

Niger—Assessment Letter for the European Union and African Development Bank

August 20, 2010

Niger's macroeconomic performance and policies through end-January 2010 were assessed in the IMF Country Report No. 10/146,¹ issued following the completion of the third program review under the arrangement under the Extended Credit Facility (ECF) from the IMF. Since the military intervention in February, the near-term growth outlook has weakened, reflecting the intensity of the food crisis and some contraction in public spending, but the outlook for 2011 is broadly favorable provided that budgetary policies remain appropriately cautious, that normal weather conditions prevail, and that donor support for Niger picks up.

1. Niger is currently experiencing a food crisis arising from poor rainfalls in 2009.

Aid agencies estimate that half of the population is affected by the crisis, with a quarter of the population severely affected. The authorities, jointly with donors, are implementing an emergency crisis response plan that includes the distribution of food, sales of cereal at subsidized prices, and nutritional support activities for malnourished children.

2. The growth outlook for 2010 has weakened, reflecting the combined impact of the severe food crisis and lower public spending;

staff now envisages growth of 3½ percent in 2010, down from the 5 percent anticipated at the outset of the year (Table 1). Implementation of the food crisis response plan, coupled with a significant increase in cereal imports from the region, continues to have a moderating impact on food prices. Year-on-year inflation reached 2.2 percent in July, and is expected to remain moderate for the year as a whole. The overall balance-of-payments deficit is projected at 2 percent of GDP, affected by increased food imports and higher oil prices. On the fiscal side, the authorities have adopted a revised budget for 2010 that incorporates new revenue mobilization efforts and reallocates spending to address critical new spending needs, including for food security and elections. Based on preliminary data, budget execution appears to have been broadly in line with the authorities' fiscal policy objectives through end-May, although the sharp increase in the budgetary cost of petroleum subsidies in the second quarter points to an emerging risk for the budget.

3. The macroeconomic outlook for 2011 appears broadly favorable. Given normal climatic conditions, agricultural output should continue to expand, while growth in the transportation and mining sectors will provide a strong impetus to nonagricultural GDP. With additional support from donors as Niger's relations with the donor community improve, GDP growth in 2011 could reach 5 percent. Inflation is projected to decline to around 2 percent, aided by good harvests in Niger and neighboring countries, while the balance of payments

¹ Available at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=23908.0>

position should improve as the food supply shock fully unwinds. The fiscal deficit is projected to remain at a financeable level of some 3 percent of GDP, given higher aid inflows and the gradual elimination of fuel price subsidies. Downside risks to the outlook include weather conditions, disruption of the timeline for a return to a democratic government, and the failure to rein in fuel price subsidies.

4. **Niger's economic reform agenda focuses on strengthening the efficiency and transparency of public financial management.** Further progress in this area is needed ahead of the expected scaling up of oil and uranium production if the increase in available resources is to contribute effectively to boost growth and further reduce poverty. The new government has underscored its commitment to proceed with the reform agenda being supported by the arrangement under the ECF, although implementation has slowed in the wake of the change in government in February, partly reflecting widespread personnel changes.

5. **Niger's economic policies and reform efforts have been supported by an arrangement under the ECF from the IMF since May 2008;** the third review under the arrangement was completed in early-February 2010. Following the military intervention in February, discussions for the fourth program review were put on hold pending clarification as to whether the international community recognizes the transitional regime as the new government of Niger. To ascertain the views of the international community, a poll of the IMF's membership is currently underway. If the results of the poll clearly show that Niger's transitional government is recognized by the international community, the Fund would recognize such a regime as the government of Niger and policy discussions for the fourth program review would commence within a short period of time.

Table 1. Niger: Selected Economic and Financial Indicators, 2007-11

	2007	2008	2009		2010		2011
			1/	Est.	1/	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)							
National income and prices							
GDP at constant prices	3.4	8.7	3.0	-1.2	5.2	3.5	5.2
Non-agricultural GDP at constant prices	2.9	3.3	5.3	5.1	5.3	3.5	5.3
GDP deflator	4.3	7.6	3.8	4.9	2.3	3.6	2.0
Consumer price index							
Annual average	0.1	10.5	5.0	4.3	2.3	3.4	2.0
End of period	4.7	9.4	2.0	-3.1	2.0	1.8	2.0
External sector							
Exports, f.o.b. (CFA francs)	19.7	28.5	-2.0	2.5	12.7	8.9	20.9
<i>Of which: non-uranium exports</i>	-6.0	20.3	2.4	6.1	2.4	-3.1	24.1
Imports, f.o.b. (CFA francs)	12.0	37.9	30.9	26.6	9.2	20.9	0.2
Export volume	-4.4	-1.1	5.7	1.9	9.9	3.0	17.8
Import volume	28.5	30.8	38.6	22.0	6.3	8.7	-1.8
Terms of trade (deterioration -)	25.3	24.3	-3.3	3.2	0.2	-3.0	-0.1
Nominal effective exchange rate (depreciation -)	2.6	3.2	...	-0.3	...	...	...
Real effective exchange rate (depreciation -)	3.9	10.2	...	3.2	...	...	...
Government finances							
Total revenue	25.0	43.0	-29.3	-17.7	8.9	8.2	10.0
Total expenditure and net lending ²	26.4	15.1	15.1	10.8	0.5	5.3	7.1
<i>Of which: current expenditure</i>	37.4	25.7	5.0	-0.9	-0.7	21.8	-2.4
capital expenditure	16.9	4.4	27.4	25.1	1.9	-10.6	19.6
(Annual change as percent of beginning-of-period broad money)							
Money and credit							
Domestic credit	-3.6	1.8	30.5	41.0	21.1	16.5	10.3
Credit to the government (net)	-14.7	-18.1	21.4	28.9	9.2	4.9	0.8
Credit to the economy	11.2	19.9	9.1	12.1	11.9	11.6	9.5
Net domestic assets	-1.1	-2.7	28.0	41.2	21.1	16.5	10.3
Broad Money	23.0	12.2	23.8	18.3	20.0	7.3	15.1
Velocity of broad money (in percent)	5.8	6.0	5.2	5.3	4.6	5.3	4.9
(Percent of GDP, unless otherwise indicated)							
Government finances							
Total revenue	15.0	18.4	12.2	14.6	13.8	14.6	15.1
Nontax revenue ³	3.5	6.6	...	...	...	...	...
Total expenditure and net lending	23.1	22.8	24.6	24.4	22.0	23.7	23.9
Current expenditure	11.6	12.5	12.3	12.0	11.3	13.5	12.4
Capital expenditure	11.5	10.3	12.3	12.4	10.7	10.2	11.5
Basic balance (excluding grants) ⁴	-0.9	1.29	-5.8	-4.0	-2.2	-2.6	-1.8
Overall balance (commitment basis, excluding grants)	-8.1	-4.4	-12.4	-9.8	-8.2	-9.1	-8.8
Overall balance (commitment basis, including grants)	-1.0	1.50	-4.4	-5.3	-4.1	-2.8	-2.6
Gross investment							
Total	23.0	29.2	36.1	37.0	38.6	38.8	38.8
<i>Of which: non-government investment</i>	16.6	22.5	28.7	29.5	32.1	32.7	31.9
government	6.3	6.7	7.4	7.5	6.4	6.1	6.9
Gross national savings							
Total	14.8	16.3	14.9	13.2	15.0	13.6	16.5
<i>Of which: non-government</i>	11.4	10.4	8.8	6.9	7.9	8.7	10.5
Domestic savings	10.5	12.3	11.6	11.4	14.3	8.7	13.5
External current account balance							
Excluding official grants	-10.4	-15.2	-24.0	-24.9	-24.2	-29.8	-24.9
Including official grants	-8.2	-13.0	-21.2	-23.7	-23.5	-25.3	-22.3
Debt-service ratio as percent of:							
Exports of goods and services	2.9	2.7	3.0	2.7	2.3	2.3	3.2
Government revenue	3.4	2.8	4.2	3.5	3.3	3.0	4.7
NPV of external debt							
Total	10.5	9.2	10.9	10.9	11.8	11.8	12.7
Foreign Aid	9.7	7.2	10.2	6.1	6.0	9.0	9.4
(CFA francs billions)							
GDP at current market prices	2,056	2,405	2,564	2,483	2,736	2,695	2,867
Overall balance of payments	69.9	72.7	-9.0	-91.2	-40.6	-43.6	23.1

Sources: Nigerien authorities; and IMF staff estimates and projections.

¹ IMF Country Report No.10/146² Commitment basis per payment orders issued.³ Includes exceptional mining receipts⁴ Total revenue, excluding grants, minus total expenditure, excluding foreign-financed investment projects.