

Niger—Assessment Letter for the World Bank and the European Union

June 2, 2011

Niger's macroeconomic performance in 2010 was strong, mainly reflecting the exceptional 2010–11 harvest. The bumper crop and the completion of the year-long transition to democracy have also brightened the near-term economic outlook. The recently-adopted revised 2011 budget foresees an increase in expenditure financed in large part by the expected pick-up in external support, helped by the freeing up of resources as ill-targeted fuel price subsidies are gradually phased out. The authorities have expressed a wish to initiate discussions on an economic program that could be supported by the Fund under the Extended Credit Facility in the coming months.

- 1. GDP growth is estimated to have reached 8 percent in 2010, buoyed by an excellent 2010–11 harvest.** The abundant agricultural production in the second half of the year stood in sharp contrast to the food crisis that affected half of the population earlier in 2010, and contributed to keeping inflation in check. The fiscal deficit¹ improved in 2010, narrowing by 3 percentage points to about 2½ percent of GDP, mainly stemming from a slowdown in capital expenditure linked to the drying-up of external financing in the first half of the year. The current account deficit remained large, reflecting large FDI-financed oil and mining imports related to the opening of a new uranium mine in 2011 and the development of an oil field and a refinery set to begin production in early 2012.
- 2. Niger's economic outlook for 2011 is broadly positive.** Last year's bumper crop has helped mitigate the impact of the rise in international food prices on domestic prices, and inflation remains low. Assuming normal rains in 2011 and the full normalization of relations with development partners, Niger's economy could grow by 5½ percent in 2011. The rectified 2011 budget foresees a sizeable increase in total expenditure, reflecting the expected pick-up in external financing. Excluding foreign-financed investment, expenditure is projected to increase by about 1 percent of GDP, reflecting inter alia the wage increase for the civil service granted in January 2011 and increased allocations for priority sectors, including the recruitment of doctors and nurses. The continuation of revenue mobilization efforts is expected to yield a revenue increase of about one-half of a percent of GDP. The fiscal deficit is projected to widen slightly to 3 percent of GDP, expected to be fully covered by external concessional borrowing.

¹ Throughout the document, the fiscal deficit refers to the deficit on a commitment basis, including grants, expressed in percent of GDP.

3. **The government has adopted a two-pronged strategy to gradually phase out poorly targeted fuel subsidies.** First, starting June 1, international oil price variations will be passed through to domestic prices; and, second, the subsidy component will be gradually unwound over the next 12-18 months. As a result, the fiscal cost of the subsidy for 2011 is expected to remain contained to its 2010 level.

4. **Enhancing the efficiency and transparency of public financial management is crucial to ensure that the expected scaling up of oil and mineral production can be leveraged to accelerate growth and poverty reduction.** Key reforms in this area include: (i) improving the budget execution by limiting expenditure executed under exceptional procedures; (ii) enhancing fiscal reporting, by timely provision of information on the financial operations of the central government; and (iii) strengthening the medium-term budget framework (MTBF) and the medium-term expenditure framework (MTEF). Niger's commitment to the transparent management of its natural resources is inscribed in its new constitution, which mandates that all natural resource contracts be published. In March 2011, the Council of the Extractive Industries Transparency Initiative (EITI) declared Niger to be a compliant country.

5. **Medium-term prospects are positive, driven by the expansion of the oil and mining sectors.** Two large projects are expected to enter into their production phase in the next few years: an integrated oil project, that includes an oil field, a refinery, and a pipeline linking the two, and a new uranium mine, which will make Niger the second world's largest uranium producer. As a result, oil and mining output and exports are projected to double between 2012 and 2016, while total revenue would increase by about 5 percent of GDP.

6. **In the short term, Niger's economy remains vulnerable to shocks, particularly weather-related.** Following the restoration of democracy, the political situation has stabilized but the regional context remains fluid and could adversely affect the security situation. Domestic risks include the fiscal implications of an accelerated inflow of Nigerien refugees fleeing the Libyan crisis and the failure to rein in fuel subsidies.

7. **Following the expiration of the ECF-supported program on June 1, the authorities have indicated their interest in initiating discussions with the Fund on a new three-year economic program that could be supported under the ECF.** Staff has proposed that these discussions take place after the completion of the 2011 Article IV consultation, tentatively scheduled to be taken up by the IMF Board in September. In the interim period, Fund staff will work closely with the Nigerien authorities, initially in the context of the discussions for the Article IV consultation, expected to be held in the coming weeks.

Table 1. Niger: Selected Economic and Financial Indicators, 2009-13

	2009	2010		2011	2012	2013
	Est.	EBS/10/15	Est.		Proj.	
<i>(Annual percentage change, unless otherwise indicated)</i>						
National income and prices						
GDP at constant prices	-0.9	5.2	8.0	5.5	13.2	6.1
Non-agricultural GDP at constant prices	5.5	5.3	0.7	5.7	16.6	6.4
GDP deflator	4.1	2.3	1.5	4.6	2.2	1.9
Consumer price index						
Annual average	1.1	2.3	0.9	4.0	2.0	2.0
End of period	-0.6	2.0	2.7	3.4	2.0	2.0
External sector						
Exports, f.o.b. (CFA francs)	15.2	12.7	9.4	19.2	42.5	12.0
Of which: non-uranium exports	31.0	2.4	-1.1	18.4	63.7	18.8
Imports, f.o.b. (CFA francs)	40.2	9.2	7.0	17.8	-6.9	-0.6
Export volume	20.0	9.9	5.0	9.9	34.6	13.5
Import volume	31.1	6.3	6.4	12.0	-0.2	-2.9
Terms of trade (deterioration -)	3.9	0.2	-3.6	8.7	12.4	-2.4
Government finances						
Total revenue	-17.7	8.9	6.1	13.1	36.8	13.5
Total expenditure and net lending	11.3	0.5	-4.2	27.1	10.2	10.1
Of which: current expenditure	0.0	-0.7	21.8	8.9	11.5	13.3
Of which: capital expenditure	25.1	1.9	-29.5	48.4	9.7	12.0
<i>(Annual change as percent of beginning-of-period broad money)</i>						
Money and credit						
Domestic credit	41.0	21.1	9.1	19.1	27.8	19.9
Credit to the government (net)	28.9	9.2	1.4	-2.9	-3.5	-6.8
Credit to the economy	12.1	11.9	7.7	22.0	31.3	26.7
Net domestic assets	41.2	21.1	1.6	19.1	27.8	19.9
Broad Money	18.3	20.0	22.6	17.9	24.2	16.7
Velocity of broad money (in percent)	5.3	4.6	4.7	4.4	4.1	3.8
<i>(Percent of GDP, unless otherwise indicated)</i>						
Government finances						
Total revenue	14.7	13.8	14.2	14.6	17.2	18.1
Total expenditure and net lending	24.6	22.0	21.5	24.8	23.6	24.0
Current expenditure	12.1	11.3	13.5	13.3	12.8	13.5
Capital expenditure	12.5	10.7	8.0	10.8	10.2	10.6
Basic balance (excluding grants)	-4.1	-2.2	-3.0	-3.4	0.1	0.5
Overall balance (commitment basis, excluding grants)	-9.9	-8.2	-7.3	-10.2	-6.4	-6.0
Overall balance (commitment basis, including grants)	-5.5	-4.1	-2.5	-3.0	-0.9	-0.6
Gross investment	33.0	38.6	46.0	38.8	31.4	25.3
Of which: non-government investment	25.2	32.1	41.1	32.3	25.3	19.0
government	7.8	6.4	4.8	6.5	6.1	6.4
Change in stocks	-0.3	0.5	0.5	0.0	0.0	0.0
Gross national savings	7.9	15.0	23.5	12.0	14.3	15.2
Of which: non-government	1.6	7.9	17.9	5.8	6.1	7.0
Domestic savings	5.7	14.3	15.4	7.2	16.1	16.4
External current account balance						
Excluding official grants	-25.7	-24.2	-29.2	-30.7	-19.8	-12.8
Including official grants	-25.0	-23.5	-22.5	-26.8	-17.1	-10.2
Debt-service ratio as percent of:						
Exports of goods and services	2.5	2.3	2.6	3.9	2.8	2.9
Government revenue	3.5	3.3	3.9	6.0	4.4	4.6
NPV of external debt	10.9	11.8	11.8	17.7	17.4	17.7
Foreign Aid	6.1	6.0	6.1	11.2	8.4	8.3
<i>(CFA francs billions)</i>						
GDP at current market prices	2,481	2,736	2,714	2,994	3,464	3,746
Overall balance of payments	-89.8	-40.6	99.1	-8.3	-26.2	-25.2

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