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EBS/85/231

CONFIDENTIAL

October 21, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Niger - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Niger for a stand-by arrangement equivalent to SDR 13.48 million. A draft decision appears on page 32.

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

Mr. Nsouli (ext. 6937) or Mr. Ugolini (ext. 6934) is available to answer technical or factual questions relating to this paper prior the Board discussion.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

NIGER

Request for 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 A.D. Ouattara and Eduard Brau

October 18, 1985

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I. Introduction

In the attached letter dated September 3, 1985, the Government of Niger requests a one-year stand-by arrangement in an amount equivalent to SDR 13.48 million (40 percent of quota), in support of an adjustment program for the fiscal year 1985/86 (October/September). 1/ Of this amount, one half would be from the Fund's ordinary resources and the other half from borrowed resources. If approved by the Executive Board, the proposed stand-by arrangement would enter into effect on December 5, 1985, upon the expiration of the current stand-by arrangement. Under the current arrangement, in an amount equivalent to SDR 16.0 million (47.5 percent of quota), Niger has so far made four purchases totaling SDR 12.8 million; the last purchase of SDR 3.2 million may be made after November 14, 1985, subject to observance of the *performance criteria for end-September 1985.*

As of September 30, 1985 the Fund's holdings of Niger's currency, the CFA franc, subject to repurchases were equivalent to 162.61 percent of quota; excluding purchases outstanding under the compensatory financing facility, the Fund's holdings of Niger's currency amounted to 91.39 percent of quota. If the balance available under the current stand-by arrangement and the full amount of the requested stand-by arrangement are purchased, and after taking into account scheduled repurchases, the Fund's holdings of Niger's currency subject to repurchases would amount by December 5, 1986 to the equivalent of 207.66 percent of quota, or 140.89 percent of quota apart from holdings under the compensatory financing facility (Table 1).

The Fund and World Bank staffs have maintained close collaboration, both at headquarters and in the field, on the various aspects of Niger's adjustment efforts and external financing requirements. During the last

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1/ Discussions that provided the basis for the proposed stand-by arrangement were held in Niamey during the period August 19-September 3, 1985. The representatives of Niger included Mr. Boukary Adji, Minister of Finance; Mr. Nouhou Amadou, Minister of Commerce and Transportation; Mr. Sani Koutoubi, Minister of Mining and Industry; Mr. Mamadou Diop, National Director of the BCEAO; and other ministers and officials responsible for economic and financial affairs. The mission also held discussions with the President, General Seyni Kountché, and the Prime Minister, Mr. Hamid Algabid. Mr. Alfidja, Niger's Executive Director, participated in the discussions. The staff representatives were Mr. S.M. Nsouli (head-AFR), Mr. A. Tahari (AFR), Mr. P. Ugolini (AFR), Mr. R. Schneider (FAD), and Ms. R. Casaromani (secretary-AFR). Miss R. Bendokat of the World Bank, who visited Niamey at the same time, worked closely with the mission, particularly with regard to the public investment program, pricing policies, and public enterprise reform.

Table 1. Niger: Fund Position During Period of Arrangement, 1985-86

	Outstanding at beginning of arrangement	1985 Upon Board Approval	1986 Feb. 15-May 14	1986 May 15-Aug. 14	1986 Aug. 15-Nov. 14	1986 Nov. 15-Dec. 5
	(In millions of SDRs)					
Transactions under tranche policies (net)						
Purchases	--	2.696	2.696	2.696	2.696	2.696
Ordinary resources	--	1.348	1.348	1.348	1.348	1.348
Enlarged access resources	--	1.348	1.348	1.348	1.348	1.348
Repurchases	--	--	--	--	--	--
Ordinary resources	--	--	--	--	--	--
Enlarged access resources	--	--	--	--	--	--
Transactions under special facilities (net)	--	--	--	--	1.500	--
Purchases	--	--	--	--	--	--
Repurchases 1/	--	--	--	--	1.500	--
Total Fund credit outstanding (end of period)	58.000	60.696	63.392	66.088	67.284	69.980
Tranche policies	34.000 2/	36.696	39.392	42.088	44.784	47.480
Special facilities 1/	24.000	24.000	24.000	24.000	22.500	22.500
	(In percent of quota)					
Total Fund credit outstanding (end of period)	172.11	180.11	188.11	196.11	199.66	207.66
Tranche policies	100.89	108.89	116.89	124.89	132.89	140.89
Special facilities 1/	71.22	71.22	71.22	71.22	66.77	66.77

Source: IMF, Treasurer's Department.

1/ Compensatory financing facility.
2/ Including drawing of the remaining amount available under the 1984/85 stand-by arrangement.

year, the World Bank staff has pursued discussions with the authorities on a program to be supported by a first structural adjustment credit in an amount estimated at about US$60 million, to be disbursed over three fiscal years. This credit is expected to be presented to the World Bank Board late in 1985 or early 1986, and disbursements would begin during the last quarter of the 1985/86 fiscal year.

The staff report for the 1985 Article IV consultation with Niger, which was combined with the review of the current stand-by arrangement, was considered by the Executive Board on July 8, 1985. Appendices III and IV provide summaries of Niger's relations with the Fund and the World Bank Group, respectively.

II. Background

In the second half of the 1970s, the buoyant world demand for uranium, Niger's main export commodity, contributed to a rapid rise in Niger's export receipts and in government revenues. The increased revenue base, accompanied with external borrowing, enabled the Government to expand sharply both its current and capital expenditures. However, in the early 1980s a number of factors, including a weakening in the world demand for uranium, declining terms of trade, unfavorable weather conditions, a drop in foreign aid, and serious structural problems in the public enterprise sector, contributed to an intensification of economic and financial imbalances. These were reflected in 1981-82 in a marked slowdown in economic activity, a pickup in inflationary pressures, and a weakening in the external sector position.

Financial policies during this period continued to be expansionary. The budget deficit, on a commitment basis, almost doubled to 11 percent of GDP during 1980/81 and, notwithstanding sharp cutbacks in capital outlays, remained at 7.1 percent of GDP in 1981/82. Due to increases in credit to both the Government and the private sector, the annual rate of domestic credit expansion during 1980-82 averaged 25 percent of the beginning stock of broad money. As a result of the rising aggregate demand and the weakening in export receipts, the external current account deficit, including grants, rose to 12.3 percent of GDP in 1982. The large imbalances in the public sector and in the external sector were partly financed by official reserves and by a continued recourse to foreign borrowing. Between 1980 and 1982, the gross foreign assets of the central bank declined from the equivalent of about two months to two weeks of imports, the public debt outstanding more than doubled, and the public debt service ratio more than quadrupled. Furthermore, the Government accumulated substantial payments arrears.

In an effort to deal with the country's increasing difficulties, the authorities launched an adjustment program for the fiscal year 1983/84, supported by a 14-month stand-by arrangement in an amount equivalent to SDR 18 million (64.3 percent of the existing quota, on an annual basis). All the measures envisaged under the program were implemented and the performance criteria observed. Notwithstanding the re-emergence of drought conditions and the adverse effects of the closure of the border with Nigeria in April 1984, the budget deficit, on a commitment basis, was reduced from 7.3 percent of GDP in 1982/83 to 5.0 percent in 1983/84, and the Government reduced its payments arrears (Table 2). Measures to improve the financial position of public enterprises were also taken. Even though domestic credit declined by 6.7 percent of beginning money stock in 1984, an improvement in the net foreign assets of the banking system was mainly responsible for an increase in domestic liquidity (money and quasi-money) by 22.5 percent. While the intensification of drought conditions in 1984 led to a drop in real GDP of 16 percent and the rate of inflation picked up, the deficit in the external current account narrowed in absolute terms, from SDR 61 million in 1983 to SDR 51 million in 1984. While a sharp drop in the net capital account surplus resulted in a balance of payments deficit of SDR 7.7 million, it was considerably below the program target of SDR 38.8 million. In support of its adjustment effort, Niger obtained debt relief from the Paris Club and the London Club for the program period. As a result, the external public debt service ratio was reduced in 1984 from 30.6 percent, before debt relief, to 16.0 percent of exports of goods and nonfactor services, after debt relief.

III. Performance Under the 1984/85 Adjustment Program 1/

Notwithstanding the progress made under the 1983/84 program, the authorities of Niger recognized that adjustment policies needed to be continued with a view to achieving a viable balance of payments position over the medium term consonant with a sustainable rate of economic growth and relative price stability. Accordingly, an economic and financial program for 1984/85 was adopted, supported by a one-year stand-by arrangement in an amount of SDR 16.0 million (47.5 percent of quota). The program involved a number of demand- and supply-oriented measures. On the demand side, the program called for a further reduction in the budgetary deficit, the pursuit of a tight credit policy, and the continuation of a prudent external debt management policy. On the supply side, the program included a significant liberalization of marketing and pricing policies, further efforts to rehabilitate public enterprises, and the adoption of an appropriate public investment program.

1/ The analysis in this section is based on preliminary estimates for 1984/85 and for calendar year 1985. All references to program targets relate to the revised targets established at the time of the review of the program in March 1985.

Table 2. Niger: Selected Economic and Financial Indicators, 1982-86

	1982	1983	1984	1985 Rev. prog.	1985 Est.	1986 Prog.
	(Annual percentage changes, unless otherwise specified)					
National income and prices						
GDP at constant prices	-0.8	-2.6	-16.1	7.1	7.1	4.0
GDP deflator	9.8	7.8	8.7	8.5	7.5	7.0
Consumer prices	10.4	-2.5	8.5	10.4	7.4	6.5
External sector						
Exports, f.o.b. (in SDRs)	-17.2	-4.3	-13.3	-13.8	-13.0	12.3
Imports, c.i.f. (in SDRs)	-19.1	-26.6	-15.8	9.9	6.4	-3.7
Export volume	-20.2	-4.0	-11.6	-1.6	-9.2	3.5
Import volume	-23.0	-28.4	-15.6	5.1	-2.1	-5.2
Terms of trade (in SDRs; deterioration -)	-1.2	2.7	-1.6	-16.3	-11.9	6.9
Nominal effective exchange rate 1/ (end of period; depreciation -)	-2.9	-3.5	-1.5	...	...	...
Real effective exchange rate 1/ (end of period; depreciation -)	-1.5	-9.6	-7.7	...	...	...
Government budget (fiscal years ending September 30)						
Revenue (excluding grants)	-1.8	-6.8	1.9	-2.4	-3.0	6.8
Expenditure (commitment basis)	-14.6	-1.2	-13.8	-1.2	0.2	-0.1
Money and credit (end of period)						
Domestic credit 2/	29.5	-1.7	-6.7	15.7	14.6	11.4
Government (net) 2/	20.6	2.1	4.2	4.4	5.2	3.3
Private sector 2/	8.9	-3.8	-10.9	11.3	9.4	8.1
Money and quasi-money (M2)	-11.7	-1.0	22.5	7.4	9.5	8.6
Velocity (GDP relative to M2)	7.8	8.2	6.1	6.6	6.4	6.6
Interest rate (end of period)						
Minimum rate on time deposits 3/	10.5	9.5 4/	9.5	9.5	9.5	9.5
Money market rate for overnight deposits	13.0	12.0	10.8	...	10.2	...
	(In percent of GDP)					
Central government budget deficit (on the basis of fiscal years)						
Commitment basis	-7.1	-7.3	-5.0	-4.6	-4.9	-3.7
Cash basis	-4.9	-7.3	-6.8	-5.4	-5.5	-3.7
Domestic bank financing	1.3	0.7	0.8	1.3	1.3	0.5
Foreign financing (net)	3.2	6.3	5.5	4.2	4.0	3.2
External current account deficit						
Including grants	-12.3	-3.7	-3.7	-5.0	-5.0	-3.1
Excluding grants	-19.7	-10.4	-11.2	-14.6	-14.1	-9.9
External debt 5/	46.1	53.5	68.8	64.1	64.1	60.9
	(In percent of exports) 6/					
Debt service ratio 7/						
Without debt relief	46.4	34.4	45.2	47.0	46.7	49.7
With debt relief	...	32.2	30.5	33.7	33.4	...
Interest payments 7/						
Without debt relief 7/	19.6	15.9	18.6	19.8	19.9	19.0
With debt relief	...	15.1	13.8	17.2	17.1	...
	(In millions of SDRs)					
GDP at current market prices (in billions of CFA francs)	642.7	674.6	615.4	708.5	708.5	788.4
Overall balance of payments deficit (-)	-130.0	10.8	-7.7	-53.6	-52.0	-51.9
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/ Minimum rate on time deposits in excess of one year and in amounts of more than CFAF 2 million; the actual rates generally follow closely the money market quotations.
4/ Since April 5, 1983.
5/ Outstanding disbursed public and private debt, including IMF and the short-term foreign liabilities of the commercial banks.
6/ Exports of goods and nonfactor services.
7/ Service on public and private debt.

During 1984/85, all the measures envisaged under the program were implemented, and, so far, all the performance criteria have been observed (Table 3). The original objectives of the 1984/85 program, set in August 1984, were reassessed during the mid-term review of March 1985, when it became apparent that the adverse repercussions of the late 1984 drought, the continued closure of the border with Nigeria, and the continuation of a weak world demand for uranium were more severe than had been initially envisaged. To mitigate the impact of these factors, the Government took additional measures in the second half of 1984/85. Thus, the revised program aimed at achieving a recovery in economic activity, with a targeted rate of growth of real GDP of 7.1 percent; at reducing inflation, as measured by the GDP deflator, to 8.5 percent; and at limiting the external current account deficit to 5.0 percent of GDP. Based on available indicators, these objectives are expected to be achieved.

Notwithstanding the impact of the adverse exogenous factors, a tight fiscal policy was pursued. The budgetary deficit, 1/ on a commitment basis, was marginally reduced from 5.0 percent of GDP in 1983/84 to 4.9 percent of GDP in 1984/85 (Table 4), exceeding somewhat the program target of 4.6 percent of GDP. As envisaged under the program, all remaining identified government arrears, amounting to CFAF 4.1 billion were projected to be eliminated. Thus, the budget deficit on a cash basis was reduced from 6.8 percent of GDP in 1983/84 to 5.5 percent of GDP in 1984/85, compared with a target of 5.4 percent. About two thirds of the deficit is estimated to be financed by net external financing, including debt relief.

As the external adverse factors mentioned above reduced the tax base, a number of measures were taken to limit the decline in revenue to 3 percent. These measures included an increase in profits resulting from the rise in petroleum prices, an improvement in the tax collection system through the establishment of a property tax register, the reduction of delays in assessing and collecting taxes, and an acceleration in recovering tax arrears. These revenue measures and improved administration contributed to an estimated increase of CFAF 1.2 billion (0.18 percent of GDP) in revenue from direct taxes (other than employment taxes). However, the slowdown in economic activity and the full-year effect of the closure of the Nigerian border led to a fall in receipts from indirect and employment taxes, estimated at about CFAF 700 million (0.10 percent of GDP). Taxes on international trade also declined by an estimated CFAF 900 million (0.13 percent of GDP). In addition, nontax revenue fell by CFAF 1.6 billion (0.23 percent of

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1/ Excluding grant-financed investment estimated to amount to 3.7 percent of GDP in 1984/85. In view of the lack of centralized and accurate information on these amounts for the central government budget, these are not included in the table on central government operations.

Table 3. Niger: Quantitative Performance Criteria Under the 1984/85 Program 1/

	1984				1985				
	September		December		March		June		Sept.
	Original estimate	Actual	Program	Actual	Program	Actual	Program	Actual	Program
	(In billions of CFA francs; end of period)								
Domestic credit 2/	132.30	112.09	134.00	119.79	139.40	121.85	131.00	117.95	131.08
Net credit to the Government	24.60	16.08	27.00	21.61	29.40	24.15	27.00	22.33	25.08
Domestic arrears (outstanding) 3/	2.10	4.10	...	3.40	...	3.40	2.10	1.80	--
Short-term net foreign liabilities of deposit money banks	23.00	14.94	23.00	16.93	23.00	16.83	23.00	12.97	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; and EBS/85/143.

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/ Excludes public agencies' arrears to the Office des Postes et Télécommunications (OPT).

Table 4. Niger: Central Government Operations, 1982/83-1985/86

(In billions of CFA francs)

	1982/83	1983/84	1984/85 Revised program	1984/85 Esti-mate	1985/86 Program
Revenue	68.8	70.1	68.4	68.0	72.6
Tax revenue	62.6	61.1	61.0	60.7	65.3
Customs duties	(26.5)	(25.8)	(24.8)	(24.9)	(31.4)
Other revenue	(36.1)	(35.3)	(36.2)	(35.8)	(33.9)
Nontax 1/	6.2	8.9	7.4	7.3	7.3
Expenditure 2/	117.4	101.2	100.0	101.4	101.3
Current budget	55.4	65.2	70.0	70.4	71.1
Interest 3/	(9.2)	(13.6)	(17.1)	(17.1)	(16.2)
Personnel	(22.2)	(23.1)	(25.3)	(25.1)	(26.9)
Other current	(24.0)	(28.5)	(27.6)	(28.2)	(28.0)
Development	58.7	32.4	30.0	30.0	30.2
Budget	(9.5)	(5.9)	(5.0)	(5.0)	(4.5)
Extrabudgetary	(49.2)	(26.5)	(25.0)	(25.0)	(25.7)
Other expenditure and net lending	3.3	3.6	--	1.0	--
Deficit (payment-order basis)	-48.6	-31.1	-31.6	-33.4	-28.7
Change in arrears (decrease -)	-1.7	-12.4	-4.1	-4.1	--
Of which: to the banks	(-1.0)	(-2.6)	(--)	(--)	(--)
Change in check float	1.9	0.9	-1.1	--	--
Overall cash deficit	-48.4	-42.7	-36.8	-37.5	-28.7
Financing 2/	48.4	42.7	36.8	37.5	28.7
External	42.3	34.5	28.6	27.5	8.2
Debt relief	(--)	(15.9)	(17.0)	(17.0)	(...)
Drawings	(49.9)	(32.9)	(31.1)	(30.0)	(28.7)
Repayments	(-7.6)	(-14.3)	(-19.5)	(-19.5)	(-20.5)
Domestic (net)	6.1	8.2	8.2	10.0	4.4
Monetary authorities	(1.7)	(3.9)	(9.0)	(9.0)	(4.0)
Banks	(2.7) 4/	(1.4) 4/	(--)	(--)	(...)
Others	(1.7)	(2.9)	(-0.8)	(1.0)	(0.4)
Financing gap 5/	--	--	--	--	16.1
Memorandum items:					
Current balance/GDP	2.0	-0.8	-0.2	-0.3	0.2
Overall deficit (payment-order basis)/GDP	-7.3	-5.0	-4.6	-4.9	-3.7
Overall cash deficit/GDP	-7.3	-6.8	-5.4	-5.5	-3.7

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 CFAF 11.4 billion in 1982/83, CFAF 21.5 billion in 1983/84, CFAF 25 billion in 1984/85, and approximately CFAF 30 billion in 1985/86.
3/ Interest payments on government debt.
4/ Net bank financing differs from the monetary data, because the Government's reduction of arrears owed to the commercial banks is shown separately for monitoring purposes, rather than as a normal reduction of net credit to the Government.
5/ Prospective debt relief.

GDP), due to a reduction in receipts from the Central Bank (BCEAO) and lower transfers from the cereal marketing agency (OPVN) reflecting increased costs of emergency food distribution.

Expenditure was maintained at about the 1983/84 level. This was achieved by limiting the increase in current expenditure to 8.0 percent, while reducing budgetary capital outlays by 7.4 percent. Two thirds of the increase in current expenditure is accounted for by the rise in scheduled interest payments on public debt. As a strict employment policy was pursued and no cost-of-living adjustments in wages were made, the growth in the wage bill was limited to 8.6 percent, accounting approximately for the remaining one third of the increase in current expenditure. Other nonwage current expenditure was maintained at about the same level as in the previous year, through a strengthening in expenditure controls and reduced transfers. However, total expenditure was marginally higher than programmed; this was due to the fact that other expenditure and net lending were reduced by less than originally envisaged. 1/

During 1985, 2/ the Government continued to implement a balanced credit and monetary policy consonant with the objectives of the program. Credit to the private sector (including public enterprises) is programmed to increase by 9.4 percent (of beginning money stock) in 1985, in line with the projected recovery in economic activity, following a sharp drop in credit to the private sector of 10.9 percent in 1984 (Table 5). Taking into account a programmed growth of 5.2 percent in net credit to the Government, total domestic credit is projected to increase by 14.6 percent of beginning money stock, compared with a decline of 6.7 percent in 1984. However, in view of the balance of payments target, the rate of expansion of domestic liquidity is projected to decline from 22.5 percent in 1984 to 9.5 percent in 1985, contributing to the reduction in inflationary pressures. All the performance criteria relating to domestic credit and net credit to the Government through end-June 1985 have been observed. As a member of the West African Monetary Union, Niger maintains the same interest rate policy as prevails in the other member countries. A representative rate, namely the money market rate for overnight deposits, was set at 10.2 percent in 1985, remaining positive in real terms.

1/ In Niger, as in other countries with accounts based on the French Treasury system, external grants and loans to public enterprises pass directly through a Fonds de Concours which is treated for monitoring purposes as net lending.

2/ The money and credit targets for end-December 1985 are part of the 1985/86 program.

Table 5. Niger: Monetary Survey, 1983-86

(In billions of CFA francs; end of period)

	1983	1984		1985						1985	1986			
	Dec.	Sept.	Dec.	March		June		September		Dec.	March	June	Sept.	Dec.
				Prog.	Actual	Prog.	Actual	Prog.	Est.	Prog. 1/	Prog. 1/	Indicative 1/		
Net foreign assets	-15.77	4.61	1.87	--	3.30	-1.85	12.28	-3.73	...	-2.43	...	...	...	-3.83
Central bank	4.00	19.55	18.80	16.93	20.13	15.08	25.25	13.20	...	...	...	...	...	...
Deposit money banks	-19.77	-14.94	-16.93	-16.93	-16.83	-16.93	-12.97	-16.93	...	...	...	...	...	...
Domestic credit	125.28	112.09	119.79	129.00	121.85	131.00	117.95	131.08	124.08	134.50	138.90	139.20	139.28	147.10
Net claims on Government	18.12	16.08	21.61	27.00	24.15	27.00	22.33	25.08	25.08	26.90	28.70	30.20	29.08	30.60
Central bank	(7.51)	(8.09)	(14.27)	(19.66)	(16.05)	(19.66)	(17.60)	(17.09)	(...)	(...)	(...)	(...)	(...)	(...)
Other	(10.61)	(7.99)	(7.34)	(7.34)	(8.10)	(7.34)	(4.73)	(7.99)	(...)	(...)	(...)	(...)	(...)	(...)
Credit to the private sector	107.16	96.01	98.18	102.00	97.70	104.00	95.62	106.00	99.00	107.60	110.20	109.00	110.20	116.50
Crop credit	(10.40)	(4.64)	(2.98)	(3.50)	(2.98)	(3.50)	(2.60)	(3.00)	(3.00)	(8.00)	(9.00)	(6.00)	(4.50)	(8.00)
Ordinary credit 2/	(96.76)3/	(91.37)3/	(95.20)	(98.50)	(94.72)	(100.50)	(93.02)	(103.00)	(96.00)	(99.60)	(101.20)	(103.00)	(105.70)	(108.50)
Money and quasi-money	82.11	96.29	100.62	106.95	102.94	107.10	111.47	105.30	...	110.21	...	...	...	119.71
Long-term foreign liabilities	28.76	28.16	28.01	28.01	28.00	28.01	28.24	28.01	...	28.24	...	...	...	28.24
Other items (net)	-1.36	-7.75	-6.97	-5.96	-5.79	-5.96	-9.48	-5.96	...	-6.38	...	...	...	-4.68

Source: Data provided by the Nigerien authorities.

1/ In addition to the projected external debt relief, the program assumes that Niger will receive no external budgetary assistance between October 1, 1985 and June 30, 1986 and will receive CFAF 3 billion in external budgetary assistance between July 1, 1986 and September 30, 1986. The ceilings will be reduced by any amount by which external budgetary assistance (including debt relief) exceeds the program estimate.
2/ Includes reclassified doubtful or litigious loans.
3/ Excludes reclassified doubtful or litigious loans estimated at CFAF 3.74 billion at the end of 1983.

For 1984/85, the public investment program was implemented as envisaged. The level of investment was targeted at CFAF 70 billion, the same level as in 1983/84, of which CFAF 6 billion represented the domestic counterpart, CFAF 33 billion disbursements on external loans, and CFAF 31 billion grants. Based on preliminary data for the first nine months and expected disbursements for the last three months, the authorities estimate that public investment expenditure for 1984/85 would reach CFAF 55 billion. This would represent a 78 percent implementation ratio, compared with 75 percent envisaged under the program. Of this amount, CFAF 5 billion represents the domestic counterpart, CFAF 25 billion disbursements on external loans, and the remainder grant-financed investment. Moreover, the share of investment allocated to the directly productive sectors has been significantly increased; for 1984/85, it is estimated at 39 percent, compared with 25 percent for economic infrastruture and 32 percent for social infrastructure.

Several measures were taken to liberalize cereal pricing and marketing policies, and a number of regulated prices and tariffs were increased during 1984/85. On October 1, 1984, the monopsony position of a state enterprise (SONARA) with regards to the domestic purchase and export of cowpeas was abolished, thereby liberalizing transactions of cowpeas. The monopoly position of the OPVN was also eliminated; all private individuals and cooperatives were authorized to market and import cereals without licensing or quota requirements. In order to align its prices with market conditions, the OPVN adopted a system of tenders and bids for its wholesale sales and purchases of cereals (millet and sorghum) and adjusted its minimum purchase prices and its sales prices. In view of the severe drought conditions, the OPVN's domestic purchases declined from 29,000 tons of cereals in 1983/84 to 9,500 tons in 1984/85. Nonetheless, 91 percent of domestic purchases were effected through tenders at prices ranging from CFAF 120 to CFAF 130 per kilogram. However, no wholesale sales were made and retail sales declined, from 115,000 tons in 1983/84 to 38,000 tons in 1984/85, reflecting primarily the sharp increase in food aid distributed freely as well as sales by private importers. The sale prices of millet and sorghum, which were CFAF 120 and CFAF 110 per kilogram, respectively, were unified and raised to CFAF 140 per kilogram on November 1, 1984 and again to CFAF 165 per kilogram on May 1, 1985. This followed increases in the minimum producer prices on October 1, 1984 from CFAF 80 per kilogram to CFAF 100 per kilogram for millet, and from CFAF 60 per kilogram to CFAF 100 per kilogram for sorghum. The prices of petroleum products were also increased by 11.1-16.7 percent on May 15, 1985, while electriciy tariffs were raised by 10.0-15.2 percent on July 15, 1985.

The Government has pursued its reform of the public enterprise sector. So far, six enterprises are in the process of being privatized, three have been liquidated, and two (including Air Niger) have been closed. A number of measures aimed at improving the performance of key enterprises were also taken. During 1984/85, OPVN is expected to achieve a balance in its financial operations, notwithstanding the high volume of food aid, partly due to the aforementioned price measures as well as a strengthening in administration. The implementation of a rehabilitation plan for the commercial and development bank (BDRN) was begun in May 1985. This involved measures to streamline the bank's administration, restructure its financial position, implement a stricter and more selective credit policy, and strengthen loan collection procedures. The capital of the BDRN was increased by CFAF 5.4 billion, half of which was expected to be paid up in 1985. The national office for management of irrigation (ONAHA) is expected to benefit from the generalization of its program of charging user fees to cover the costs of maintaining pumping stations and irrigation canals. The national agency for underground water supply (OFEDES) expanded its program to pass user costs on to beneficiaries. The post and telecommunications office (OPT) increased telephone tariffs by 9 percent, effective October 1, 1984, and benefited from a reduction of the tax on communications (TPS) from 15 percent to 10 percent as well as a considerable reduction in outstanding bills. The electricity company (NIGELEC) also improved its financial position by increasing electricity tariffs and improving statement and billing methods, under a technical assistance project financed by the World Bank and the Caisse Centrale de Coopération Economique (CCCE). The thermal power plan (SONICHAR) increased its tariffs by 10 percent at end-February 1985 and is implementing a rehabilitation program aimed at improving its operations.

The policies pursued by the Government succeeded in limiting the overall deficit of the balance of payments in 1985 to an estimated SDR 52.0 million, somewhat lower than the program target of SDR 53.6 million, but considerably higher than SDR 7.7 milllion recorded in 1984 (Table 6). This was due largely to a widening in the current account deficit from SDR 50.5 million in 1984 (3.7 percent of GDP) to SDR 76.4 million in 1985 (5.0 percent of GDP), reflecting mainly a number of exogenous factors, including a deterioration in the terms of trade. Import payments are estimated to have risen by 6.4 percent, reflecting primarily a large increase in cereal imports necessitated by the drought conditions. The increase in overall imports, however, was maintained well below the programmed level due to the tight financial policies pursued and the depreciation in the import-weighted effective exchange rate. Export receipts are estimated to have fallen by 13.0 percent, somewhat less than originally projected. Exports of agricultural and livestock products suffered from the weather conditions and from the closure of the border with Nigeria. The softening of the world market for uranium also contributed to a reduction in receipts from uranium exports in SDR terms. Reflecting these factors, the trade balance deficit nearly tripled, offsetting a sharp expansion in offical transfers. The rise in the current account deficit was reinforced by a drop in external loan disbursements, leading to the rise in the overall balance of

Table 6. Niger: Medium-Term Outlook of the Balance of Payments, Base-Line Scenario, 1983-90

(In millions of SDRs)

	1983	1984	1985		1986	1987	1988	1989	1990
			Prog.	Rev.	Prog.	Projections			
Trade balance	-48.2	-31.7	-104.8	-92.4	-47.0	-46.3	-40.0	-28.2	-20.8
Exports, f.o.b.	347.0	300.8	260.2	261.6	293.8	313.0	337.4	363.1	384.1
Uranium	270.3	224.9	216.4	217.5	241.9	254.1	266.5	280.3	294.0
Other	76.7	75.9	43.8	44.1	51.9	58.9	70.9	82.8	90.1
Imports, c.i.f.	-395.2	-332.5	-365.0	-354.0	-340.8	-359.3	-377.4	-391.3	-404.9
Of which: cereals	(-30.2)	(-24.6)	(-75.7)	(-75.7)	(-36.4)	(-37.7)	(-39.3)	(-40.9)	(-42.4)
Services, net	-87.5	-90.3	-90.4	-91.0	-95.5	-92.5	-92.0	-91.5	-90.0
Of which:									
scheduled interest	(-59.6)	(-60.5)	(-56.4)	(-56.7)	(-60.7)	(-57.5)	(-57.0)	(-56.0)	(-51.6)
Transfers	75.0	71.5	119.3	107.0	87.4	89.9	92.6	95.3	98.0
Private	-36.9	-31.3	-24.5	-31.0	-33.9	-35.0	-36.1	-37.3	-38.4
Public	111.8	102.8	143.8	138.0	121.3	124.9	128.7	132.6	136.4
Current account balance	-60.7	-50.5	-75.9	-76.4	-55.1	-48.9	-39.4	-24.4	-12.8
Excluding public transfers	-172.5	-153.3	-219.7	-214.4	-176.4	-173.8	-168.1	-157.0	-149.2
Nonmonetary capital, net	71.5	42.8	22.3	24.4	3.2	16.9	24.0	33.2	39.3
Public long-term, net	62.2	55.0	31.9	32.1	16.3	24.8	29.6	37.7	46.7
Disbursements	91.4	110.7	81.9 1/	82.4 1/	85.4	85.8	92.4	96.0	99.8
Amortization	-29.2	-55.7	-50.0	-50.3	-69.1	-61.0	-62.8	-58.3	-53.1
Private long-term, net	-26.3	-9.6	-9.6	-8.1	-8.6	-7.9	-5.6	-4.5	-7.4
Short-term, net	6.4	-5.4	--	--	-4.5	--	--	--	--
Errors and omissions	29.2	2.8	--	0.4	--	--	--	--	--
Overall balance	10.8	-7.7	-53.6	-52.0	-51.9	-32.0	-15.4	8.8	26.5
Financing	-10.8	7.7	53.6	47.3	3.1	--	--	--	--
Net foreign assets	-19.2	-40.1	15.7	9.2	3.1	--	--	--	--
Deposit money banks	-33.8	-9.2	--	--	--	--	--	--	--
BCEAO	14.6	-30.9	15.7	9.2	3.1	--	--	--	--
Of which: IMF	(30.7)	(14.4)	(12.8)	(15.5)	(9.3)	(-16.0)	(-21.5)	(-9.0)	(-4.1)
Debt relief	8.4	47.8	37.9 1/	38.1 1/	--	--	--	--	--
Financing gap	--	--	--	4.7	48.8	48.0	36.9	0.2	-22.4
Memorandum items:									
Current account deficit/GDP									
(in percent)	-3.7	-3.7	-5.0	-5.0	-3.1	-2.5	-1.8	-1.0	-0.5
IMF credit	30.7	14.4	12.8	15.5	9.3	-16.0	-21.5	-9.0	-4.1
Purchases	(30.7)	(14.4)	(12.8)	(15.5)	(10.8)	(...)	(...)	(...)	(...)
Repurchases (-)	(--)	(--)	(--)	(--)	(-1.5)	(-16.0)	(-21.5)	(-9.0)	(-4.1)

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.

payments deficit. The deficit is estimated to be financed by debt relief, purchases from the Fund, and a reduction in net foreign assets. 1/

The Government obtained a rescheduling of external debt service to creditors participating in the Paris Club for the period from October 1, 1984 to November 30, 1985. Debt relief was also obtained in 1984/85 from the London Club, under a two-year agreement concluded early in 1984, covering principal falling due between October 1, 1983 and September 30, 1985. The amount of debt relief obtained from the Paris Club and the London Club is estimated at SDR 31.6 million for 1985. 2/ The authorities have written to official creditors who did not participate in the Paris Club rescheduling and are continuing their efforts to obtain rescheduling or refinancing on the same terms as those granted by the Paris Club. In addition, an amount of SDR 3.6 million in external arrears incurred before October 1983 was rescheduled. The debt service ratio in 1985 is estimated to be reduced from 46.7 percent of exports of goods and nonfactor services, before debt relief, to 33.4 percent after debt relief, compared with 45.2 percent, before debt relief, and 30.5 percent, after debt relief in 1984.

During the period end-December 1980 to end-June 1985, the import-weighted effective exchange rate of Niger's currency, the CFA franc, which is pegged to the French franc at the rate of CFAF 50 = F 1, has depreciated by 10.9 percent in nominal terms and by 14.1 percent in real terms (see Chart). Niger's exchange and trade system is similar to that of other franc zone area countries, which maintain an operations account with the French Treasury, and remain free of restrictions on payments and transfers for current international transactions.

IV. The 1985/86 Economic and Financial Program 3/

Notwithstanding the adverse effects of several exogenous factors, particularly the severe drought in 1984/85, the authorities have taken measures over the last few years that have been instrumental in strengthening the underlying economic and financial situation of the country. To consolidate and build upon the progress made thus far, the authorities plan to reinforce the effects of the expected improvement

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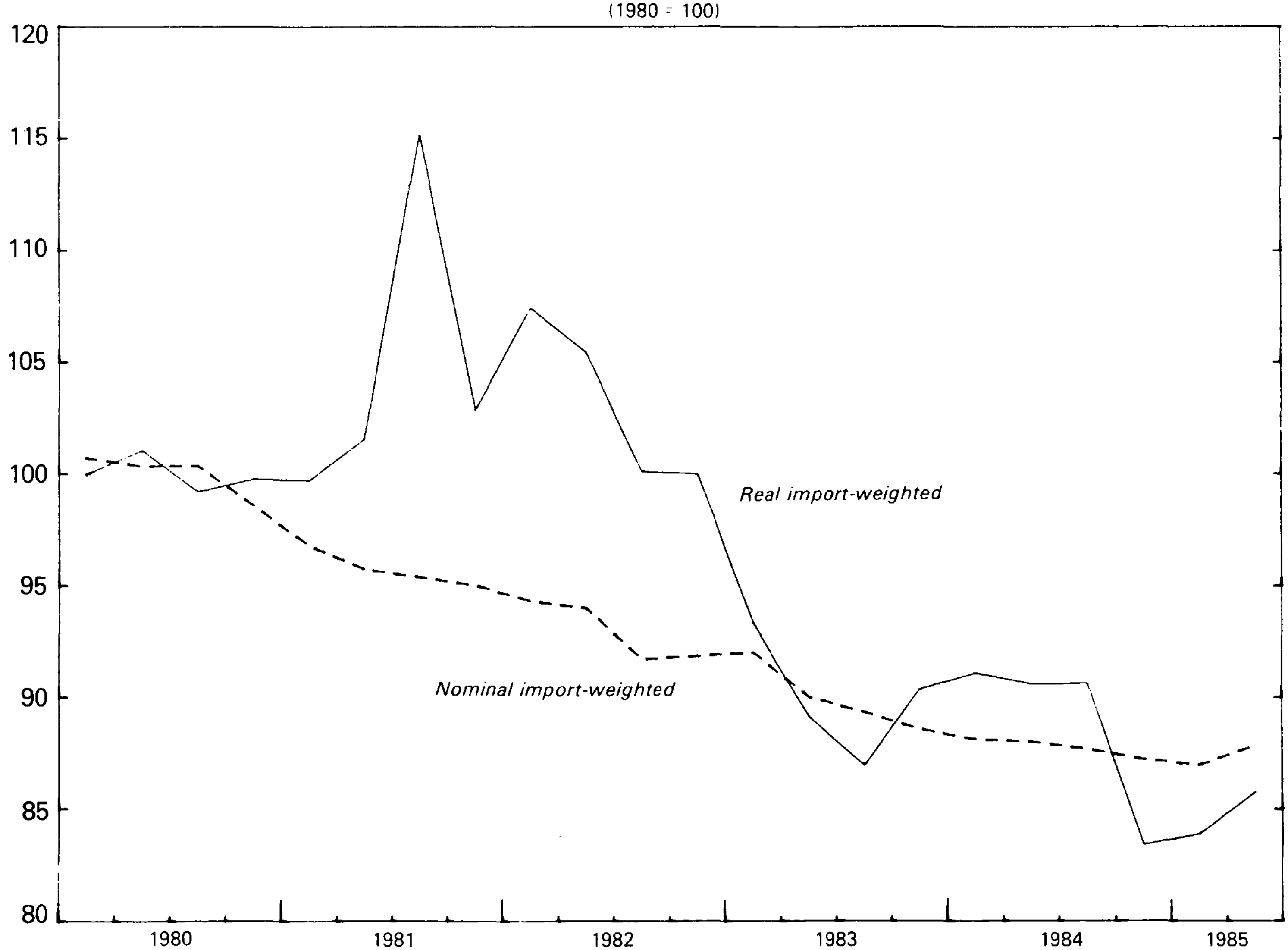
1/ A small financing gap of SDR 4.7 million is projected to be closed by the rescheduling expected for 1985/86.

2/ Excludes the refinancing or rescheduling (SDR 6.5 million) expected from official creditors that did not participate in the Paris Club.

3/ The 1985/86 program covers the fiscal year ending September 1986. Nevertheless, other than for government financial operations, the program targets are for calendar year 1986.

CHART 1
NIGER
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES, 1980-85
(1980 = 100)



Source: IMF *International Financial Statistics*

in weather conditions with the introduction of further adjustment measures in 1985/86. The economic and financial program for 1985/86 includes measures designed to improve resource allocation and stimulate production while limiting the growth in aggregate demand (Table 7). To reduce the structural imbalances and strengthen the foundation for sustained economic growth, the program provides for a continuation of the process of liberalization of marketing and pricing policies, the introduction of additional measures designed to rehabilitate the public enterprise sector, and greater emphasis on the productive sectors in the context of an appropriate investment program. To limit the growth in aggregate demand, the budgetary deficit, on a commitment basis, will be reduced through revenue-raising and expenditure-containing measures, monetary and credit policies will be tightened, and a cautious external debt management policy will continue to be pursued. These policies, together with the anticipated improvement in weather conditions, are expected to contribute to the attainment of the main quantitative objectives of the program for 1986. These are to reduce the rate of inflation, as measured by the GDP deflator, from 7.5 percent to 7.0 percent, to achieve a real rate of economic growth of 4.0 percent, and to narrow the external current account deficit from SDR 76.4 million (5.0 percent of GDP) to SDR 55.1 million (3.1 percent of GDP). After taking into account scheduled external debt service payments and anticipated drawings on committed loans, the overall balance of payments deficit in 1986 is projected to be limited to SDR 51.9 million. The estimated deficit is expected to be financed by external debt relief and by purchases from the Fund under the proposed stand-by arrangement.

1. Pricing and marketing policies

The authorities intend to further liberalize pricing and marketing policies through the implementation of a number of measures. First, beginning October 1, 1985, all import monopolies and quasi-monopolies, with the exception of imports of petroleum products, are being abolished. This will include the abolishment of the monopoly that the trade company (COPRONIGER) has in importing salt, tea, jute sacks, and cigarettes. Second, effective November 1, 1985, the products and services subject to price regulation (homologation), other than those for local industries, will be reduced from over 50 to only 7 products and services considered by the authorities as essential. These are petroleum products, salt, water, electricity, bread, flour, and transportation. Instead, economic agents will be allowed to set prices based on a system of predetermined profit margins. Under the current system of price regulation (homologation), the Government sets the absolute price for each of the products covered, on the basis of information on costs provided by the economic agents. Thereafter, the price can only be changed after new information on costs is submitted to the Government and the Ministry of Commerce decides on the new price level. This system has usually entailed long delays in modifying the price, once costs had changed. Under the program, the prices for the rest of the products, other than the 7 referred to

Table 7. Niger: Summary of the Adjustment Program for 1985/86

Objectives

1. Achieve a 4 percent growth rate in real GDP.
2. Reduce the rate of inflation, as measured by the GDP deflator, from 7.5 percent to 7.0 percent.
3. Reduce the current account deficit of the balance of payments from 5.0 percent of GDP to 3.1 percent of GDP, and limit the overall balance of payments deficit to SDR 51.9 million.

Pricing and marketing policies

1. Abolish all import monopolies and quasi-monopolies (de facto monopolies and exclusive trading contracts), with exception of imports of petroleum products (October 1, 1985).
2. Expand the scope of the system of tenders and bids for wholesale purchases and sales of sorghum and millet and the setting of selling prices in line with market conditions by the grain marketing agency (OPVN) (November 1, 1985).
3. Reduce the list of products and services covered by the system of regulated prices, with the exception of local industries, to petroleum products, salt, water, electricity, bread, flour, and transportation; institute instead a system of profit margins (November 1, 1985).

Public enterprises

1. Finalize and start implementing a comprehensive reform program for the public enterprise sector under the SAC with the World Bank in 1986.
2. Continue the implementation of measures to strengthen the financial position of key public enterprises:
   a. OPVN - through the introduction of the pricing and marketing measures described above;
   b. BDRN - increase in its capital and continuation of the rehabilitation program;
   c. OFEDES - expand its program to charge user costs to the beneficiaries and to recover at least one third of the maintenance costs of wells, pumping stations, and drilling;
   d. SONICHAR - continue with the ongoing rehabilitation program; increase tariffs applicable to the uranium mining companies (1986).
3. Prepare timetable for elimination of verified cross-debts (March 1986).

Public investment program (1985/86)

1. Overall objective: CFAF 78.4 billion
   Domestic counterpart (including BDRN): CFAF 5.5 billion
   External borrowing: CFAF 33.6 billion
   Grants: CFAF 39.3 billion
2. Implementation rate: 79 percent (average)
   Domestic counterpart: CFAF 4.3 billion
   External borrowing: CFAF 26.0 billion
   Grants: CFAF 31.4 billion
3. Investment programming
   Prepare the second and third year programs of three-year investment program (1985/86-1987/88) in the context of the SAC with the World Bank, taking into account the need to rehabilitate and maintain existing infrastructure, recurrent expenditure implications, the need to expand cost recovery, and the impact on the balance of payments.

Public finance

1. Reduce the overall deficit on a commitment basis from CFAF 33.4 billion in 1984/85 (4.9 percent of GDP) to CFAF 28.7 billion (3.7 percent of GDP) in 1985/86.
2. Budgetary revenue: increase by 6.8 percent
   a. Introduce the value-added tax (VAT).
   b. Increase stamp duties and registration fees.
   c. Introduce customs duties on petroleum products.
   d. Improve tax administration by moving forward the point for collection for petroleum taxes to customs.
   e. Eliminate preferential duties on certain imports.
   f. Tax several commodities based on the full c.i.f. value.
3. Expenditure: no increase
   a. Limit growth of wage bill to 7.2 percent.
   b. Reduce scholarships and subsidies.
   c. Limit administrative expenditure and transfers to public entities.
   d. Limit investment outlays at about the 1984/85 level.
4. No accumulation of arrears.

Monetary and credit policies

1. Reduce monetary growth from 9.5 percent in 1985 to 8.6 percent in 1986.
2. Allocate a higher percentage of credit growth to the nongovernment sector and limit credit growth to 11.4 percent of beginning money stock.

External sector

1. External debt relief from the Paris Club, commercial banks, and other official creditors.
2. No contracting or guaranteeing of new nonconcessional loans in the 0-12 years' maturity range.

above, will be determined directly by the economic agents on the basis of their costs and the preset profit margins. This implies that the prices can be changed automatically in light of changing costs without requiring a decision by the Ministry of Commerce. The new system based on preset profit margins, therefore, represents an improvement in that it introduces a greater element of flexibility than the system of price regulation (homologation). The system of price regulation, however, will continue to apply to domestic industries, pending the introduction of a new system under the structural adjustment program being negotiated with the World Bank. Third, the system involving tenders and bids for wholesale purchases and sales of sorghum and millet and the setting of selling prices in line with market conditions by the OPVN will be enhanced through the adoption of the following measures effective November 1, 1985: (i) 80 percent of the domestic purchases of cereals by the OPVN will be effected through tenders, and all wholesale sales will be effected through bids, with retail sales being limited to isolated regions of the country experiencing shortages; (ii) the sales prices will be adjusted regularly, based on recommendations by a committee being set up under the supervision of the Ministry of Commerce to ensure that the OPVN's prices are in line with market prices and sufficient to secure an adequate profit margin; and (iii) the system of uniform cereal prices for all regions of the country will be abolished and differentials in these prices will be introduced to cover fully differences in transportation costs between regions.

2. Public enterprises

The authorities are in the final stages of putting in place a comprehensive program for the reform of the public enterprise sector in the context of a structural adjustment credit from the World Bank, which is expected to be launched early in 1986. The main elements of this reform include the liberalization of price and trade controls, the equalization of fiscal treatment of commercial public and private enterprises, the strengthening of the institutional and legal framework for the management and monitoring of public enterprises, the identification of cross-debts, the liquidation of nonviable enterprises, and the privatization of others. In this context, a study on cross-debts in the public sector is being undertaken and is expected to be finalized before end-March 1986. The progress in the preparation of the comprehensive reform of the public enterprise sector will be examined during the mid-term review of the program. At that time, understandings will also be reached on the modalities and on a timetable for the elimination of those cross-debts that have been verified.

In the meantime, the authorities plan to continue implementing measures to rehabilitate key public enterprises. The financial position of the OPVN is expected to benefit from the aforementioned pricing and marketing policies. Progress is also expected to be made in defining the stabilization function of the OPVN and the appropriate level of the security stock. Discussions for this purpose are under way with the World Bank and bilateral donors. The BDRN will continue to implement its rehabilitation program. The second part of the increase of its capital is expected to be paid up in 1986. Moreover, further measures to strengthen its administration, to improve its loan collection procedures, and to implement a stricter and more selective credit policy are expected to be introduced. OFEDES will expand its program of charging user fees to beneficiaries, with a target of recuperating at least one third of the maintenance costs of wells and pumping stations in 1985/86. This is expected to result in a reduction of budgetary transfers to OFEDES from CFAF 286 million in 1984/85 to CFAF 186 million in 1985/86. SONICHAR will continue to implement its rehabilitation program, under which improvements in management and in technical operations are taking place. In addition, its tariffs will be increased in 1986, in conformity with the understandings with the uranium mining companies to revise these tariffs annually.

3. Public investment program

The authorities intend to continue to reorient public investment toward the directly productive sectors and quick-yielding projects, to contain investment to a level consonant with the financial constraints and the country's absorptive capacity, and to increase the share of grant-financed investment.

The Government has formulated an investment program for 1985/86 amounting to CFAF 78.4 billion. This represents an increase of about 11 percent over the 1984/85 target, implying that the ratio of targeted investment to GDP will remain unchanged. Of the total, CFAF 5.5 billion is expected to be financed domestically, CFAF 33.6 billion by concessional external loans, and CFAF 39.3 billion by grants. The Government's contribution to the BDRN's capital increase, CFAF 1 billion, is included in the domestic counterpart. As a working hypothesis, the Government has assumed a minimum implementation rate of 77.5 percent for investments financed domestically and by external borrowing and a rate of 80 percent for those financed by grants. In the event of a financing shortfall, the Government plans to reduce its investment level accordingly.

The overall level of investment is considered appropriate by the World Bank staff and in line with the financial constraints. During 1985, the Government has strengthened investment programming significantly, with assistance from the World Bank. This has resulted in an improvement in the coverage and the evaluation of financing requirements for each investment project. The increased amount of investment financed by grants reflects not only the strategy of the Government to reduce the share of investment financed by external borrowing, so as to ease the external debt burden, but also the improvement in investment programming, which has resulted in a more comprehensive coverage of grant-financed projects.

The public investment program for 1985/86 emphasizes new investments in the productive sectors, with a view to establishing a balanced structure of investment among the productive, social, and infrastructural sectors. Accordingly, 47 percent is allocated to the directly productive sectors, 15 percent to economic infrastructure, 30 percent to social infrastructure and technical assistance, and 8 percent to administrative infrastructure. The World Bank staff considers this sectoral composition appropriate.

The 1985/86 investment program constitutes the first year of a three-year investment program for 1985/86-1987/88, which the Government is preparing in the context of the structural adjustment program to be supported by the World Bank. For the following two years, the Government is formulating sectoral strategies which will serve as a basis for determining investment priorities and sectoral allocations. These strategies take into account the need to rehabilitate and maintain existing infrastructure, recurrent expenditure implications, the need to expand cost recovery, and the impact on the balance of payments. On the basis of these preparatory steps, the Government is currently taking actions to improve the quality of investment, and it is reviewing the status of key projects with the World Bank. In the agricultural sector, projects are being restructured to develop and implement technical packages suited to local conditions. The use of the teacher training facility in the social sector is under study. The Government also plans to emphasize road maintenance in its strategy to develop the transportation sector. In this context, the Zinder-Agadez road project is expected to be reviewed at a Donors' Conference scheduled for late 1985. Further, a re-evaluation of the Route de l'Unité project has taken place, and investment has been limited to the most seriously deteriorated road segments. The Government is also considering the extension of the implementation period for the National Stadium project beyond the initially envisaged three years, or narrowing the scope of the project, with a view to reducing the share of investment in administrative infrastructure over the next few years.

4. Public finance

The Government is taking a number of revenue-raising and expenditure-containing measures to reduce the budget deficit of the Central Government, on a commitment basis, from CFAF 33.4 billion (4.9 percent of GDP) in 1984/85 to CFAF 28.7 billion (3.7 percent of GDP) in 1985/86. On a cash basis, the budget deficit is targeted to narrow by 1.8 percentage points of GDP to 3.7 percent of GDP. The deficit is expected to be financed primarily by debt relief and external budgetary assistance. A sum of CFAF 3.0 billion under a structural adjustment credit from the World Bank is projected to be disbursed in the last quarter of 1985/86. Domestic bank borrowing will be reduced markedly, financing 14 percent of the deficit, compared with 24 percent in the previous year.

On the revenue side, an increase of 6.8 percent is projected, primarily due to several revenue measures; the impact of the growth in GDP on revenue will be very limited, in view of the expected decline in imports and the modest rise in uranium receipts. The tax measures include the introduction of a value-added tax at the beginning of 1986, estimated to yield revenue of about CFAF 1 billion in 1985/86. Further, an increase in stamp duties and registration fees (from CFAF 500 to CFAF 5,000) and an improvement in administrative procedures are estimated to yield CFAF 200 million. Several new measures relating to import duties are expected to yield a total of CFAF 2.4 billion. Of this amount, CFAF 1.2 billion is expected from the full-year effect of the increase in petroleum prices, reflected in increases in the specific taxes on petroleum products. 1/ An additional CFAF 500 million is expected to be generated by the improvement in tax administration resulting from moving forward the point of collection for petroleum taxes to customs. The remaining CFAF 700 million is expected to result from the decision to eliminate the special status which Niger has accorded to imports from certain countries as well as from the taxation of several items based on the full c.i.f. value, instead of administrative values on which customs duties are assessed (valeurs mercuriales).

On the expenditure side, the Government intends to continue a policy of austerity, with no increase in overall expenditure over 1984/85. Current expenditure is programmed to increase by less than 1 percent. Excluding scheduled interest payments, which are expected to decrease by 5.3 percent, the growth in other current expenditure will be contained to 3 percent, well below the projected rate of inflation of 7.0 percent. The growth in the wage bill will be reduced to 7.2 percent, by not granting any general cost-of-living adjustment and limiting government employment. New recruitment, which accounts for about half of the projected increase in the wage bill, will be primarily in the areas of agricultural extension services, health, and education. Other current expenditure will fall by 0.7 percent, reflecting a reduction in scholarships by 6.4 percent and of other subsidies by 3.3 percent. In line with recommendations from the World Bank, allocations for road maintenance provide for an increase of 19 percent. The projections for special accounts and net lending are based on a balance betweeen revenue and expenditure. Investment outlays financed domestically and by foreign borrowing are projected to be maintained at about the same level as in 1984/85.

1/ By 34.5 percent for premium gasoline, 35.7 percent for regular gasoline, 40.0 percent for diesel fuel, and 33.3 percent for kerosene. These increases are expected to absorb the profits generated by the increase in petroleum prices in July 1985.

5. Monetary and credit policies

The Government will continue to pursue a credit policy consistent with the objectives of the program. The improvement in the budgetary position is expected to result in a marked reduction in the recourse of the Government to bank financing; growth of net credit to the Government is projected to decline from 5.2 percent of beginning money stock in 1985 to 3.3 percent in 1986. The growth in credit to the private sector is also projected to decline from 9.4 percent in 1985 to 8.1 percent of beginning money stock in 1986. The sharp increase in 1985 is due to a rise in crop credit in the last quarter of 1985, compared with a low drought-related level at end-1984. Thus, noncrop credit to the private sector, which is projected to increase by 4.4 percent of beginning money stock in 1985, is programmed to rise by 8.1 percent of beginning money stock in 1986. Taking into account the overall balance of payments objective and the projected variation in other monetary items (resulting from the expected capital increase of the BDRN), the growth of domestic liquidity would decelerate from an estimated 9.5 percent in 1985 to 8.6 percent in 1986. Interest rates for deposits, which follow closely the money market quotations, are expected to remain positive in real terms.

As performance criteria, domestic credit, 1/ which amounted to CFAF 117.95 billion as of June 30, 1985 and is estimated at CFAF 124.08 billion as of September 30, 1985, will not exceed CFAF 134.50 billion as of December 31, 1985 and CFAF 138.90 billion as of March 31, 1986; similarly, net bank credit to the Government, which amounted to CFAF 22.33 billion as of June 30, 1985 and is estimated at CFAF 25.08 billion as of September 30, 1985, will not exceed CFAF 26.90 billion as of December 31, 1985 and CFAF 28.70 billion as of March 31, 1985. On an indicative basis, domestic credit will not exceed CFAF 139.20 billion as of June 30, 1986 and CFAF 139.28 billion as of September 30, 1986; net bank credit to the Government will not exceed CFAF 30.20 billion and CFAF 29.08 billion, respectively. Other than the projected external debt relief, the program assumes that Niger will receive no external budgetary assistance 2/ between October 1, 1985 and June 30, 1986, and that it will receive CFAF 3.0 billion in external budgetary assistance between July 1, 1986 and September 30, 1986. The ceilings will be reduced by any amount of external budgetary assistance, 2/ including debt relief, in excess of programmed levels. The ceilings for end-June and end-September 1986 will be set as performance criteria during the mid-term review of the program.

1/ Including doubtful loans.
2/ Excluding project-tied loans and grants.

6. External sector

The external current account deficit, including grants, is projected to be reduced from an estimated SDR 76.4 million in 1985 (5.0 percent of GDP) to SDR 55.1 million (3.1 percent of GDP) in 1986. However, due to a sharp reduction in the surplus on the capital account, the overall balance of payments deficit is projected to decline only marginally to SDR 51.9 million. The amelioration in the external current account position in 1986 is expected to be largely generated by an improvement in the trade balance, which is projected to more than offset a rise in net services payments, and a decline in net official transfers associated with lower food aid.

The projected improvement in the trade balance is based on better terms of trade, a reduction in the volume of imports, and an increase in the volume of exports. On the import side, the return to normal weather conditions is estimated to result in a reduction in the import payments for cereals by about 50 percent. This, together with the effects of the restrictive demand management policies and the containment of public investment envisaged in the program, is estimated to reduce the growth of total import payments to 3.7 percent in 1986. 1/ On the export side, export receipts are projected to grow by 12.3 percent, largely due to an anticipated increase of about 5 percent (in terms of CFA francs) in the price of uranium. Increases in export receipts of other agricultural products are estimated to offset a decline in livestock exports caused by an expected reconstitution of the herds. The surplus on the capital account is projected to fall from SDR 24.4 million in 1985 to SDR 3.2 million in 1986, mainly due to a sharp increase in scheduled debt amortization payments. 2/ The resulting balance of payments deficit is expected to be partly financed by the rescheduling of external public debt to official and commercial creditors. For working purposes, debt relief is estimated at around SDR 49 million; the balance is expected to be financed by the net use of Fund resources.

In spite of the debt relief obtained in previous years, Niger's external position remains precarious, and the scheduled public debt service payments are estimated to reach 36.7 percent of exports of goods and nonfactor services in 1986 (Table 8). Thus, in view of the budgetary and balance of payments gaps, the Government has informed the Paris Club, the commercial banks, and other creditors of its intention to request a rescheduling (on terms broadly comparable to those obtained previously) of the debt service obligations falling due over the program period to close the financing gaps. The authorities have already

1/ Import payments for capital goods are projected to increase by 7.2 percent and other imports, excluding cereals, by 10.6 percent.
2/ The capital account includes an inflow of US$10 million under a structural adjustment credit from the World Bank.

Table 8. Niger: Debt Service Payments on Medium- and Long-Term External Debt, 1983-90

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989	1990
	Estimates			Prog.	Projections			
Public 1/	66.1	96.7	87.5	111.8	101.7	104.6	100.6	92.3
Principal	29.2	55.7	50.3	69.1	61.0	62.8	58.3	53.1
Interest	36.9	41.0	37.2	42.7	40.7	41.8	42.3	39.2
Private	62.4	47.4	41.9	41.4	32.5	28.7	24.8	23.7
Principal	40.3	31.1	26.3	27.8	20.3	17.0	13.5	13.1
Interest	22.1	16.3	15.6	13.6	12.2	11.7	11.3	10.6
IMF	0.6	3.2	3.9	5.9	20.6	25.0	11.4	5.9
Repurchases	0.0	0.0	0.0	1.5	16.0	21.5	9.0	4.1
Charges	0.6	3.2	3.9	4.4	4.6	3.5	2.4	1.8
Total (before debt rescheduling)	129.1	147.3	133.3	159.1	154.8	158.3	136.8	121.9
Principal and repurchases	69.5	86.8	76.6	98.4	97.3	101.3	80.8	70.3
Interest and charges	59.6	60.5	56.7	60.7	57.5	57.0	56.0	51.6
Total public debt service	(66.7)	(99.9)	(91.4)	(117.7)	(122.3)	(129.6)	(112.0)	(98.2)
Debt rescheduling	8.4	47.8	38.1	...	...	...	...	...
Total (after debt rescheduling)	120.7	99.5	95.2	...	...	...	...	...
Of which: public debt	(58.3)	(52.1)	(53.3)	(...)	(...)	(...)	(...)	(...)
Memorandum items:								
Exports of goods and non-factor services	374.8	326.1	285.6	320.5	340.6	366.1	393.0	415.3
Ratios (in percent) 2/								
Before debt rescheduling								
Total debt service	34.4	45.2	46.7	49.7	45.5	43.2	34.8	29.4
Of which: public debt service	(17.8)	(30.6)	(32.0)	(36.7)	(35.9)	(35.4)	(28.5)	(23.7)
After debt rescheduling								
Total debt service	32.2	30.5	33.4	...	...	...	...	...
Of which: public debt service	(15.6)	(16.0)	(18.7)	(...)	(...)	(...)	(...)	(...)
Disbursed debt outstanding (end of period)	826.6	893.1	966.2	1,012.2	1,043.6	1,071.4	1,092.8	1,112.1
In percent of GDP	49.9	64.9	63.8	56.8	53.3	49.7	46.1	42.7

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

1/ On current and projected borrowing (including the financing of the balance of payments gaps).
2/ Exports of goods and nonfactor services.

contacted the Paris Club, and it is expected that Niger's request will be considered by the Paris Club following Board approval of the stand-by arrangement. They have also informed the commercial banks of their intention to negotiate a rescheduling of the principal falling due during the program period and have requested a suspension of amortization payments between end-September 1985 and the conclusion of the new rescheduling arrangement following the Paris Club meeting. The authorities are also contacting other official creditors to request a rescheduling or refinancing on the same terms as those that would be obtained under the Paris Club. The outcome of external debt rescheduling will be reviewed with the Fund during the mid-term review of the program in March 1986. In order to achieve a gradual reduction in the debt service burden and improve the structure of foreign debt, as a performance criterion, the Government will not contract or guarantee any nonconcessional loans in the 0-12 years' maturity range over the period October 1, 1985 to September 30, 1986.

7. Performance criteria, mid-term review, and phasing of purchases

The proposed stand-by arrangement includes the following performance criteria: (i) quarterly ceilings on total domestic credit; (ii) quarterly ceilings on net credit to Government; (iii) no accumulation of internal or external government arrears; (iv) no contracting or guaranteeing by the Government of new nonconcessional foreign loans, in the maturity ranges of 0-12 years, and (v) the standard clauses regarding the trade and payments system. A mid-term review will also constitute a performance criterion.

The proposed quantitative performance criteria for the program period are specified in Table 9. While indicative targets have been set, the credit ceilings for end-June and end-September 1986 will be set as performance criteria during the mid-term review in March 1986. The review will also cover the progress made under the program, the implementation of measures to rehabilitate public enterprises, the establishment of a timetable for the elimination of any verified cross-debts resulting from the ongoing study on the subject, the outcome of the external debt rescheduling, and the prospects for further external financial assistance. During the review, the Government will reach understandings with the Fund on the adoption of all additional measures that may be deemed necessary to attain the targets of the program.

The amount of access under the proposed arrangement, at 40 percent of quota on an annual basis compared with 47.5 percent under the current arrangement, is consistent with access criteria, taking into account the adjustment envisaged under the program and the prospects of Fund involvement in Niger for a number of years. Niger's adjustment efforts over the medium term will also need to be supported by external financial assistance on concessional terms, including debt relief. Purchases may be made in five equal installments of SDR 2.696 million each. The

Table 9. Niger: Quantitative Performance Criteria Under the 1985/86 Program

	1985		1986		
	Sept.	Dec.	March	June 1/	Sept. 1/
	Est.	Prog.	Program		
	(In billions of CFA francs)				
Domestic credit 2/3/	124.08	134.50	138.90	139.20	139.28
Net claims on Government	25.08	26.90	28.70	30.20	29.08
Government arrears 4/	--	--	--	--	--
	(In millions of SDRs)				
New external loans contracted or guaranteed by the Government on nonconcessional terms with maturity of 0 to 12 years	--	--	--	--	--

Source: Memorandum attached to the letter of intent of the Prime Minister of September 3, 1985.

1/ Credit ceilings are indicative only.
2/ Includes amounts which might ultimately be reclassified as doubtful or litigious loans during the program period.
3/ In addition to the projected external debt relief, the program assumes that Niger will receive no external budgetary assistance between October 1, 1985 and June 1, 1986 and September 30, 1986. The ceilings will be reduced by any amount of external budgetary assistance (including debt relief) in excess of the programmed levels.
4/ External and internal.

first purchase would be available after Executive Board approval of the stand-by arrangement and upon the entering into effect of the arrangement on December 5, 1985. The second purchase, not before February 15, 1985, may be made subject to the satisfaction of the performance criteria for end-December 1985. The third purchase, not before May 15, 1986, may be made after the completion of the mid-term review of the program and the satisfaction of the performance criteria for end-March 1986. The last two purchases will be contingent on the observance of the performance criteria for end-June and end-September 1986, respectively.

V. Medium-Term Outlook of the Balance of Payments

The 1985/86 program was formulated in the context of a medium-term scenario, which updates that presented in EBS/85/143, in line with the more recent assessment of developments in 1985 and the anticipated outcome for 1986, as well as some revisions in the underlying assumptions. As shown in the base-line scenario presented in Table 6, because of the adverse impact of recent exogenous factors, Niger can be expected to attain a viable balance of payments position by 1990, provided that appropriate adjustment policies are pursued over the medium term, weather conditions are more favorable, and the anticipated improvement in the terms of trade materializes.

Under these assumptions, the external current account deficit is projected to decline steadily from 3.1 percent of GDP in 1986 to 0.5 percent in 1990. 1/ This would contribute to a shift in the balance of payments from a deficit of SDR 51.9 million (before rescheduling) in 1986 to a surplus of SDR 26.5 million by 1990. In the interim, however, a resource gap would occur and Niger would require further exceptional external assistance, including debt relief, to close the projected financing gaps.

The steady improvement in Niger's balance of payments is based on a continuous decline in the trade deficit, partly due to better terms of trade, a small reduction in the deficit of the services account as a result of lower scheduled interest payments, a moderate increase in net inflows of unrequited transfers, and an amelioration in the capital account. 2/ The improvement in net capital inflows during 1987-90 is projected to result partly from lower amortization payments due on external debt and partly from a moderate growth in gross capital inflows of 4 percent per year.

1/ The medium-term projections do not assume reopening of the border with Nigeria.

2/ These projections are based on the outlook for prices, external financing, as well as exchange rate assumptions, utilized in the Fund's latest World Economic Outlook.

The decline in the trade deficit is predicated on an increase in total export earnings at an average annual rate of 6.9 percent and a containment in the growth of import payments to an annual average rate of 4.4 percent. On the export side, the value of uranium exports is projected to increase at an annual rate of 5 percent, exclusively due to price increases. Other export receipts are projected to increase at an average annual rate of 15.0 percent, based largely on the assumption that normal weather conditions will allow a marked increase in the growth in livestock exports in 1988. On the import side, imports of foodstuffs are projected to decline due to the return to normal weather conditions, while imports of consumer goods (excluding cereals) are assumed to increase at an average annual rate of 5 percent per year. The growth projected for these imports is based on the assumption that the authorities will continue to contain domestic demand and implement agricultural policies aimed at promoting domestic agriculture and reducing imports of foodstuffs. Imports of capital goods and raw materials are projected to rise by about 5 percent per year in line with foreseeable receipts of external grants and concessional foreign borrowing.

Niger's medium-term balance of payments outlook is sensitive to a number of underlying factors, such as domestic adjustment policies and the external environment, especially world demand for uranium. The sensitivity analysis presented in Table 10 shows that even though Niger's balance of payments remains viable in the medium term, a slackening in the adjustment effort (Scenario A), or a sharp change in the terms of trade (Scenario B) would make the achievement of the projected overall balance of payments viability more difficult. Under Scenario A, as a result of a projected sharp increase in the growth of volume of imports of foodstuffs and consumer goods, the overall balance of payments surplus would shrink to SDR 9.7 million by 1990. A broadly similar situation would develop in Scenario B if the external terms of trade would deteriorate as a result, for instance, of a sharp increase in import prices. In this case, full viability will be reached only in 1991. By contrast (Scenario D), if the volume of exports of uranium were to grow steadily, for example, from 3,400 tons in 1987 to the amount exported in 1982-83 of about 4,000 tons, the situation would improve dramatically. In the circumstances, the external current account would swing from a deficit to a surplus in only two years, and the full viability would be achieved a year earlier in 1989.

The medium-term outlook for external public det service payments shows the serious situation for the next three years (Table 8). Taking into account the impact of the debt relief obtained for 1983/84 and 1984/85 and the pursuit of a prudent foreign borrowing policy, the external public debt service is projected to average about SDR 123 million, or 36 percent of exports of goods and nonfactor services during the period 1986-88. Thereafter, the public debt service is projected to decline progressively, reflecting the prudent debt policy pursued

Table 10. Niger: Medium-Term Outlook of the Balance of Payments, Alternative Scenarios, 1983-90

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989	1990
	Estimates			Program	Projections			
				Scenario A 1/				
Current account deficit (-)/GDP 2/	-3.7	-3.7	-5.0	-3.1	-2.6	-2.1	-1.4	-0.9
Overall balance 3/	10.8	-7.7	-52.0	-51.9	-34.8	-21.0	-0.3	13.8
Debt rescheduling	8.4	47.8	38.1	...	...	...	...	...
Financing gap 4/	--	--	4.7	48.8	50.8	42.5	9.3	-9.7
				Scenario B 5/				
Current account deficit (-)/GDP 2/	-3.7	-3.7	-5.0	-3.1	-2.7	-2.3	-1.9	-1.8
Overall balance 3/	10.8	-7.7	-52.0	-51.9	-35.6	-24.6	-11.4	-7.0
Debt rescheduling	8.4	47.8	38.1	...	...	...	...	...
Financing gap 4/	--	--	4.7	48.8	51.6	46.1	20.4	11.1
				Scenario C (Base-Line)				
Current account deficit (-)/GDP 2/	-3.7	-3.7	-5.0	-3.1	-2.5	-1.8	-1.0	-0.5
Overall balance 3/	10.8	-7.7	-52.0	-51.9	-32.0	-15.4	8.8	26.5
Debt rescheduling	8.4	47.8	38.1	...	...	...	...	...
Financing gap 4/	--	--	4.7	48.8	48.0	36.9	0.2	-22.4
				Scenario D 6/				
Current account deficit (-)/GDP 2/	-3.7	-3.7	-5.0	-3.1	-2.5	-1.1	0.4	1.5
Overall balance 3/	10.8	-7.7	-52.0	-51.9	-32.0	0.1	41.8	78.1
Debt rescheduling	8.4	47.8	38.1	...	...	...	...	...
Financing gap 4/	--	--	4.7	48.8	48.0	21.4	-32.8	-74.0

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

1/ Based on the assumption that the volume of food and other consumer goods imports increases by 3 percent a year compared with 1 percent in the base-line scenario.
2/ In percent.
3/ Excluding debt rescheduling.
4/ Including projected Fund repurchases.
5/ Based on the assumption that the terms of trade remain unchanged throughout the period, as against an improvement of 2.1 percent in the base-line scenario.
6/ Based on the assumption that export volume of uranium increases gradually from 3,400 tons in 1987 to 4,000 tons in 1990.

and an increase in the share of concessional loans. The service payments on the private nonguaranteed debt have been revised upward recently, following a survey of the private sector's external debt. The private external debt service ratio is projected to decline progressively from 13 percent in 1986 to about 6 percent in 1990.

VI. Staff Appraisal

To redress the mounting domestic and external financial imbalances, precipitated by the weakening world demand for uranium exports, Niger has pursued adjustment efforts during 1983/84 and 1984/85, supported by two successive stand-by arrangements. The measures envisaged under the programs were rigorously implemented and the financial objectives largely realized. All the performance criteria have also so far been observed.

The adjustment program for 1984/85 aimed at consolidating the progress made during 1983/84 and at making further progress in achieving a viable external sector position over the medium term consonant with a sustainable rate of economic growth and relative price stability. As drought conditions in late 1984 intensified, the border with Nigeria remained closed, the weak world demand for uranium persisted, and Niger's terms of trade deteriorated, the Government stepped up its adjustment efforts during the second half of 1984/85 by taking additional measures that succeeded in mitigating the impact of these adverse factors. Based on preliminary estimates, it is expected that the revised objectives of the program will be achieved, with a pick-up in economic activity, a reduction in the rate of inflation, and a containment in the external current account deficit to the programmed level.

The progress achieved in strengthening the underlying economic and financial situation reflects the implementation of wide-ranging measures. The steps taken to liberalize marketing and pricing policies contributed significantly to reducing distortions, improving resource allocation, and stimulating private sector economic activity. In particular, the complete liberalization of imports and domestic transactions of cereals and of the export of cowpeas, the adoption of a more flexible pricing policy by the cereal marketing agency, and increases in the minimum producer prices of cereals can be expected to have a positive impact on the agricultural sector. While the increases in petroleum prices and electricity tariffs are conducive to a more effective use of scarce resources, these increases also improved the financial position of the public sector. In this connection, the measures taken to reform key public enterprises were essential to improve their operations. Furthermore, the emphasis placed on the productive sectors in the public investment program for 1984/85 has strengthened the foundation for future economic growth.

The effects of these measures on the structural imbalances were supported by a slowdown in the rise in aggregate demand. The Government was able to hold nominal budget expenditure at about the 1983/84 level, with the result that, notwithstanding a decline in government revenues, the budget deficit is estimated to have been reduced marginally. In this context, the staff welcomes the elimination of all identified government arrears. The restrictive fiscal and credit policies pursued contributed to a reduction in pressures on prices and the external sector.

To make further progress toward achieving medium-term balance of payments viability, the authorities intend to persevere with their adjustment efforts in 1986, the effects of which are expected to be reinforced by an anticipated improvement in weather conditions. The program for 1986 aims at restraining the growth in aggregate demand while emphasizing policies designed to improve resource allocation and to promote economic activity, with a view to narrowing the external current account deficit, reducing the rate of inflation, and achieving a more sustainable rate of economic growth. Notwithstanding the expected improvement in the external current account position, a further sharp increase in the scheduled debt amortization is anticipated to result in the maintenance of the overall balance of payments deficit at about the 1985 level and to necessitate further debt relief.

The measures being taken to reduce the consolidated budget deficit will be conducive to limiting the growth in aggregate demand. The introduction of a value-added tax, the full-year effect of increases in the specific taxes on petroleum products, and an effective increase in customs duties are expected to contribute to enhancing revenues. Total expenditure, in contrast, will remain at about its 1984/85 level in nominal terms, partly by reducing the growth in the wage bill, cutting back on subsidies and scholarships, and freezing capital outlays. The improved budgetary position will allow a reduction in the rate of growth of domestic credit, with the result that domestic liquidity expansion will decelerate and remain below the projected increase in nominal GDP.

The further measures being taken to liberalize pricing and marketing policies will contribute directly to improving resource allocation and to stimulating economic activity. These include the abolishment of all import monopolies and quasi-monopolies, with the exception of that for petroleum products; the reduction in the coverage of the system of price regulation and its replacement with a more flexible system based on preset profit margins; an expansion in the system of tenders and bids of the cereal marketing agency; and the abolishment of the system of uniform cereal prices across regions, with the introduction of differentials in cereal prices to cover fully transportation costs between regions.

The staff shares the views of the authorities on the importance of putting in place a comprehensive reform program for the public enterprise sector, which is expected to be launched early in 1986 in the context of a structural adjustment credit from the World Bank. Pending the launching of this program, there should be no slowdown in the implementation of the specific measures envisaged to continue the reform of key public enterprises. As the elimination of cross-debts in the public sector will constitute an essential element in improving the overall performance of public enterprises, the staff attaches considerable importance to the completion of the study on public cross-debts by the time of the mid-term review.

The public investment program for 1985/86, the level and sectoral composition of which are viewed as appropriate by the World Bank staff, continues in the direction of last year's program, emphasizing investment in the directly productive sectors. In addition, the strategy of the Government to increase the share of grant-financed investment should be instrumental in reducing the debt burden over the medium term. The staff welcomes the improvement in investment programming that has taken place and the decision of the Government to review the status of key projects and to elaborate, in consultation with the World Bank, a three-year public investment program, of which the 1985/86 program would constitute the first year.

In the context of the last two stand-by arrangements, the authorities have implemented their adjustment policies with determination and readapted them to take account of a number of adverse exogenous factors. Nonetheless, the task of achieving economic and financial stability over the medium term will require a perseverance in pursuing vigorously restrictive demand policies accompanied with further structural reforms. Provided that such policies are put in place on a timely basis and that weather conditions are not unduly unfavorable, balance of payments viability can be expected to be achieved by 1990. In the intervening period, however, Niger will continue to need external financial assistance, including debt relief. For 1986, the Government has requested debt relief in order to close the financing gaps in the budget and balance of payments; a meeting of Paris Club creditors to consider Niger's request is scheduled for November 22, 1985, and commercial banks have indicated their willingness to consider a rescheduling for 1986. During the mid-term review, the program will be adjusted, as necessary, for the outcome of the debt relief negotiations. In the opinion of the staff, the proposed program constitutes a further significant step forward in the adjustment process in Niger. The staff, therefore, recommends approval of the proposed decision.

VII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Government of Niger has requested a stand-by arrangement for the period from December 5, 1985 to December 4, 1986, in an amount equivalent to SDR 13.48 million.

2. The Fund approves the stand-by arrangement set forth in EBS/85/231.

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

Niger--Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated September 3, 1985, 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, 1985, Niger will have the right to make purchases from the Fund in an amount equivalent to SDR 13.48 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 2.696 million until February 15, 1986, SDR 5.392 million until May 15, 1986, SDR 8.088 million until August 15, 1986, and SDR 10.784 million until November 15, 1986.

(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 percent 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 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 the preceding period indicate that;

(i) the limit on total domestic credit of the financial institutions as specified in paragraph 21 of the annexed memorandum, or

Niger--Stand-By Arrangement (continued)

(ii) the limit on net position of the Government vis-à-vis the banking system as specified in paragraph 21 of the annexed memorandum, or

(iii) the target for the nonaccumulation of domestic payments arrears of the Government vis-à-vis enterprises as specified in paragraph 20 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 23 of the annexed memorandum; or

(c) after May 14, 1986, 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

(d) if the Government incurs any arrears on its external financial obligations; 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 arrangement during any period of the arrangement 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.

Niger--Stand-By Arrangement (continued)

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 betwen 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.

Niger--Stand-By Arrangement (concluded)

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.

Supreme Military Council
Office of the Prime Minister

Niamey, September 3, 1985

The Prime Minister

No. 733/PM

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

Dear Mr. de Larosière:

1. Since mid-1983, the Government of Niger has been pursuing adjustment efforts supported by two successive stand-by arrangements from the Fund; the more recent of these arrangements entered into force on December 5, 1984 in support of an adjustment program covering the fiscal year ending in September 1985. The objectives of this program were to further reduce domestic and external financial imbalances and to achieve, over the medium term, a viable balance of payments position consistent with a sustainable rate of economic growth. Despite the adverse impact of a severe drought, the continued closure of the border with a neighboring country, and the weak demand for uranium, the measures envisaged under the program were implemented and the performance criteria have so far been met.

2. With a view to consolidating and building upon the progress already achieved in the past two years, the Government of Niger has decided to continue its adjustment efforts under a financial program covering fiscal year 1985/86. In support of this program, the Government of Niger requests the use of Fund resources under a stand-by arrangement for one year in the amount of SDR 13.48 million.

3. The adjustment program has been formulated in the context of a medium-term framework aimed at achieving, by 1990, a viable external position consonant with domestic financial stability and a sustainable rate of economic growth. The attached memorandum sets forth the economic and financial objectives and policies of the program. For 1985/86, the main objectives of the program are to narrow the current account deficit of the balance of payments, reduce inflationary pressures and stimulate economic activity. Accordingly, the Government will emphasize the pursuit of supply-oriented policies while continuing to apply restrictive financial policies aimed at containing demand pressures. The key elements of the program include a further liberalization of the pricing and marketing policies, additional reform measures applicable to the public enterprise sector, the introduction of a suitable investment policy, a reduction of the overall budget deficit, the pursuit of a balanced credit policy, and prudent external debt management.

4. The Government is about to conclude its discussions with the World Bank concerning the formulation and introduction of structural reforms supported by a structural adjustment loan for the 1986-88 period. These reforms will stress the management of public resources, the rehabilitation and restructuring of the public enterprise sector, and the adoption of policies relating to rural development and the agricultural sector.

5. The Government believes that the policies and measures described in the attached memorandum are adequate to achieve the objectives of the program for the fiscal year 1985/86, and will take any further measures that may become appropriate for this purpose. In addition, the Government of Niger will consult with the Fund in accordance with Fund policies on such consultations. Before end-March 1986, the authorities will consult with the Fund on the progress made under the program, the implementation of the measures to rehabilitate the public enterprises, the study of cross-debts in the public sector, and the outcome of external debt rescheduling. In the course of this review, the authorities will reach understandings with the Fund on the appropriate credit ceilings for end-June and end-September 1986, on the modalities to resolve the problem of cross-debts in the public setor, and on the timetable for the elimination of those which have been verified.

Very truly yours,

Hamid Algabid
Prime Minister

Memorandum on the Economic and Financial Policies of the Republic of Niger for 1985/86

1. During 1984/85, the Government of Niger continued to pursue its adjustment efforts in the context of a financial program involving wide-ranging demand- and supply-oriented measures. The policies implemented as well as the economic and financial developments during 1984/85 are outlined in the first part of this memorandum. The Government of Niger has decided to consolidate and build upon the progress made in recent years by putting in place a comprehensive financial program for 1985/86 that will enable it to further reduce economic and financial imbalances and to achieve, over the medium term, a position of financial stability consonant with a sustainable rate of economic growth. The specific quantitative objectives and the policies to be adopted in 1985/86 are outlined in the second part of this memorandum.

I. Economic and Financial Developments in 1984/85 1/

2. The 1984/85 (October/September) financial program aimed at strengthening the balance of payments position, reducing inflationary pressures, and achieving a recovery in economic activity. However, the effects of the drought in late 1984 were more serious than had been initially envisaged. Further, the closure of the border with Nigeria since April 1984 has continued to have an adverse impact on economic activity, the external sector, and customs duties. In addition, the demand for uranium, Niger's main export commodity, has continued to weaken. In order to mitigate the impact of these factors, the Government readapted and strengthened its adjustment efforts during the second half of 1984/85. The policies pursued, together with some improvement in weather conditions in the later part of 1985, should make it possible to contain the external current account deficit, including grants, to CFAF 35.7 billion (5.0 percent of GDP), limit inflation as measured by the GDP deflator to 7.5 percent, and achieve an estimated rate of real economic growth of 7.1 percent, in line with the program targets. Notwithstanding the partial recovery, which followed a 16 percent decline in real GDP in 1984, economic activity remained some 10 percent below the 1983 level.

1/ The analysis in this section is based on preliminary estimates for 1984/85 and for calendar year 1985. All references to program targets relate to the revised targets established at the time of the review of the program in March 1985.

3. The policies envisaged were effectively implemented and all the performance criteria through end-June 1985 have been observed. On the demand side, the overall budgetary deficit was contained to 4.9 percent of GDP in 1984/85, compared with 5.0 percent in 1983/84. Domestic credit expansion was limited to 14.6 percent of beginning money stock, in line with the program targets, while the growth of domestic liquidity declined from about 22.5 percent in 1984 to 9.5 percent in 1985. A prudent external debt policy continued to be implemented, with no new commitments on government and government-guaranteed nonconcessional debt with 0-12 years' maturity range during the program period. On the supply side, pricing and marketing policies were significantly liberalized, measures that contributed to an improvement in the financial position of key public enterprises were put in place, and an appropriate public investment program, with greater emphasis on the production sectors, was implemented.

4. Several measures to liberalize cereal pricing and marketing policies were taken and a number of regulated prices and tariffs were increased during 1984/85. All private individuals and cooperatives were authorized to market and import cereals without licensing or quota requirements, thereby abolishing the monopoly position of the cereal marketing agency (OPVN). In order to align its prices with market conditions, OPVN adopted a system of tenders and bids for its wholesale sales and purchases of cereals (millet and sorghum) and adjusted its minimum purchase prices and its sales prices. In 1984/85, OPVN purchased 9,500 tons of cereals domestically, 91 percent of which were purchased through tenders at prices ranging from CFAF 120 to CFAF 130 per kilogram. In view of the severe drought conditions, however, no wholesale sales were made. Retail sales also declined, from 115,000 tons in 1983/84 to 38,000 tons in 1984/85, reflecting primarily the sharp increase in food aid distributed freely as well as sales by private importers. The sale prices of millet and sorghum, which were CFAF 120 and CFAF 110 per kilogram, respectively, were unified and raised to CFAF 140 per kilogram on November 1, 1984 and again to CFAF 165 per kilogram on May 1, 1985. This followed increases in the minimum producer prices on October 1, 1984 from CFAF 80 per kilogram to CFAF 100 per kilogram for millet and from CFAF 60 per kilogram to CFAF 100 per kilogram for sorghum. On October 1, 1984, the monopsony position of SONARA was abolished thereby liberalizing exports of cowpeas. The prices of petroleum products were also increased by 11.1-16.7 percent on May 15, 1985, while electricity tariffs were raised by 10.0-15.2 percent on July 15, 1985.

5. Considerable progress was achieved in the preparation of a comprehensive program aimed at the reform of the public enterprise sector, while a number of specific measures taken have contributed to the improvement in the operations of several key enterprises. In the context of a proposed structural adjustment program from the World Bank, the public enterprises have been classified into three categories: (a) those to be wholly or partly privatized (21); (b) those to be rehabilitated (10-12); and (c) those to be liquidated (5). So far, six enterprises are in the process of being privatized, three have been liquidated, and two closed. During 1984/85, the aforementioned price measures taken by OPVN and the

rehabilitation measures carried out are expected to contribute to achieving a balance in its financial operations for the year, notwithstanding the high volume of food aid. The national office for management of irrigation (ONAHA) has generalized its program of charging user fees to cover the costs of maintaining pumping stations and irrigation canals. The national agency for underground water supply (OFEDES) has expanded its program to pass user costs on to beneficiaries. The post and telecommunications office (OPT) has improved its financial position by increasing telephone tariffs by 9 percent, effective October 1, 1984. It has also benefited from a reduction of the TPS from 15 percent to 10 percent as well as a CFAF 600 million reduction in outstanding bills. The electricity generating company (NIGELEC) has also improved its financial position by increasing electricity tariffs, improving statement and billing methods, and strengthening management under a technical assistance project financed by the World Bank and the Caisse Centrale de Coopération Economique (CCCE). The thermal power plant (SONICHAR) increased its tariffs by 10 percent at end-February 1985 and, with bilateral technical assistance, is implementing a rehabilitation program aimed at improving its operations. In May 1985, a rehabilitation plan for the development bank (BDRN) started to be implemented. This involved measures to streamline the bank's administration, restructure its financial position, implement a stricter and more selective credit policy, and strengthen loan-collection procedures. The capital of BDRN was increased by CFAF 5.4 billion, half of which was expected to be paid up in 1985. The balance is scheduled to be paid up in 1986.

6. The public investment program for 1984/85 has been implemented as envisaged. Of the total target of CFAF 70 billion, public investment is estimated to have reached CFAF 55 billion, representing an implementation rate of about 78 percent. This has been financed by CFAF 5 billion domestically, CFAF 25 billion of concessional loans, and CFAF 25 billion of grants. As envisaged in the Interim Consolidation Program adopted by the Government for 1983/84-1984/85, the emphasis has been on the productive sectors. Over 40 percent of investment was in directly productive projects and about 25 percent was allocated to economic infrastructure.

7. The budgetary deficit on a commitment basis was contained to 4.9 percent of GDP in 1984/85, compared with a program target of 4.6 percent. On a cash basis, taking into account the CFAF 4.1 billion reduction in domestic arrears, the deficit declined from CFAF 42.7 billion (6.8 percent of GDP) in 1983/84 to CFAF 37.5 billion (5.5 percent of GDP) in 1984/85. This reduction was brought about by measures taken on both the revenue and the expenditure sides. On the revenue side, the Government introduced a number of tax measures that limited to 3 percent the decline in revenue caused by the adverse impact of the drought and the closure of the Nigerian border. Without these measures, the decline would have been more pronounced. On the expenditure side, budgetary expenditure was maintained virtually unchanged at the 1983/84 level, through the containment of the growth in wage and nonwage current expenditures and the contraction in the

level of investment expenditures. The overall budgetary deficit on a cash basis was financed primarily by net foreign financing (4.0 percent of GDP), including debt relief, and by domestic financing (1.5 percent of GDP).

8. During 1985, 1/ the Government continued to implement a balanced credit and monetary policy consonant with the objectives of the program. After a sharp drop in credit to the nongovernment sector of 11 percent of beginning money stock in 1984, credit to the nongovernment sector was programmed to increase by 9.4 percent in 1985, in line with the projected recovery in economic activity. Taking into account a programmed growth of 5.2 percent in net credit to the Government, total domestic credit was projected to increase by 14.6 percent of beginning money stock, compared with a decline of 6.7 percent in 1984. Nonetheless, primarily in view of the movements in net foreign assets, the rate of expansion of domestic liquidity has been projected to decelerate from 22.5 percent in 1984 to 9.5 percent in 1985. During the program period, all the performance criteria relating to domestic credit and net credit to the Government through end-June 1985 have been observed. It is expected, on the basis of available indicators, that the performance criteria relating to end-September 1985 will also be observed.

9. The overall deficit of the balance of payments in 1985 is estimated at CFAF 24.3 billion, somewhat lower than the program target of CFAF 25.2 billion. This represents a considerable increase from the deficit of CFAF 3.0 billion recorded in 1984, due largely to a widening in the current account deficit from CFAF 22.6 billion in 1984 (3.7 percent of GDP) to CFAF 35.7 billion in 1985 (5.0 percent of GDP) reflecting mainly a number of exogenous factors beyond the Government's control. The severe drought necessitated a large increase in cereal imports, which were partly financed by domestic resources. Exports of agricultural and livestock products also suffered from the weather conditions and from the closure of the border with Nigeria. The softening of the world market for uranium also contributed to a stabilization of receipts from uranium exports. The overall impact of these exogenous factors was estimated at CFAF 85.5 billion. The aforementioned additional measures taken by the Government during the second half of the program period, following the March review, were aimed at reducing the effect of these factors by an estimated CFAF 18.4 billion. The overall balance of payments deficit would be financed by purchases from the Fund, a reduction in net foreign assets, and debt relief.

10. The Government obtained a rescheduling of external debt service to creditors participating in the Paris Club for the period from October 1, 1984 to November 30, 1985. Debt relief was also obtained from the London Club under a two-year agreement concluded early in 1984. The amount of

1/ The money and credit targets for end-December 1985 are part of the 1985/86 program.

debt relief obtained from the Paris Club and the London Club is estimated at CFAF 17.8 billion for 1985. The authorities have written to official creditors who did not participate in the Paris Club to obtain rescheduling or refinancing on the same terms as those granted by the Paris Club. In addition, an amount of SDR 3.6 million in external arrears incurred before October 1983 was rescheduled. The debt service ratio in 1985 is estimated at 46.7 percent of exports of goods and services, before debt relief, and at 33.4 percent after debt relief, compared with 45.2 percent, before debt relief, and 30.5 percent, after debt relief in 1984.

II. The 1985/86 Financial and Economic Program

11. Notwithstanding the adverse effects of the severe drought in 1984/85, the adjustment measures taken over the last three years have contributed to strengthening the economic and financial situation of Niger. The expected improvement in weather conditions in 1985/86 will be reinforced by the introduction of further adjustment measures. The main quantitative objectives of the program are to narrow the external current account deficit, from CFAF 35.7 billion (5.0 percent of GDP) in 1985 to CFAF 24.4 billion (3.1 percent of GDP) in 1986, to limit the rate of inflation as measured by the GDP deflator from 7.5 percent in 1985 to 7.0 percent in 1986, and to achieve a real rate of growth of 4.0 percent. To attain these objectives, the program includes measures designed to stimulate production and improve resource allocation while limiting the growth of aggregate demand. On the supply side, the process of liberalization of marketing and pricing policies will be continued, additional measures designed to rehabilitate the public enterprise sector will be introduced, and an appropriate investment program implemented. On the demand side, the budgetary deficit, on a commitment basis, will be reduced from CFAF 33.4 billion (4.9 percent of GDP) in 1984/85 to CFAF 28.7 billion (3.7 percent of GDP) in 1985/86. Domestic credit expansion is programmed to decelerate from 14.6 percent of beginning money stock in 1985 to 11.4 percent in 1986; taking into account the balance of payments objective, domestic liquidity growth will be reduced from 9.5 percent in 1985 to 8.6 percent in 1986, remaining somewhat below the projected growth in nominal GDP of 11 percent.

12. Pricing and marketing policies: The process of liberalization of pricing and marketing policies initiated in 1984/85 will continue in 1985/86. In addition to maintaining in place the measures relating to the marketing of cereals and the exporting of cowpeas, the Government will introduce the following measures:

(a) Effective October 1, 1985, all import monopolies and quasi-monopolies (de facto monopolies and exclusive trading contracts), with the exception of imports of petroleum products by SONIDEP, will be abolished. This will include COPRONIGER's import monopoly for salt, tea, jute sacks and cigarettes.

(b) Beginning with the next crop season (November 1, 1985), the system involving tenders and bids for wholesale purchases and sales of sorghum and millet and the setting of selling prices in line with market conditions by the grains marketing agency (OPVN) will be expanded in scope by implementing the three following measures. First, 80 percent of OPVN's domestic purchases will be effected through tenders. While retail sales will be confined to isolated areas experiencing shortages, wholesale sales will be made on the basis of bids. Second, the sales prices of OPVN will be adjusted regularly in line with the evolution of market prices and with a view to securing an adequate profit margin. For this purpose, a committee under the supervision of the Ministry of Commerce will be set up to monitor the evolution of market prices and decide upon the appropriate adjustments of OPVN prices. Third, the system of uniform retail sales prices will be abolished; sales prices in the various regions will be adjusted to reflect transportation costs.

(c) Effective November 1, 1985, the list of products and services covered by the system of regulated prices will be reduced to the following essential ones: petroleum products, salt, water, electricity, bread, flour and transportation. Instead, a system of profit margins will be applied. The regulated price system will continue to apply to domestic industries pending the introduction of a new system under the structural adjustment program now being negotiated with the World Bank.

13. Public enterprises: The Government is finalizing, with the assistance of the World Bank, a comprehensive reform program for the public enterprise sector which is expected to be launched in 1986 under a structural adjustment credit. The main elements of this reform include the liberalization of price and trade controls, equalization of the tax treatment of commercial public and private enterprises, the strengthening of the institutional and legal frameworks for public enterprise management and monitoring, the study of cross-debts, the liquidation of nonviable enterprises and the privatization of certain others. In this context, a study on cross-debts is under way and is expected to be completed before end-March 1986. The progress made in the preparation of the public enterprise reform program will be reviewed at the time of the mid-term review of the program with the Fund. At that time, the Government will reach agreement with the Fund on the modalities to resolve the problem of cross-debts and on a timetable for the elimination of those that have been verified.

14. Pending the launching of this structural reform program, the Government will continue to implement specific measures to strengthen the financial position of key enterprises. In addition to the measures already implemented:

(a) The grain marketing agency (OPVN) is expected to improve its financial situation through the pricing and marketing measures described above. Discussions are under way with the World Bank and donor countries with regard to the price stabilization function of OPVN and the optimal level of the security stock. The outcome of these discussions will be reviewed at the time of the mid-term review.

(b) The implementation of the rehabilitation program of BDRN will continue. The second tranche (CFAF 2.7 billion) of the increase in its capital will be paid up during 1986. In addition, BDRN will be introducing measures to strengthen its administration, enhance its credit screening procedures, and improve loan-collection procedures.

(c) The agency for underground water supply (OFEDES) will expand its program to charge user costs to the beneficiaries. The objective for 1985/86 is to recover at least one third of the maintenance costs of wells, pumping stations, and drilling. Accordingly, the budgetary transfers to OFEDES will be reduced from CFAF 286 million in 1984/85 to CFAF 186 million in 1985/86.

(d) The coal-fired power plant (SONICHAR) will continue to take the measures required within the context of a rehabilitation program. Under this program, improvements in management and technical operations are being effected. Further, the tariffs applicable to the uranium-mining companies will be increased in 1986.

15. The government investment program: The Government remains committed to limiting public investment to a level consonant with financial constraints and the country's absorptive capacity. The government investment program (including external grants) for 1985/86 has been programmed at CFAF 78 billion, an increase of about 11 percent over the 1984/85 target. Of this amount, CFAF 5.5 billion is to be financed domestically, CFAF 33.6 billion by concessional external loans, and CFAF 39.3 billion by grants. The domestic counterpart financing includes CFAF 1 billion allocated for the Government's contribution to the BDRN's capital increase. The overall level of investment is considered appropriate by the World Bank staff and in line with the financial constraints. With assistance from the World Bank, the Government has been able to strengthen investment programming significantly, thereby improving the coverage of and the evaluation of financing requirements for each investment project. The increased amount of investment financed by grants reflects not only the strategy of the Government to reduce the share of investment financed by external borrowing so as to ease the external debt burden, but also the improvement in investment programming, which has resulted in a more comprehensive coverage of grant-financed projects. As a working hypothesis, the Government has assumed a minimum implementation rate of 77.5 percent for investments financed domestically and by external borrowing and a rate of 80 percent for those financed by grants. In the event of a financing shortfall, the Government will reduce its investment level accordingly.

16. The Government will continue to emphasize new investments in the productive sectors with a view to establishing a balanced structure of investment among the productive, social, and infrastructural sectors. In accordance with this objective, the sectoral composition of the investment program for 1985/86 is as follows: 47 percent for the directly productive sectors (rural development, mining, industry, and commerce), 15 percent for economic infrastructure, 30 percent for social infrastructure and technical assistance, and 8 percent for administrative infrastructure.

The higher proportional allocation to the productive sector constitutes a considerable improvement over previous years; the World Bank staff considers this sectoral composition as appropriate.

17. In the context of the preparations for a structural adjustment program to be supported by the World Bank, the Government is preparing a three-year investment program for 1985/86-1987/88, the first year of which has been described above. For the following two years, the Government is formulating sectoral strategies which will serve as a basis for determining investment priorities and sectoral allocations. These strategies take into account the need to rehabilitate and maintain existing infrastructure, recurrent expenditure implications, the need to expand cost recovery, and the impact on the balance of payments. On the basis of these preparatory steps, the Government is currently taking actions to improve the quality of investment through a careful review of sectoral programs and individual projects. In particular, the projects in the agricultural sector are being restructured to develop and implement technical packages suited to local conditions. The Government intends to expand this review to the other sectors of rural development in the course of 1985/86. In the social sector, the use of the teacher training facility is under study and will be taken into account in the ongoing reorientation of the sectoral policy. In the transportation sector, the Government is preparing an investment program that will emphasize road maintenance; it has also initiated a study on an overall transportation plan. In connection with the Structural Adjustment Program, the Zinder-Agadez road project will be reviewed at a donors' conference scheduled for November 1985. In addition, a re-evaluation of the Route de l'Unité project has taken place, and investment has been limited to the most seriously deteriorated road segments. With a view to reducing the share of investment in administrative infrastructure over the next few years, the Government is considering the extension of the implementation period for the National Stadium project beyond the initially envisaged three years, or reducing the scope of the project.

18. Public finance: The overall budgetary deficit, 1/ on a commitment basis, will be reduced to CFAF 28.7 billion (3.7 percent of GDP) in 1985/86 from CFAF 33.4 billion (4.9 percent of GDP) in 1984/85. On a cash basis, the deficit will be reduced from 5.5 percent of GDP to 3.7 percent of GDP, respectively. The deficit is to be financed by reduced net recourse to the banking system, by domestic nonbank borrowing and by net foreign financing, including debt rescheduling and/or refinancing. In particular, there will be a marked reduction in domestic bank financing, from CFAF 9 billion in 1984/85 to CFAF 4.0 billion in 1985/86. The loss of bilateral budgetary assistance will be partially offset by the disbursement of CFAF 3 billion under the structural adjustment credit from the World Bank projected for the last quarter of fiscal 1985/86.

1/ Defined to include all extrabudgetary outlays, the annexed budgets, and the net change in the Treasury's capital accounts, but to exclude grant-financed investment.

19. To achieve the targeted deficit, revenue-raising and expenditure-containing measures will be implemented. On the expenditure side, overall expenditure will be maintained at CFAF 101.3 billion, approximately the same level as in 1984/85. Interest on the government debt will decline by about 5.3 percent. Current expenditure growth will be held to 3.0 percent in 1985/86 by continuing the policy of austerity in effect since 1983/84. The growth of the wage bill will not exceed 7.2 percent, by limiting new recruitment and promotions. Nonwage expenditure will be reduced by approximately 0.7 percent, reflecting a 3.3 percent reduction in subsidies and a 6.4 percent cut in scholarship outlays. By contrast, the budget includes a 19.0 percent increase in allocations for road maintenance. In addition, the projections are based on a balance between revenue and expenditure in the special accounts. There will also be a further strengthening of expenditure control. Investment outlays financed domestically and by foreign borrowing will be maintained at CFAF 30.2 billion, about the same level as in 1984/85. On the revenue side, an increase of 6.8 percent is projected, compared with a decline of 3 percent the previous year. The Government will take several revenue measures which, in addition to enhancing revenue in 1985/86, will also contribute toward improving the elasticity of the tax system. The Government is about to complete the training of qualified staff with a view to introducing the value-added tax (VAT) at the beginning of 1986. Estimates indicate that the VAT will yield revenues of CFAF 1 billion in 1985/86. An additional CFAF 200 million is expected from the increase in stamp duties and registration fees (from CFAF 500 to CFAF 5,000) and from improved administrative procedures. Several new measures relating to import duties are expected to yield a total of CFAF 2.4 billion. Of this amount, CFAF 1.2 billion is expected from increases in the specific taxes on petroleum products: by 34.5 percent for premium gasoline, 35.7 percent for regular gasoline, 40.0 percent for diesel fuel, and 33.3 percent for kerosene. In addition, the improvement in tax administration resulting from moving forward the point of collection for petroleum taxes to customs is expected to generate an additional CFAF 500 million. The remaining CFAF 700 million is expected to result from the decision to eliminate the special status which Niger has accorded to imports from the European Economic Community, as well as from the taxation of several items based on the full c.i.f. value instead of the administrative prices /valeurs mercuriales/.

20. During 1984/85, the Government eliminated all identified arrears and will not accumulate any new arrears in 1985/86. As indicated above, the Government is preparing a comprehensive study on cross-debts between the Government and public enterprises and between public enterprises, in the context of the preparations for a structural adjustment loan from the World Bank. The results of this study will be reviewed at the time of the mid-term review with the Fund and a timetable for the elimination of verified debts will be agreed upon.

21. Monetary and credit policies: The Government will continue to pursue prudent monetary and credit policies consistent with the objectives of the program. During 1986, the rate of expansion of total credit will be limited to 11.4 percent of the projected money stock at the beginning of

the period. The rate of increase in net bank credit to Government will be limited to 3.3 percent of the beginning money stock. Taking into account the balance of payments target, the growth rate of domestic liquidity is estimated at 8.6 percent in 1986. Under the program, total domestic credit, which amounted to CFAF 117.9 billion as of June 30, 1985 and is estimated at CFAF 124.1 billion as of September 30, 1985, will not exceed CFAF 134.5 billion as of December 31, 1985 and CFAF 138.9 billion as of March 31, 1986; similarly, net bank credit to the Government, which amounted to CFAF 22.3 billion as of June 30, 1985 and is estimated at CFAF 25.08 billion as of September 30, 1985, will not exceed CFAF 26.9 billion as of December 31, 1985 and CFAF 28.7 billion as of March 31, 1985. On an indicative basis, total domestic credit will not exceed CFAF 139.20 billion as of June 30, 1986 and CFAF 139.28 billion as of September 30, 1986; net bank credit to the Government will not exceed CFAF 30.20 billion and CFAF 29.08 billion, respectively. Other than the projected external debt relief, the program assumes that Niger will receive no external budgetary assistance between October 1, 1985 and June 30, 1986, and that it will receive CFAF 3 billion in external budgetary assistance between July 1, 1986 and September 30, 1986. The ceilings will be reduced by any amount of external budgetary assistance (including debt relief) in excess of programmed levels. The ceilings for end-June and end-September 1986 will be set during the mid-term review of the program, taking into account the progress made under the program, developments in the domestic economic situation, the study on cross-debts, the outcome of external debt rescheduling, and the outlook for external budgetary assistance. These ceilings include any new classification of doubtful or litigious loans during the program period.

22. External sector: In 1986, imports are projected to decline by about 8.8 percent in terms of CFA francs, compared with an increase of 11.2 percent in 1985. This is largely due to a sharp reduction in food aid in view of the expected recovery in the 1985/86 crop, as well as to the restrictive demand management measures being implemented under the program. By contrast, exports are projected to expand by 6.4 percent, owing largely to a modest rise in uranium prices and an increase in the export receipts from agricultural products. As a result, the trade deficit is projected to decrease from CFAF 43.2 billion in 1985 to CFAF 20.8 billion in 1986. Thus, notwithstanding a marked decline in public transfers, the current account deficit, including grants, is projected to narrow to CFAF 24.4 billion (3.1 percent of GDP) in 1986 from CFAF 35.7 billion (5.0 percent of GDP) in 1985. This improvement should more than offset the decline in net capital inflows attributable to a rise in amortization payments on external debt. Accordingly, the overall balance of payments deficit for 1986 is estimated at CFAF 23.0 billion as against CFAF 24.3 billion in 1985. For working purposes, it has been assumed that this deficit would be partly financed by rescheduling of public debt to official and private creditors (estimated at around CFAF 21 billion).

23. Foreign debt: As the external position will thus continue to be under pressure, the Government intends to seek debt relief from the Paris Club, other official creditors, and commercial banks in order to close the

financing gaps in the budget and balance of payments. The Government is aware of the need to pursue cautious external debt management policies. Accordingly, the Government will not contract or guarantee any new nonconcessional loans in the 0-12 years' maturity range, excluding rescheduled debt, during the period from October 1, 1985 to September 30, 1986. Over the next three years, debt service is projected to remain at the 1986 level (CFAF 70.5 billion, or 50 percent of exports); thereafter, debt service is projected to decline gradually reflecting prudent external debt management.

Niger - Relations with the Fund

(As of September 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: 79.94 million (237.21 percent of quota)

(c) Fund credit: 54.80 million (162.61 percent of quota) of which:

Credit tranches: 24.40 million (72.40 percent of quota)
Enlarged access: 6.4 million (18.99 percent of quota)
CFF: 24 million (71.21 percent of quota)

(d) Reserve tranche position: 8.56 million (25.40 percent of quota)

(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:	12.8 million
(iv)	Undrawn balance:	3.2 million

(b) Previous stand-by arrangement

(i)	Duration:	October 5, 1983-December 4, 1984
(ii)	Amount:	18.0 million
(iii)	Utilization:	18.0 million

Niger - Relations with the Fund (continued)

(c) Special facilities: CFF, approved July 1, 1983, 12.0 million
CFF, approved October 5, 1983, 12.0 million

IV. SDR Department

(a) Net cumulative allocation: 9.41 million

(b) Holdings: 0.19 million (2.0 percent of net cumulative allocation)

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

V. Administered Accounts

(a) Trust Fund Loan:
Disbursements: 12.7 million
Outstanding: 10.5 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 through March 1986.

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

Niger - Relations with the Fund (continued)

In November 1983 a CBD expert, Mr. Robert Laniesse, was assigned for a five-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

Discussions were held during the period March 10-26, 1985. The staff report (EBS/85/143) was discussed by the Executive Board on July 8, 1985. The decisions were as follows:

A. 1985 Article IV Consultation

1. The Fund takes this decision in concluding the 1985 Article XIV consultation with Niger in the light of the 1985 Article IV consultation with Niger conducted under the 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, 10/29/84, Supp. 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 in 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:

Niger - Relations with the Fund (concluded)

(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 - 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)	
Fourteen credits fully disbursed	79.0	--
Livestock	12.0	4.6
Feeder Roads	10.0	2.0
Dosso Agricultural Development	20.0	17.7
Second Maradi Rural Development	16.7	10.9
Education	21.5	7.9
Industrial development	16.0	9.5
Second forestry	10.1	6.7
Water supply	6.5	4.9
Fourth highway	23.6	13.1
Economic and financial improvement	11.7	10.3
Power engineering and technical assistance 3/	7.5	7.1
Irrigation rehabilitation	9.3	9.3
Total	243.9	104.0
Of which: has been repaid	(3.3)	
Total now outstanding and held by IDA	240.6	
Total undisbursed		104.0

B. IFC investment	Loan	Equity	Undisbursed
	(In millions of U.S. dollars)		
Flourmill (Les Moulins du Sahel, S.A.)	2.22	0.33	0.32

Source: World Bank.

1/ As of March 31, 1985.
2/ Less cancellation.
3/ Not yet effective.