced to 18.6 percent of exports in 1985.

The program's performance criteria for the period ended December 1984 were all fully observed (Table 6). Total domestic credit and net credit to the Government were about CFAF 14.2 billion and CFAF 5.4 billion, respectively, below the corresponding ceilings. The program required the Government to reduce its domestic arrears by CFAF 2.1 billion by end-September 1985, and in the first quarter of 1984/85 CFAF 0.7 billion of these arrears were paid. As noted above, the outstanding external arrears were fully rescheduled. Finally, as envisaged, no new nonconcessional foreign loans with a maturity of 0-12 years were contracted or guaranteed by the Government, and the short-term foreign liabilities of the deposit money banks were held to about CFAF 1.4 billion below the program's end-1984 ceiling.

1/ All the related bilateral agreements have been signed.
2/ An amount of SDR 6.5 million is expected to be obtained as refinancing from official creditors that did not participate in the Paris Club.
3/ There are no remaining external arrears.
4/ Includes financial obligations to the Fund.

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.	Original targets	Prog.	Original targets	Prog.
	(In billions of CFA francs; end of period)									
Net domestic credit 2/	132.30	112.09	134.00	119.80	139.40	129.00	137.50 3/	131.00	141.00 3/	131.08
Net credit to the Government	24.60	16.08	27.00	21.61	29.40	27.00	27.50 3/	27.00	30.00 3/	25.08
Domestic arrears 4/	2.10	4.10	...	3.40	...	3.40	...	2.10	--	--
Short-term net foreign liabilities of deposit money banks	23.0	19.28	23.00	21.60	23.00	23.00	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).

The above cash deficit, and a smaller use of Treasury deposits by public entities (mainly the social security fund), would be financed by a higher level of net foreign borrowing (CFAF 28.6 billion) 1/ and of domestic bank credit (CFAF 9 billion). Given that domestic bank financing is estimated to have amounted to CFAF 11 billion during the first half of the fiscal year, the revised limit on such financing would entail a reduction of CFAF 2 billion in the Government's net indebtedness to the banking system over the remainder of the fiscal year.

In reviewing the short-term outlook for domestic production and inflation, the authorities felt that, even assuming the return of normal weather conditions, production in the agricultural and livestock sectors was likely to recover only partially. On this assumption, real GDP was projected to rise by some 7 percent in 1985 to a level that would still be 9-10 percent below the original program forecast. Concurrently, since only part of the potential deficit in food grains is expected to be covered by imports, and the import-weighted effective exchange rate for the CFA franc is projected to be some 6-7 percent more depreciated than the original program assumption, the domestic inflation rate is targeted to be higher (8.5 percent) than earlier programmed (6.5 percent).

The program for 1984/85 was formulated with reference to a medium-term scenario that was presented in EBS/84/221. This scenario was updated to take into account the more recent assessment of developments in 1984 and of the outlook for 1985, in particular the weaker prospects for uranium exports and the possibility that the effects of the drought may take 2-3 years to be reversed. The updated scenario, shown in Table 4, suggests that Niger could be expected to attain a viable external position about two years later than originally expected, provided the authorities continue with a strong adjustment effort over the medium term.

In the coming years Niger will be facing a sharply rising trend in external public debt service payments. After taking into account the debt relief obtained during 1983-85, external public debt service payments (including the Fund) are projected to rise from SDR 53 million (18.7 percent of exports) in 1985 to SDR 131 million (36.0 percent of exports) by 1988 and decline thereafter. Concurrently, service payments on the private non-guaranteed debt (mainly of the mining sector) are forecast to decrease from about 15 percent of exports in 1985 to 5 percent by 1988 (Table 7).

Based on existing commitments, in 1986 the disbursements of official grants and long-term loans are projected to decline by 21 percent and 11 percent, respectively. The large drop in grants reflects mainly an expected decline in food aid. Based on a preliminary assessment of aid prospects for the subsequent four years up to 1990, the disbursements of

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1/ Includes external debt relief. Compared with the initial program estimates, scheduled debt service payments are CFAF 3.9 billion higher due to the recent depreciation of the CFA franc, but this would be more than offset by increases in estimated debt relief (CFAF 3.2 billion) and new foreign loan drawings (CFAF 1.1 billion).

Table 7. Niger: Service Payments on External Debt, 1983-90

(In millions of SDRs)

	1983	1984 Prel.	1985 Est.	1986 Projections	1987 Projections	1988 Projections	1989 Projections	1990 Projections
Before debt relief								
Public 1/	75.73	97.01	86.96	97.86	97.62	99.65	92.61	84.81
Principal	(38.88)	(56.06)	(50.00)	(60.81)	(60.88)	(61.13)	(54.68)	(49.48)
Interest	(36.84)	(40.95)	(36.96)	(37.05)	(36.74)	(38.52)	(37.93)	(35.33)
Private	62.25	50.43	42.76	28.26	19.64	18.26	17.56	16.86
Principal	(40.16)	(30.99)	(27.23)	(17.90)	(10.40)	(9.50)	(9.30)	(9.30)
Interest	(22.09)	(19.45)	(15.53)	(10.36)	(9.24)	(8.76)	(8.26)	(7.56)
IMF	0.56	3.21	3.89	6.31	20.17	25.02	12.51	5.02
Repurchases	(--)	(--)	(--)	(1.50)	(16.10)	(22.30)	(10.90)	(4.00)
Charges	(0.56)	(3.21)	(3.89)	(4.81)	(4.07)	(2.72)	(1.61)	(1.02)
Total	138.54	150.65	133.60	132.43	137.43	142.93	122.68	106.69
Principal/repurchases	79.04	87.05	77.23	80.21	87.38	92.93	74.88	62.78
Interest/charges	59.50	63.60	56.37	52.22	50.05	50.00	47.80	43.92
After debt relief								
Public including IMF	67.94	52.40	52.99	114.87	122.56	130.94	112.96	97.22
Principal/repurchases	(33.48)	(23.88)	(19.77)	(67.87)	(76.98)	(85.01)	(69.08)	(56.97)
Interest/charges	(34.46)	(28.60)	(33.22)	(47.00)	(45.57)	(45.93)	(43.89)	(40.25)
Total	130.20	102.83	95.75	143.13	142.20	149.20	130.52	114.08
Principal/repurchases	73.64	54.87	47.00	85.77	87.38	94.51	78.38	66.27
Interest/charges	56.56	47.96	48.75	57.36	54.81	54.69	52.15	47.81
Debt service ratios (in percent) 2/								
Before debt relief								
Public including IMF	22.72	30.63	31.96	32.75	33.86	34.21	27.54	22.46
Total: public and private	41.26	46.04	47.01	41.63	39.50	39.22	32.15	26.67
Principal/ repurchases	23.54	26.60	27.17	25.21	25.12	25.50	19.62	15.69
Interest/charges	17.72	19.44	19.84	16.42	14.39	13.72	12.52	10.98
After debt relief								
Public including IMF	20.23	16.02	18.65	36.11	35.33	36.02	29.70	24.39
Total: public and private	38.78	31.43	33.69	44.99	40.87	40.94	34.20	28.52
Principal/ repurchases	21.93	16.77	16.54	26.96	25.12	25.93	20.54	16.57
Interest/charges	16.84	14.66	17.15	18.03	15.75	15.01	13.66	11.95
Memorandum items:								
Disbursed debt outstanding (end period) 3/	826.62	893.10	966.20	1,012.20	1,043.60	1,071.40	1,092.80	1,112.10
Of which: outstanding use of Fund credit	30.80	45.20	58.00	56.50	40.40	18.10	7.20	3.20
In percent of GDP	53.54	68.80	64.11	60.94	57.01	53.11	49.15	45.38

Sources: Ministry of Finance; BCEAO; IBRD, DRS; and staff estimates and projections.

1/ Service on current and projected loans, and on the financing required to close the balance of payments gaps.
2/ In percent of exports of goods and nonfactor services.
3/ Including the short-term foreign liabilities of the commercial banks and the estimated private debt.

official grants and loans are projected to rise at an annual rate of about 4 percent. After taking into account the scheduled debt repayments, on a net basis the capital account surplus is expected to decline sharply from SDR 22.3 million in 1985 to less than SDR 1.0 million in 1986, and subsequently to recover to the 1985 level only by about the end of the decade.

Along with the above forecasts of net inflows of official grants and capital, the staff tried to assess the likely trends in the external current account (excluding public transfers), and the size of future balance of payments deficits and related financing gaps. Assuming a nonrecurrence of drought conditions, in 1986 food imports (including food aid) are expected to decline sharply and agricultural exports should recover close to the 1984 level. Moreover, the authorities expect uranium exports to rise moderately, reflecting an increase of about 5 percent in price. Based largely on these assumptions and a projected small increase in the net payments for services and private transfers, the external current account deficit (including official grants) is forecast to be reduced from about SDR 76 million (5.0 percent of GDP) in 1985 to SDR 46 million (2.8 percent of GDP) in 1986. Over the subsequent four years up to 1990, exports are projected to increase at an annual rate of 6 percent due to both a moderate rise in average export prices and a gradual increase in the volume of nonuranium exports (3 percent annually). Concurrently, reflecting mainly a continued increase in prices, import payments are forecast to increase at an annual rate of 4 percent. Thus, the deficits in the external current account (including official grants) would decline gradually to about SDR 12.9 million (less than 1 percent of GDP) by 1990. Given these prospects and the expected small but increasing net surpluses in the capital account, the overall balance of payments deficit would narrow from SDR 45.4 million in 1986 to about SDR 4.3 million by 1989 and then shift to a small surplus position. Since Niger will need to make Fund repurchases, the external financing gaps would average SDR 40.9 million annually during 1986-88 and amount to SDR 15.2 million in 1989.

2. External policies

To limit the deterioration in the external current account and the net foreign asset position in 1985, the authorities will be relying primarily on policies designed to reduce the payments for nonfood imports, nonfactor services, and private transfers below their originally programmed levels. The measures that will help to achieve this are mainly a slower implementation of public investment, appropriate pricing policies, and tighter demand management policies for the second half of the program period. The latter would be achieved by reducing the credit allocations for imports and other commercial activities and by ensuring that public enterprises improve their financial performance and reduce their recourse to bank credit. As regards the payments for services and private transfers, to some extent these have been revised downward to fully reflect the fact that over the past two years there has been a substantial decline in urban business activities and in the related number of expatriate workers.

The staff pointed out that over the next four to five years the strains in the balance of payments could well be more severe than presently foreseen if the recovery in production and exports of the agricultural and livestock sectors requires a longer period than currently estimated (2-3 years). The Nigerien representatives recognized that the time required for recovery was still uncertain, and stated that they would aim at a quick recovery, both by according the highest priority to the agricultural and livestock sectors in future public investments and by providing farmers appropriate price incentives within a framework of liberalized marketing arrangements. 1/ They felt that this was particularly important, because otherwise economic growth and investment prospects could be adversely affected by a serious import constraint.

As the already large external debt service payments are projected to rise over the next few years, the authorities are determined to follow prudent foreign borrowing policies. The Government will continue to abstain from contracting or guaranteeing nonconcessional loans in the maturity range of 0-12 years. Concurrently, domestic commercial banks will not be allowed to increase their short-term foreign debt (with maturity of less than one year). Moreover, in utilizing foreign resources, the authorities will be giving the highest priority to ongoing productive projects and to the urgent rehabilitation needs of existing enterprises.

3. Policies affecting production, prices, and the operations of public enterprises

For 1984/85 the public investment target (including grants) has been reduced by about CFAF 2 billion to CFAF 69.5 billion, to reflect the likely disbursements of concessional foreign loans (CFAF 33.2 billion) and external grants (CFAF 30.3 billion), and a reduced budgetary provision for local counterpart funds (CFAF 6 billion). Based on preliminary data, the Nigerien representatives indicated that only about 12 percent of the targeted investment outlays had been implemented in the first quarter of 1984/85, and that the implementation rate for the whole year was likely to be well below the initially programmed rate (of 75 percent). Moreover, the authorities intend to ensure that the targeted investment expenditures are undertaken only when the supporting foreign resources are available and that the required use of local counterpart funds is consistent with the revised budgetary objectives. The Government will also avoid implementing any extrabudgetary projects during the remainder of the program period; if such a possibility should arise, the authorities would review the matter with the World Bank before deciding to implement such projects.

The authorities have accorded a high priority to quick-yielding projects in the structure of public investment, by providing an allocation of 37 percent for the productive sectors (rural development, mines, industry try, and commerce), compared with allocations of 32 percent for

1/ In the context of a structural adjustment credit, the World Bank will be assisting the authorities to implement an appropriate reform of agricultural and rural development policies.

essential economic infrastructure (transport and telecommunications), and 31 percent for social infrastructure and technical assistance. During the first quarter of the fiscal year, while the overall implementation rate was low (only about 12 percent, as noted above), that in the directly productive sectors was higher (about 20 percent) and in accordance with government priorities.

The Government has also taken steps to minimize the damage caused by the drought. Farmers are being encouraged to cultivate out-of-season crops through small-scale projects that exploit potential sources of water supply. Furthermore, to encourage production, in late 1984 minimum producer prices were raised for sorghum (43 percent), cowpeas (33 percent), and groundnuts (10 percent). Finally, to minimize the income losses caused by the drought in the livestock sector, stockraisers have been encouraged to convert potential livestock losses into early exports and dried meat operations.

The Nigerien representatives indicated that the Government has begun implementing a more liberalized system of domestic grain procurement and marketing to ensure adequately remunerative prices for the farming sector. For procurement purposes, the grain marketing agency (OPVN) is relying on a system of tenders and bids instead of buying at officially fixed prices from local merchants. At the same time, official floor prices are announced to prevent traders from paying unduly low prices to farmers. As the actual procurement prices are higher under present market conditions, the authorities plan to raise the sales prices of cereals to enable OPVN to cover all its operating costs. Thus, even though in November 1984 the sales prices were increased for millet (17 percent) and sorghum (27 percent), another round of such price increases is to be implemented before end-June 1985.

To reduce the imbalances in the parastatal sector, the Government has also been following a flexible pricing policy for a number of other enterprises. In February 1985 the tariffs charged by the state-owned thermal power company (SONICHAR) to the uranium mining enterprises were raised by 10 percent. In November 1984 the tariffs of the post and telecommunications office (OPT) were increased by 9 percent. For the agency in charge of underground water supply (OFEDES), the Government has already taken steps to transfer the costs of well operation and maintenance, as well as the costs of pumping-station operations, to users. As a result of the depreciation of the CFA franc and an increase in import costs (from Nigeria), the authorities will be raising the retail prices of petroleum products before end-June 1985; these increases will not only cover all costs but will also provide for additional tax revenues. With the increases in oil prices, the tariffs of the electricity company (NIGELEC) will also be raised to cover costs.

In addition to flexible pricing policies, the Government is moving decisively to reorganize and rehabilitate the parastatal sector. In preparation for a structural adjustment program with the World Bank, the public enterprises have been classified into three categories, namely, those to be wholly or partially privatized (23 enterprises), those to be rehabilitated (10-12 enterprises initially), and those to be liquidated (2 enterprises). In this context, the agricultural lending agency (UNCC) and a metalworks unit (SONIFAME) have been liquidated, and, in principle, a decision has been taken to privatize seven enterprises. 1/ The Government is working with several foreign bilateral and multilateral organizations (including the World Bank) to carry out the rehabilitation of selected public enterprises, including the electricity company (NIGELEC), the thermal power company (SONICHAR), the grain marketing agency (OPVN), the post and telecommunications office (OPT), the development bank (BDRN), the underground water supply agency (OFEDES), the rice milling plant (RINI), and the agency for agricultural water supply management (ONAHA). Finally, the Nigerien representatives emphasized that, within the framework of these rehabilitation programs, significant cost-cutting measures (including employment reductions) have been implemented in several enterprises.

4. Credit and fiscal policies

For 1985, the domestic credit program has been designed with the objectives of (a) slowing the growth rate of broad money to 7.4 percent, from 22.5 percent in 1984; (b) limiting the decline in net foreign assets to CFAF 7.4 billion; and (c) containing the increase in the GDP deflator to 8.5 percent (compared with the original target of 6.5 percent). Given the relatively large expansion in domestic liquidity in 1984, although the projections for both the growth of real GDP and the inflation rate have been revised upward, the authorities have decided to be cautious and maintain the originally programmed target for the growth of broad money in 1985. 2/ Reflecting these considerations, in 1985 the authorities plan to limit the increase in total domestic credit to about 15.7 percent of the beginning stock of broad money, of which about 4.4 percent would be the allocation set aside for the domestic bank financing of central government operations (Table 5). Within this framework, for end-June and end-September 1985, the ceilings for total domestic credit have been set about 5-7 percent below the originally programmed indicative targets, and those for net credit to the Government have been reduced by about 2 percent for end-June 1985 and by 16 percent for end-September 1985.

To contain domestic credit expansion within the programmed ceilings, the authorities will be closely monitoring central government operations to ensure that the program's 1984/85 fiscal objectives, particularly the

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1/ The seven enterprises are: SOPAC--paper and stationery company; SNCP--leather products company; SONITAN--tannery plant; SOTRAMIL--millet processing plant; GESTION SONOTEL--hotel management unit; CMAN--handicrafts and artisanal unit; and SONIDEP--petroleum distribution company.

2/ If the currently projected increase in velocity (of about 8 percent) does not materialize, then performance with regard to the balance of payments and inflation targets is likely to be better than presently programmed.

targets for the overall cash deficit and its bank financing component (CFAF 9 billion), are not exceeded. Moreover, to keep within the programmed increase in bank credit to the rest of the economy, the Central Bank will be restraining both its rediscounts and the direct lending operations of deposit money banks within appropriately restrictive monthly targets. The required restraint in credit expansion to the private sector is to be achieved by reducing credit allocations for nonessential imports and commercial activities and by ensuring that the programmed adjustments in domestic pricing and tariff policies are implemented at the level of the public enterprises.

To limit the deficit in central government operations and its bank financing component, the authorities will be implementing several measures on both the revenue and the expenditure side. The Nigerien representatives indicated that without new measures budgetary revenues would have been substantially below the initial program target. To limit the shortfall to CFAF 2.4 billion, the Government will be raising additional revenues through an increase in taxes on petroleum products (CFAF 0.3 billion) and through a number of improvements in the tax collection system. With regard to the latter, they explained that the establishment of a new property tax register, the reduction of delays in assessing and collecting taxes, and the collection of existing tax arrears would yield a total additional amount of nearly CFAF 1 billion. On the expenditure side, the Nigerien representatives noted that total wage payments would be CFAF 1 billion lower than the initial program estimate, because existing and new vacancies would not be filled, and the regularization of the personnel currently on probation has been delayed (pending the completion of an ongoing review of civil service employment). Actual wage payments in the first quarter of the fiscal year had been below the program's initial quarterly estimate. Finally, taking into account the slow implementation of domestically financed investment outlays, at least CFAF 1 billion would be saved from the original budgetary provision; it is also probable that foreign-financed development expenditure would fall short of the budgetary target.

As regards the revised provision for the reduction of the Government's domestic arrears (CFAF 4.1 billion), the Nigerien representatives stated that with these payments all remaining domestic arrears of the Government that have been identified so far would be eliminated. These payments would be made to liquidate the Government's arrears (in respect of both principal and interest) to five private enterprises. However, within the context of the various rehabilitation programs currently under preparation for several public and mixed enterprises, the Government plans to give due consideration to any new evidence that may emerge with respect to past government arrears. 1/ If any such new arrears are clearly identified and established, the authorities would plan to eliminate them in an orderly manner within a reasonable time period.

1/ Since there are already indications that the arrears of certain public agencies to the post and telecommunications office amount to about CFAF 1.0 billion, the Government will be repaying CFAF 0.5 billion of these arrears during the current fiscal year from the proceeds of a CCCE loan of CFAF 5.0 billion.

The staff pointed out that, at least over the next two years, the prospects for revenue growth appeared to be weak and that the budgetary situation was likely to remain very tight. Given this outlook, the staff emphasized the need to identify either new revenue measures and/or prepare for appropriate reductions in expenditure. The Nigerien representatives indicated that by the end of 1985 virtually all of the recommendations of the last tax report prepared by a Fund technical assistance mission would have been implemented, including the introduction of a value-added tax. They also planned to take a close look at personnel expenditures to identify potential economy measures. Finally, as the World Bank is carrying out a study on the management of public sector resources in preparation for a proposed structural adjustment credit, the authorities hoped that this would help them to formulate an appropriate framework for determining future expenditure priorities and goals.

V. Staff Appraisal

Before starting an adjustment process in 1983/84, Niger had experienced in the early 1980s a rapid deterioration in its economic and financial situation. The economy was adversely affected by recurrent droughts, a weakening of world demand conditions for the main export (uranium), and declining trends in the external terms of trade and foreign resource inflows. In the public sector, the deficits in the operations of both the Central Government and the public enterprises were large and unsustainable, and although the financing of these deficits entailed heavy recourse to both domestic bank credit and foreign borrowing, the Government accumulated a sizable amount of domestic arrears. The balance of payments came under serious pressure because of large deficits in the current account and a sharp increase in external debt service payments. With the deteriorating financial situation, real GDP declined for three successive years (1981-83).

Under the 1983/84 financial program, Niger made considerable progress toward reducing the domestic and external financial imbalances. However, due to a severe drought, agricultural and livestock production and hence real GDP recorded a large decline. To reduce the financial imbalances in the public enterprise sector, several measures were taken to cut costs, introduce flexible pricing and tariff policies, and improve management at the level of several major enterprises. Public investment was reduced sharply to reflect the prevailing financial constraints and reoriented toward productive projects. A wide range of new tax and expenditure restraining measures were taken to bring down the deficit in central government operations, and with it achieve a substantial reduction both in domestic arrears and in the Government's net recourse to bank financing. Mainly as a result of the above policies, the external current account deficit narrowed appreciably in 1984, and as Niger was able to obtain a larger amount of debt relief, the country's net official foreign assets recorded a large increase (of SDR 39.4 million), as against a programmed decline (of SDR 6.3 million).

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 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 with the World Bank to put in place a structural adjustment program to implement the policy reforms necessary to achieve an early economic recovery and a viable balance of payments.

It is recommended that the next Article IV consultation with Niger continue to be held on a standard 12-month cycle.

VI. Proposed Decisions

The following decisions are proposed for adoption by the Executive Board.

A. 1985 Article IV Consultation

1. The Fund takes this decision in concluding the 1985 Article IV consultation with Niger in the light of the 1985 Article XIV 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.

B. 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, 10/29/1984, Sup. 1) 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 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 as specified in paragraph 19(c), 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 - Fund Relations

(As of April 30, 1985; amounts in SDRs, unless otherwise indicated)

I. Membership status

(a) Date of membership: April 24, 1963

(b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

(a) Quota: 33.7 million

(b) Total Fund holdings of currency: 73.54 million (218.21 percent of quota)

(c) Fund credit: 48.40 million (143.62 percent of quota) of which:

Credit tranche: 21.2 million (62.90 percent of quota)
Enlarged access resource: 3.2 million (9.49 percent of quota) CFF: 24 million (71.22 percent of quota)

(d) Reserve tranche position: 8.56 million

(e) Current operational budget (maximum use of currency): None

(f) Lending to the Fund: None

III. Stand-By Arrangements and Special Facilities

(a) Current stand-by arrangement

(i)	Duration:	December 5, 1984-December 4, 1985
(ii)	Amount:	16.0 million
(iii)	Utilization:	6.4 million
(iv)	Undrawn balance:	9.6 million

(b) Previous stand-by arrangements

(i)	Duration:	October 5, 1984-December 4, 1985
(ii)	Amount:	18.0 million
(iii)	Utilization:	18.0 million

(c) Special facilities: CFF, approved July 1, 1983, 12 million
CFF, approved October 5, 1983, 12 million

IV. SDR Department

(a) Net cumulative allocation: 9.41 million

(b) Holdings: 1.42 million (15.09 percent of net cumulative allocation)

NIGER - Fund Relations (continued)

(c) Current designation plan (amount of maximum designation):	None

V. Administered Accounts

(a) Trust Fund Loan:	
Disbursement:	12.7 million
Outstanding:	11.1 million
(b) SFF Subsidy Account:	None

VI. Overdue Obligations to the Fund — None

B. *Nonfinancial Relations*

VII. Exchange System

Niger's currency, the CFA franc, is pegged to the French franc at the rate of F 1 = CFAF 50

VIII. Staff Contacts and Technical Assistance

A technical assistance mission from the Fiscal Affairs Department (FAD) visited Niger in March 1982 to study the country's tax system, and presented its final report to the authorities in January 1983. Since September 1982 a member of the FAD panel of fiscal experts, Mr. Jean-Paul Cornely, has been assigned Administration Advisor to the Secretary General of Finance to assist, inter alia, with the implementation of the recommendations of the FAD tax report. His assignment has been extended for one year.

In March 1982 a staff member from the Bureau of Statistics provided technical assistance in compiling government finance statistics.

In November 1983 a CBD expert, Mr. Robert Laniesse, was assigned for a 5-month period to assist the authorities in the field of external debt data management, and his assignment was extended for six months.

IX. Last Article IV consultation and stand-by review

Dicussions were held during the period January 9-12, 1984. The staff report (EBS/84/66) was discussed by the Executive Board on April 24, 1984. The Decisions were as follows:

NIGER - Fund Relations (continued)

A. 1984 Article IV Consultation

1. The Fund takes this decision in concluding the 1984 Article IV consultation with Niger in the light of the 1984 Article XIV 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.

B. Review Under Stand-By Arrangement

1. Niger has consulted with the Fund in accordance with paragraph 3(b) of the stand-by arrangement for Niger (EBS/83/194, 10/6/1983, Sup. 1) and paragraph 30(g) of the memorandum on economic and financial policy annexed to the letter dated July 27, 1983 from the Prime Minister, in order to review progress made by Niger in implementing its program and reach understandings with the Fund regarding policies, measures and performance clauses for the periods ending March 31, June 30, and September 30, 1984.

2. The letter of January 20, 1984 from the Prime Minister, together with the annexed memorandum shall be attached to the stand-by arrangement and the letter dated July 27, 1983, together with the annexed memorandum, shall be read as modified and 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, during any period in which the data at the end of the preceding period indicate that any of the performance criteria set out in paragraph 20(a), (b), or (c) of the memorandum annexed to the letter dated January 20, 1984, is not observed, or if at any time the performance criteria set out in paragraph 20(d) or (e) of that memorandum are not observed.

4. Paragraph 3(d) of the stand-by arrangement for Niger shall be amended by inserting the following text before the words "if Niger":

"(d) during the entire period of this stand-by arrangement, while Niger has any overdue financial obligation to the Fund, or".

X. Current stand-by arrangement

The current stand-by arrangement (EBS/84/221) was approved by the Executive Board on November 26, 1984. The Decision was as follows:

NIGER - Fund Relations (concluded)

1. The Government of the Republic of Niger has requested a stand-by arrangement for the period from December 5, 1984 to December 4, 1985, in an amount equivalent to SDR 16 million.

2. The Fund approves the stand-by arrangement attached to EBS/84/221.

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

Niger - Financial Relations with the World Bank Group

Date of membership - IBRD: April 24, 1963

Capital subscription - IBRD: SDR 10.0 million

A. IDA lending operations 1/	Committed 2/	Undisbursed
	(In millions of U.S. dollars)	
Thirteen credits fully disbursed	62.2	--
Third highway	15.6	0.6
Livestock	12.0	4.6
Feeder roads	10.0	2.1
Dosso Agricultural Development	20.0	17.7
Second Maradi Rural Development	16.7	10.9
Education	21.5	8.8
Industrial development	16.0	9.2
Second forestry	10.1	6.5
Water supply	6.5	4.8
Fourth highway	23.6	12.7
Economic and financial improvement 3/	11.7	10.5
Power, engineering, and technical assistance	7.5	6.9
Total	233.4	95.3
Of which has been repaid	(3.2) 4/	
Total now outstanding and held by IDA	230.2	
Total undisbursed		95.3

B. IFC investment 4/	Loan	Equity	Undisbursed
	(In millions of U.S. dollars)		
Flourmill (Les Moulins du Sahel, S.A.)	2.2	0.3	0.3

Source: World Bank.

1/ As of February 20, 1985.
2/ Less cancellations.
3/ Not yet effective.
4/ As of September 30, 1984.

NIGER - Basic Data

Area, population, and GDP per capita

Area:	1,267,000 square kilometers
Population: Total (1984):	6.170 million
Growth rate (1984):	2.8 percent
GDP per capita (1984):	SDR 223

	1980	1981	1982 Est.	1983 Est.	1984 Est.	1985 Proj.
			(In billions of CFA francs)			
GDP at constant 1983 prices	690.6	698.2	692.6	674.6	566.1	606.3
GDP at current market prices	536.2	589.9	642.7	674.6	610.3	708.5
Value added by sector 1/						
Agriculture, livestock, and forestry and fishing	228.1	269.3	299.5	311.5	266.0	333.3
Mining	67.4	52.0	49.8	55.5	53.3	60.1
Industry, energy, and handicrafts	22.2	27.0	32.4	37.0	35.2	38.5
Construction and public works	32.1	26.6	24.8	23.9	19.2	24.0
Commerce, transport, communications, and services	125.6	147.6	159.1	168.9	160.6	171.6
Government services	33.8	39.6	45.8	49.8	52.0	55.0
GDP at factor cost	509.2	562.1	611.4	646.6	586.3	682.6
Import taxes and duties 2/	27.0	27.8	31.3	28.0	24.0	26.0
Use of resources 1/						
Domestic expenditure	611.7	658.3	706.1	725.8	635.9	771.8
Private consumption	360.0	474.1	494.6	562.4	563.4	581.4
Public consumption	55.2	64.5	75.0	77.2	79.3	89.0
Gross fixed capital formation	152.0	137.6	100.8	91.2	81.6	105.4
Changes in stocks	44.5	-17.9	35.7	-5.0	-88.4	-4.0
Resource gap (deficit -) 3/	-75.5	-68.4	-63.4	-51.2	-25.5	-63.3

1/ At current market prices. Data on value added by sector, gross fixed capital formation, changes in stocks, and public consumption provided by the Nigerien authorities. Total domestic expenditure and private consumption are staff estimates.
2/ Includes excise duties.
3/ Staff estimates based on balance-of-payments data.

NIGER - Basic Data (continued)

	1981/82	1982/83	1983/84	1984/85 Program	1984/85 Revised program
	(In billions of CFA francs)				
Government finance 1/					
Revenue	73.8	68.8	67.4	70.8	68.4
Total expenditure and net lending	118.8	117.4	98.8	100.7	100.0
Of which: investment expenditure	(37.9)	(58.7)	(31.5)	(31.0)	(30.0)
Overall deficit (-) 2/	-45.0	-48.6	-31.4	-29.9	-31.6
Change in arrears (decrease -)	14.4	-1.7	-12.4	-2.1	-4.1
Change in check float	--	1.9	1.1	--	-1.1
Financing requirement	-30.6	-48.4	-42.7	-32.0	-36.8
Financing	30.6	48.4	42.7	32.0	36.8
Foreign (net)	20.2	42.3	34.5	28.2	28.6
Domestic (net)	10.4	6.1	8.2	3.8	8.2
Of which: banking system	(11.4)	(4.4)	(5.3)	(5.4)	(9.0)

	1981	1982	1983	1984	1985
	(In billions of CFA francs; end of period)				
Money and credit					
Foreign assets (net)	22.1	-20.5	15.8	1.9	-5.5
Domestic credit	99.0	126.7	125.3	119.8	135.6
Credit to Government (net)	-3.0	16.3	18.1	21.6	26.0
Credit to private sector	102.0	110.4	107.2	98.2	109.6
Of which: rediscounted at Central Bank	(22.8)	(31.1)	(33.5)	(20.9)	(...)
Money and quasi-money	94.0	83.0	82.1	100.6	108.0
Long-term liabilities	16.6	20.0	28.7	28.0	28.0
Other items (net)	10.5	3.2	-1.3	-6.9	-5.9
Of which: SDR counterpart and Trust Fund	(6.3)	(6.8)	(7.2)	(7.3)	(7.3)

1/ Includes extrabudgetary operations. Fiscal year ends on September 30.
2/ On a commitment basis.

NIGER - Basic Data (continued)

	1981	1982	1983	1984 Est.	1985 Proj.
	(In millions of SDRs)				
Balance of payments					
Trade balance	-140.1	-148.9	-93.7	-30.2	-104.8
Exports, f.o.b.	421.9	334.5	308.0	302.0	260.2
Imports, c.i.f.	-562.0	-483.4	-401.7	-332.2	-365.0
Net services	-97.7	-107.5	-101.5	-98.8	-90.4
Net transfers	92.1	97.8	79.1	82.6	119.3
Current account balance	-145.7	-158.6	-116.1	-46.4	-75.9
Nonmonetary capital, net	170.3	14.8	93.7	28.8	22.3
Public: long-term, net	(216.1)	(43.5)	(80.0)	(43.7)	(31.9)
Private: long-term, net	(-15.4)	(-20.1)	(-25.4)	(-9.6)	(-9.6)
Short-term, net	(-30.4)	(-8.5)	(40.1)	(-5.3)	(--)
Errors and omissions (including SDR allocation)	6.4	26.3	27.4	9.2	--
Overall balance	31.0	-117.5	5.0	-8.4	-53.6
Financing	-31.0	117.5	-5.0	8.4	53.6
Change in net foreign assets	-31.0	117.6	-13.3	-39.4	15.7
Central Bank	(-7.3)	(57.6)	(10.6)	(-33.1)	(15.7)
Of which: IMF	(--)	(--)	(30.8)	(14.4)	(12.8)
Deposit money banks	(-23.7)	(59.9)	(-23.9)	(-6.3)	(--)
Extraordinary financing 1/	--	--	8.3	47.8	37.9
Gross official reserves (end of period)	90.5	26.8	50.8	90.7	75.0

1/ Debt rescheduling or refinancing.

NIGER - Basic Data (concluded)

	1981	1982	1983	1984 Est.	1985 Proj.
			(In millions of SDR)		
Oustanding external debt (disbursed, end of period)	781.8	815.8	826.6	893.1	966.2
Public	520.2	544.9	634.6	728.4	811.1
Private	261.6	270.9	192.0	164.7	155.1
			(In percent of exports of goods and nonfactor services)		
Debt service ratio	28.5	46.4	38.8	31.4	33.7
Public (after rescheduling)	11.7	26.6	20.2	16.0	18.7
Private	16.8	19.7	18.6	15.4	15.0
			(1980 = 100 on SDR basis)		
Terms of trade	75.2	73.2	76.1	72.8	61.0
Export prices	80.2	79.2	79.9	77.8	68.1
Import prices	106.7	108.1	105.0	106.8	111.7
Average rate of CFA franc			(Annual average)		
CFAF per SDR	320.41	362.80	407.40	447.90	470.11
CFAF per U.S. dollar	271.73	328.62	381.07	437.00	479.60
Index of import-weighted effective rate 1/			(Annual average)		
Nominal	95.72	92.94	89.98	87.76	...
Real	104.83	103.21	89.92	90.37	...

1/ 1980 = 100; a decrease in the index indicates a depreciation of the CFA franc.

Table 8. Niger: Exchange Rates, 1980-84

	CFAF per SDR		CFAF per US$		Effective exchange rates 1/	
	End of period	Period average	End of period	Period average	Nominal	Real
IV/80	287.99	284.32	225.80	221.08	98.58	99.73
I/81	304.55	301.97	247.90	242.99	96.77	99.72
II/81	328.93	320.12	285.88	270.93	95.73	101.62
III/81	318.60	320.28	278.35	290.42	95.38	115.22
IV/81	334.52	328.15	287.40	282.58	94.99	102.73
I/82	347.40	340.65	312.10	299.74	94.31	107.44
II/82	372.95	350.79	341.45	313.93	93.98	105.54
III/82	382.72	376.92	356.90	347.09	91.68	100.13
IV/82	370.92	381.04	336.25	353.66	91.83	99.84
I/83	392.07	375.99	363.48	344.37	92.00	93.32
II/83	407.98	402.59	381.88	373.50	90.00	89.27
III/83	423.21	419.73	400.45	398.01	89.34	86.96
IV/83	436.97	430.34	417.38	408.39	88.58	90.18
I/84	424.62	435.53	399.00	415.28	88.12	91.06
II/84	440.56	435.51	427.23	416.39	88.01	90.78
III/84	463.74	453.44	464.20	448.01	87.69	90.62
IV/84	470.11	465.46	479.60	468.14	87.22	83.22
I/85	467.24	481.56	471.35	498.01	86.97	86.09
1980	287.99	274.99	225.80	211.28	100.00	100.00
1981	334.52	320.41	287.40	271.73	95.72	104.82
1982	370.92	362.79	336.25	328.61	92.94	103.24
1983	436.97	407.35	417.38	381.06	89.98	89.93
1984	470.11	447.89	479.60	436.96	87.76	88.92

Sources: IFS; and staff estimates.

1/ Index 1980 = 100, import-weighted.

Niger--Statistical Issues

1. Outstanding statistical issues

a. Prices

Two consumer price indices are compiled in Niger, one for African-type consumption and the other for European-type consumption. The base periods for these indices are outdated (July 1, 1962-June 30, 1963, and November 15 to December 15, 1966, respectively) and the indices are narrowly based (pertaining to consumers in the capital city Niamey). Efforts are presently underway to review these price indices and incorporate a more representative product mix.

b. Government finance

The authorities have been experiencing difficulties in compiling consolidated government finance data. The government finance statistics through 1980 published in the 1984 GFS Yearbook and in IFS have been compiled by Bureau of Statistics technical assistance missions. The Fund consultation mission prepared data on consolidated government operations on the basis of official data on Treasury operations provided by the Ministry of Finance and data pertaining to extrabudgetary investment outlays financed by external borrowings provided by the Ministry of Plan. Efforts are being made to consolidate budgetary operations, and to improve the compilation of external debt data with technical assistance from CBD. Technical assistance from the Bureau of Statistics on government finance data has been scheduled for May/June 1985.

c. Monetary accounts

The money and banking data continue to be sent with several months data grouped together rather than being sent on a regular monthly basis. The authorities have indicated that in the future the data will be sent on a more regular basis.

d. Merchandise trade

Data on trade values are reported only on an annual basis, and often, with considerable delay. Aside from the data on the mining sector, the authorities continue to have difficulties in compiling data on trade.

e. Balance of payments

For the years 1981 through 1983, only partial balance of payments statements (trade accounts, private unrequited transfers, and reserves) have been made available to the Bureau of Statistics. The authorities have recently finalized the balance of payments data up to 1980. For more recent years the Fund mission estimated the balance of payments data on the basis of information provided by the Central Bank.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Niger in the May 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Banque Centrale des Etats de l'Afrique de l'Ouest, which during the past year have been provided on a somewhat irregular basis.

Status of IFS Data

		Latest Data in May 1985 IFS
Real Sector	- National Accounts	1983
	- Prices	January 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	1980
	- Financing	1980
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	September 1984
	- Deposit Money Banks	September 1984
	- Other Financial Institutions:	
	Savings Deposits	June 1983
External Sector	- Merchandise Trade: Value	1982
	Prices	n.a.
	- Balance of Payments	1980
	- International Reserves	December 1984
	- Exchange Rates	March 1985

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

(i) 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 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.

5. Niger will not make purchases under this stand-by arrangement during any period in which Niger has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a noncomplying purchase.

6. Niger's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Niger. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement 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.

7. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Niger, the Fund agrees to provide them at the time of the purchase.

8. The value date for purchases under this stand-by arrangement involving borrowed resources will be determined in accordance with Rule G-4(b) of the Fund's Rules and Regulations. Niger will consult the Fund on the timing of purchases involving borrowed resources in accordance with Rule G-4(d).

9. Niger shall pay a charge for this arrangement in accordance with the decisions of the Fund.

10. (a) Niger shall repurchase the outstanding amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Niger's balance of payments and reserve position improves.

(b) Any reductions in Niger's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that the repurchase will be completed not later than seven years from the date of purchase.

11. During the period of the stand-by arrangement Niger shall remain in close consultation with the Fund. These consultations may include

correspondence and visits of officials of the Fund to Niger or of representatives of Niger to the Fund. Niger shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Niger in achieving the objectives and policies set forth in the annexed memorandum.

12. In accordance with paragraph 5 of the attached letter Niger will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Niger has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Niger's balance of payments policies.

Republic of Niger
Supreme Military Council
Office of the Prime Minister

March 26, 1985

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Sir:

1. On November 26, 1984 the Fund approved a stand-by arrangement for Niger in support of an adjustment program for the fiscal year October 1, 1984 to September 30, 1985 aimed at reducing the domestic financial disequilibria afflicting the Nigerien economy and at restoring a viable balance of payments position in the medium term.

As initially planned, we have examined recent developments under the program with Fund staff. During the first five months of the period covered by the program, the economic policy measures envisaged were indeed executed and the required performance criteria fully observed. Furthermore, the balance of payments situation and net external reserve position have improved considerably.

However, owing to severe drought throughout the country, agricultural production, particularly of foodstuffs and export crops, has fallen drastically and a large proportion of livestock production has been lost. Niger is facing a national disaster in 1985 of even greater severity than the one it experienced during the sub-Saharan droughts of 1973/74 and 1975/76. Although the Government is actively seeking assistance from the donor countries and the international community to cope with the current crisis, it is also striving to ensure that its domestic economic and financial policies are targeted on controlling the financial disequilibria which might develop. Specifically, under the adjustment program, the Government will endeavor to reduce the causes of budget and balance of payments deficits which are not drought-related so as to narrow the deviations from the initial program targets.

2. The Government is resolved to continue its efforts under the program, while strengthening its policies in a number of areas, including:

trade liberalization;

a more flexible price policy;

public enterprise rehabilitation;

an investment program kept within the appropriate norms and accenting productive projects; and

prudent management of the external debt.

To maintain the restrictive nature of budget and domestic credit policies, the Government will endeavor to reduce the internal financial impact of the drought largely through savings effected in public and private sector operations unaffected by the drought.

The economic and financial policies to be pursued during the remainder of 1985 and the performance criteria for the last two quarters of the program period are described in the attached memorandum.

3. In the coming months, the Government also intends to continue discussions with the World Bank with a view to formulating and instituting a series of structural reforms which could be supported by a structural adjustment credit. These reforms mainly involve public resource management, the rehabilitation and restructuring of the parastatal sector, and rural development policies.

We are firmly committed to continuing an appropriate demand policy and to implementing the necessary structural reforms to ensure economic recovery and a financial situation sustainable over the medium term.

4. The Nigerien Government believes that the policies described in the attached memorandum are adequate to achieve the program objectives revised in the light of the current crisis. During the remainder of the period covered by the stand-by arrangement, Niger will consult closely with the Fund in accordance with the policies of the Fund in order to adopt any additional measures which may prove appropriate for ensuring the success of the program.

Very truly yours,

/s/

Hamid ALGABID
Prime Minister

Memorandum on Economic and Financial Policy

1. Under the earlier adjustment program for fiscal 1983/84 (October 1, 1983-September 30, 1984), Niger made progress in reducing domestic and external financial imbalances. The current account deficit of the balance of payments (including public transfers) was reduced from CFAF 27.3 billion (4 percent of GDP) in 1983 to CFAF 20.8 billion (3.4 percent of GDP) in 1984. The overall balance of payments improved, with a deficit of only CFAF 3.8 billion (SDR 8.5 million) being recorded. After debt relief, there was an appreciable improvement in net foreign assets. The budgetary deficit (commitment basis) was also reduced from CFAF 48.6 billion in 1982/83 to CFAF 31.4 billion in 1983/84, and most government arrears to enterprises were settled. Domestic credit was reduced by 6.7 percent of the money stock. However, owing largely to the considerable increase in net foreign assets, the money stock rose by 22.5 percent, compared with the 10 percent projected under the program.

2. The financial program for fiscal 1984/85 is being implemented under exceptionally difficult circumstances. Owing to the severity of the drought, agricultural production fell by about 30 to 40 percent and livestock losses thinned cattle herds by almost 40 percent. Two thirds of the cereals deficit (350,000 to 400,000 tons) will probably be covered by external aid commitments, with the remainder (about 100,000 tons) being imported commercially and representing the equivalent of imports for three years with normal harvests. These commercial imports, and the management and distribution costs associated with major assistance operations, will heavily burden the country's financial situation. Economic and financial difficulties have been exacerbated by the appreciation of foreign currencies, particularly the Untied Stated dollar, against the CFA franc, 1/ and the continued closure of the Nigerian border.

3. To contain the negative financial impact of the drought, the Government has decided to adopt new measures to contain certain non-drought-related expenditures or deficits in the areas of the public sector and the balance of payments. Several aspects of economic policy have thus been strengthened in the program. The following section (I) describes the extent of the changes in macroeconomic objectives, as opposed to those of the initial program, resulting from the drought, recent developments, and new measures which will be adopted during the remaining period of the program. Then, recent modifications in economic policy, and the measures envisaged, will be summarized in separate sections on policies relating to the balance of payments and external debt (II); production and investment (III); operations in the parastatal sector (IV); government finance (V); and monetary policy (VI). Program performance criteria are summarized in the last section (VII).

1/ Average annual exchange rates in CFAF per U.S. dollar: 381.07 in 1983; 437.00 in 1984; and 479.60 in 1985. Average annual rates in CFAF per SDR: 407.36 in 1983; 447.93 in 1984; and 470.11 in 1985.

I. Macroeconomic Objectives

4. The inital program was based on a reduction in real GDP provisionally estimated at 3.8 percent in 1984 and aimed at achieving a 3.1 percent rate of real growth in 1985. Now that the extent of the drought is known in greater detail, the Government estimates that the decline in GDP in 1984 was about 16 percent in real terms. Assuming that normal weather conditions return toward mid-July, GDP in real terms could rise by 7 percent in 1985. The economy would thus take at least two to three years to recover from the drought. The initial program had envisaged a slowdown in the increase of the implicit GDP deflator from 7 percent in 1984 to 6.5 percent in 1985. A more rapid increase in domestic inflation is now expected in 1985, with the Government hoping to hold the rise in the implicit deflator at 8.5 percent in 1985 as compared with 7.7 percent estimated in 1984.

5. Initially, the program aimed at reducing the external current account deficit, excluding public transfers, from CFAF 72.8 billion (SDR 165.2 million) in 1984 to CFAF 67.3 billion (SDR 152.6 million) in 1985. Under current conditions, the revised objective for 1985 is to limit this deficit to CFAF 103.3 billion (SDR 219.7 million), or about CFAF 36.0 billion (SDR 67.1 million) above the initial target. This deterioration, which is accounted for by the adverse effect of the drought and an unforeseen slump in uranium exports, would have been greater without the additional adjustment measures (described below) for reducing noncereal imports. As government transfers will be higher than expected, the deterioration of the current account deficit (including public transfers) will be limited to CFAF 14.4 billion (SDR 27.6 million) as against the initial program projections. As net inflows of capital and debt relief are now expected to be higher than in the initial estimates, the deterioration of net foreign assets will be limited to CFAF 7.4 billion (SDR 15.7 million), as compared with the initial objective of CFAF 2.3 billion (SDR 5.2 million).

II. Balance of Payments and External Debt Policies

6. In 1985 the external current account will be subject to severe strains imposed by several factors beyond the Government's control. Because of the drought, cereal imports, partly financed by national resources, must greatly increase. Exports of agricultural and livestock products, likewise affected by the drought as well as by the closure of the border with Nigeria, will decrease considerably in volume and, in some cases, in price as well. Finally, uranium exports are expected to fall owing to a decrease in foreign buyers' orders and lower prices than those expected. The overall adverse impact of these exogenous factors is estimated at SDR 85.5 million. Under these circumstances, the Government's objective is to offset part of this loss by reducing imports of nonfood products, services, and private transfers in the equivalent of SDR 18.4 million compared with the initial program targets. The chief means of achieving this objective will be a slowdown in implementation of the public investment program, a tightening of domestic credit by cutting back on credit to private commerce, and measures affecting public enterprises to improve their financial performance and reduce their need for bank financing.

7. As indicated above, despite the measures contemplated, it will not be possible to avoid an SDR 67.1 million increase in the external current account deficit (excluding public transfers) over the initial program tar gets. Taking into account the surplus compared with the initial projections in aid (SDR 39.4 million), net capital inflows (SDR 13.3 million), and debt service relief (SDR 3.9 million), financing of the current deficit will be covered by more extensive use of net foreign assets (by SDR 10.5 million).

8. As expected under the program, in November 1984 the Government obtained a rescheduling of debt service to creditors participating in the Paris Club for the period from October 1, 1984 to November 30, 1985. A two-year debt relief was obtained from the London Club early in 1984. The authorities have written to official creditors who did not participate in the Paris Club rescheduling, proposing rescheduling on the same terms as the other official creditors. The amount of debt relief already obtained from the Paris Club and the London Club is about CFAF 5.5 billion in 1984 and CFAF 17.8 billion in 1985. In addition, CFAF 1.6 billion in external arrears on the government-guaranteed debt accumulated before November 1, 1983 has just been rescheduled. On the basis of the estimated impact of overall debt relief, payments of external public debt service (including the International Monetary Fund) should go from CFAF 27.7 billion in 1983 to CFAF 23.5 billion in 1984 and CFAF 24.7 billion in 1985; subsequently, they should gradually increase through 1988 and slowly decline thereafter. As external debt service will remain high compared to export receipts and budgetary revenue, the Government will continue to refrain from contracting or guaranteeing nonconcessionary loans with maturities of 0 to 12 years (excepting the rescheduled debt). Insofar as possible, it will seek to obtain assistance in the form of grants.

III. Production and Investment Policy

9. Faced with a considerable decrease in the production of cereals and huge livestock losses, the Government has launched an emergency farmer assistance and livestock rescue program. It has also begun exceptional efforts to develop out-of-season crops. This program is being supported by small-scale operations which involve implementing local projects of manageable size, taking existing potential into account, and which, above all, are tailored to the needs of the targeted population (exploitation of underground water, improvement of rural waterholes, catchment construction, etc.). The purpose is not only to settle populations but also to increase and diversify production in high potential areas. Furthermore, to encourage production, producer prices were raised late in 1984 by 25 percent for millet, 43 percent for sorghum, 33 percent for cowpeas, and 10 percent for groundnuts. To hold down livestock losses, the Government has encouraged stockraisers to reduce their herds through exports and dried meat operations.

10. Under the current financial program, the Nigerien Government is committed to limit the volume of public investment (including external grants) for fiscal 1984/85 to a level consonant with financial constraints, while reorienting investment strategy toward the most productive sectors.

11. In accordance with the financial program's objectives, public investment expenditure for 1984/85 has been set at CFAF 70 billion, with CFAF 33.7 billion financed by concessional loans, CFAF 30.4 billion by official grants, and CFAF 6.0 billion by domestic counterpart (FNI). The program had assumed a 75 percent rate of execution for public investment. As the rate of execution has been slower than expected in the first quarter (12 percent of the total amount), investment implementation will probably be lower than anticipated. Furthermore, the Government will closely monitor execution of these program objectives to ensure that expenditure is limited to actual disbursements of concessional loans and official grants, while local budgetary financing is kept within the bounds of the revised budgetary objectives.

12. In the overall context of this public investment program, the Government will continue to emphasize productive and essential infrastructural projects. The Government will also take steps to preclude extrabudgetary expenditure not provided for in the program; any such expenditure will be negotiated with the World Bank. In accordance with this overall framework, expenditure for the 1984/85 public investment program breaks down as follows: 37 percent for the directly productive sectors (rural development, mines, industry, and commerce); 32 percent for economic infrastructure (roads, bridges, and telecommunications); and 31 percent for social infrastructure and technical assistance. Despite the relatively low rate of execution for investment expenditure during the first quarter, expenditure in the directly productive sectors has reached 54 percent of committed expenditure, thus reflecting government priorities in this area. In the coming months, the investment program will be reviewed by the Government and the guidelines for a medium-term program will be defined with assistance from the World Bank as part of a forthcoming Structural Adjustment Credit. In preparing the program, the Government will take into account the needs for maintenance and rehabilitation of existing infrastructures, recurrent costs (including debt service), and the sectoral strategies in course of preparation. In all these cases, as soon as the medium-term financial constraints are alleviated, the Government will be able to increase its investment expenditure while preserving sectoral priorities and maintaining a high rate of return.

IV. Public Enterprises 1/

13. In 1983/84 the operations of key public enterprises showed an improvement. Under the current adjustment program, the Government planned to continue reforms in the parastatal sector, stressing its reorganization, stricter management, and a more flexible price policy. As regards reorganization, the Government envisages classifying public enterprises in three categories, comprising those to be wholly or partially privatized (23 enterprises), those to be rehabilitated (10 to 12 enterprises initially), and those to be liquidated (2 enterprises). To this end, and as part of the preparation of the structural adjustment program with the World Bank, the Government has already liquidated UNCC and SONIFAME, and adopted the principle of privatizing some enterprises (SOPAC, SNCP, SONITAN, SOTRAMIL, GESTION SONOTEL, CMAN, and some of SONIDEP's distribution operations). The management of all public enterprises will be closely monitored from now on by the Ministry Responsible for Public Entities, State Enterprises, and Mixed Economy Companies. Studies are currently under way to define a uniform status for public enterprises and determine inter-enterprise debts. The Government is in contact with several multilateral and bilateral organizations which provide technical assistance to some enterprises (NIGELEC, OFEDES, SONICHAR, ONAHA, RINI, and BDRN). The authorities are also discussing the rehabilitation of five enterprises (OFEDES, OPVN, NIGELEC, OPT, and ONAHA) with the World Bank. In addition, specific measures were taken early in fiscal 1984/85 and new actions are planned for the remainder of the program period:

(a) Since 1983/84 the grain marketing agency (OPVN) has reduced the number of its purchase and sales centers, its personnel strength, and its transport expenditure. In accordance with the current program, OPVN

1/ The enterprises referred to in this section are:

UNCC	: Union Nigérienne de Crédit et Coopération
SONIFAME	: Société Nigérienne et Fabrications Métalliques
SOPAC	: Société de Papiers et Cahiers
SNCP	: Société Nationale des Cuirs et Peaux
SONITAN	: Société Nigérienne de Tannerie
SOTRAMIL	: Société de Transformation et Commercialisation du Mil
GSTION SONOTEL	: Société Nationale d'Hôtellerie
CMAN	: Centre des Métiers d'Art du Niger
SONIDEP	: Distribution des Produits Pétroliers
NIGELEC	: Société Nationale d'Electricité
OFEDES	: Office d'Exploitation des Eaux du Sous-sol
OPVN	: Office des Produits Vivriers du Niger
OPT	: Office des Postes et Télécommunications
SONICHAR	: Exploitation des Mines de Charbon
ONAHA	: Office National d'Aménagements Hydro-agricoles
RINI	: Riz du Niger
BDRN	: Banque de Développement de la République du Niger

retail prices are now set according to market conditions; thus, in November 1984 the price of millet was raised by 17 percent and that of sorghum by 27 percent. In January 1985 the agency introduced a system of tenders and bids for purchases. As a study of cereal prices is nearing completion, the Government will be increasing the sales prices of millet and sorghum before end-June 1985.

(b) Owing to the effect of the appreciation of the U.S. dollar against the CFA franc on oil prices, and with a view to increasing its contribution to the budget through the Price Stabilization Fund for Products of Niger (CSPPN), the Government will shortly adjust the sale prices of hydrocarbons. A review of import and domestic marketing costs for petroleum products will be completed soon, and the Government will be increasing the sales prices of petroleum products before end-June 1985 to cover all costs and a higher tax yield.

(c) The national electricity and water distribution company (NIGELEC) has improved its statement and billing methods. Moreover, NIGELEC's tariffs are now indexed to its costs. The expected increase in the price of oil will entail higher electricity rates. The Government will announce these rate increases by July 15, 1985. NIGELC is examining a long-term restructuring program with assistance from the World Bank, with a view to upgrading its management structures.

(d) The thermal power plant (SONICHAR) likewise raised its rates 12 percent on January 1, 1984 and cut back its investment expenditure. Furthermore, the CCCE has financed a technical assistance program, organized by Charbonnage de France, and prepared a rehabilitation plan currently being implemented. Under the plan, the rates for uranium-mining companies will be increased annually; a 10 percent increase for 1985 went into effect at the end of February 1985.

(e) The post and telecommunications agency (OPT) raised its rates 9 percent in November 1984. To improve its financial position, personnel costs were cut back 10-12 percent in 1985, and some investment expenditure was deferred.

(f) The agency for underground water supply (OFEDES) has reduced its personnel by about two thirds and taken steps to transfer well operation and maintenance costs to users. Well upkeep and pumping station operations will now be invoiced to users at real cost.

(g) As regards the BDRN, a recovery plan will be introduced along with administrative reorganization, financial restruturing, a stricter and more selective credit policy, and enhanced loan collection procedures. The BDRN rehabilitation plan will be implemented as part of the structural adjustment program with the World Bank.

V. Public Finance

14. Without supplementary measures, the budgetary deficit (commitment basis) would be about CFAF 4 billion more than the program estimate. The main reason for this is a revenue shortfall, projected at CFAF 2.6 billion, despite steps to strengthen the tax administration so as to recover tax payments arrears and to reduce the period of collection. As nontaxable food imports will replace some imports of taxable products, customs revenue will be CFAF 0.5 billion less than envisaged in the program. Similarly, the effect of drought and the recession on economic activity will affect revenue from the tax on industrial and commercial profits and the turnover tax, which together will probably show a shortfall of about CFAF 1.1 billion. Nontax revenue may also fall CFAF 1 billion short because OPVN will be prevented by its increased food aid distribution costs from contributing CFAF 1 billion to the Treasury as initially planned. In addition to this adverse effect on revenue, interest payments on the external debt could be CFAF 1.4 billion higher than was projected, owing to the appreciation of the U.S. dollar.

15. Faced with these prospects, the Government has resolved to keep the budgetary deficit (commitment basis) at CFAF 31.6 billion and thus to limit the deterioration compared with the initial program objective to CFAF 1.7 billion. In addition to the strengthening measures in tax administration, the Government has decided to increase the tax on petroleum products in order to boost revenue by about CFAF 300 million for the remainder of the fiscal year. Furthermore, the Government is planning to effect a saving in operating expenditure--including personnel--of CFAF 1.1 billion, compared with the program objective, by making an additional effort while continuing to apply strict controls to expenditure. A further CFAF 1 billion will be saved in connection with the FNI through the slowdown in investment budget execution. As regards the value-added tax, the necessary studies have been completed with technical assistance from the Fund. The training of qualified personnel who will be responsible for collecting this tax is under way, also with technical assistance from the Fund. As initially planned, the Government has undertaken to introduce this reform early in 1986.

16. In the year ended September 1984, government domestic arrears vis-à-vis enterprises were reduced by CFAF 10.3 billion. The remaining CFAF 4.1 billion in arrears will be eliminated entirely in 1984/85 in accordance with paragraph (18c). Since this reduction will be CFAF 2 billion more than programmed, and in view of the payment of CFAF 1.1 billion in expenditure from the previous fiscal year, the overall deficit (cash basis) is currently projected at CFAF 36.8 billion, or CFAF 4.8 billion above the initial program estimate. To finance this deficit, CFAF 9 billion will be drawn from the banking system, which is CFAF 3.6 billion more than originally estimated. This increase, however, is less than the increase in the cash deficit. The difference will be financed largely by additional nonbank resources of CFAF 0.8 billion, reflecting the fact that CNSS will not reduce its deposits

with the Treasury as planned. As to external financing, although net drawings will be less than envisaged owing to a higher external debt repayment (including the guaranteed debt which has been taken over by the Government since last year), this will be more than offset by a higher external debt relief than was expected earlier, taking into account a payment of CFAF 2.4 billion to the Treasury by the enterprises which reflects the relief they obtained on the guaranteed debt.

VI. Monetary Policy

17. During the remainder of the program period, the Government will pursue a moderate credit policy consistent with the revised program objectives. The policy will take into account the additional credit requirements for financing cereal imports and sales to bridge the deficit arising from the drought, and also the importance of pursuing a restrictive policy with regard to other credit needs in the economy in order to achieve the revised balance of payments objectives. Accordingly, the Government proposes to limit overall credit expansion in 1985 to 15.7 percent of the money stock, with 4.4 percentage points being earmarked for the Government. 1/ Nevertheless, the amount of overall credit projected for end-December 1985 will remain below the initial program projections. As a performance criterion for end-June and end-September 1985, total domestic credit and the net government position with the banking system will not exceed the limits referred to in paragraphs (18a and b). To avoid exceeding these limits, the Central Bank will ensure scrupulous observance of the monthly targets for ordinary credit refinancing and strict adherence by the banks to the norms for ordinary credit evolution. Such action will be supported by financial recovery measures for credit institutions and enterprises. Taking into account the revised balance of payments objectives, the above-mentioned credit limits will entail a 7.4 percent increase in the money stock, as against 22.5 percent recorded in 1984.

VII. Performance Criteria

18. In addition to the performance criteria that apply throughout the period of the arrangement, the following performance criteria will apply during the remainder of the program period:

(a) The domestic credit, which amounted to CFAF 119.80 billion on December 31, 1984 and is estimated to reach CFAF 129.00 billion on March 31, 1985, will not exceed CFAF 131.00 billion on June 30, 1985 or CFAF 131.08 billion on September 30, 1985. These ceilings include any new classification of doubtful and disputed domestic debts during the remainder of the program period.

1/ The overall credit objective for end-December 1985 is indicative and will be set later taking into account the next crop year and the seasonal nature of government financial operations.

(b) The net government position vis-à-vis the banking system, which was CFAF 21.61 billion on December 31, 1984 and is estimated to reach CFAF 27.00 billion on March 31, 1985, will not exceed CFAF 27.00 billion on June 30, 1985 and CFAF 25.08 billion on September 30, 1985.

(c) Government payments arrears vis-à-vis enterprises, which amounted to CFAF 4,097 million on September 30, 1984 and were reduced to CFAF 3,397 million on December 31, 1984, will be cut back through cash payments to CFAF 2,100 million on June 30, 1985 and will be entirely eliminated by September 30, 1985.