

**WEST AFRICAN MONETARY AGENCY
(WAMA)**



ECOWAS MONETARY COOPERATION PROGRAMME

**MACROECONOMIC CONVERGENCE REPORT
2007 NIGER**

FREETOWN, JUNE 2008

The main focus of the political and economic authorities in Niger in 2007 was to implement the poverty reduction programme while maintaining a stable macro-economic and financial framework. This was to be achieved through extensive structural reforms to reduce in particular Niger's vulnerability to external shocks by implementing economic diversification and private sector development measures. The major macro-economic objectives were therefore to:

- Achieve a 4.5% growth rate;
- Ensure price stability by containing inflation below 3% ;
- Ensure better management of public finances by at least achieving equilibrium in the basic budget balance as from 2006;
- Reduce current account deficit of the balance of payments excluding grants by promoting and diversifying export products;
- Pursue the total settlement of domestic debt arrears.

With regard to convergence, projections pointed to a compliance with six criteria.

In terms of achievements, 2007 did not record the expected vitality in economic activity. The rate of activity slowed down and was marked by a 3% real GDP growth rate, i.e. two percentage points lower than in 2006. This growth, primarily fuelled by the secondary and service sectors, was achieved under inflationary pressures.

1 Sector Analysis

1.1 Real sector

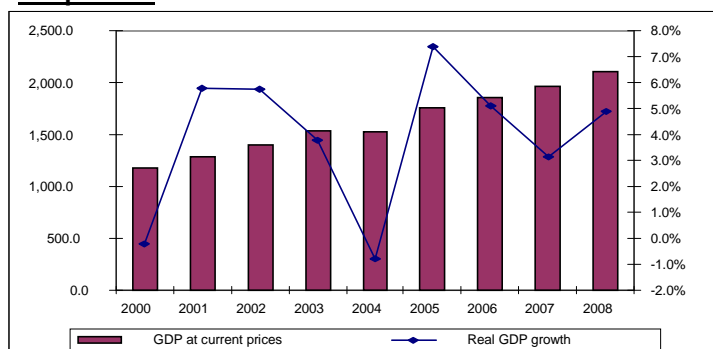
Economic activity grew by 3.1% for an initial forecast of 4.5% compared to 5.1% and 7.4% in 2006 and 2005 respectively. This trend is due to the vibrancy of the service sector.

In fact, the primary sector grew by 1.2% in 2007 compared to 7.7% in 2006. This drop is due to a downturn in agricultural production, following stagnation in cereal and cowpea production. In livestock sector, the rate of growth stabilized around 3.4% as it was in 2006, in line with the normal development of grass lands across the entire animal rearing regions. In the same vein, logging under forestry development plans increased by about 3.4% as it was in 2006. Fishing resumed with a 2.6% real growth rate in 2007, after a drop of 21.7% in 2006. This favourable trend is linked to the resumption of activities in that part of Lake Chad in the Diffa region, with favourable water intake into the lake following abundant rainfall in 2006.

There was also a slowdown in economic activity in the secondary sector, with a growth rate of 1.3% compared to 5.7% in 2006, in line with the expected drop in energy production. Growth rates in manufacturing and construction activities stabilized at 2.7% and 4.3% respectively, as it was in 2006

The service sector grew by 4.9% in 2007 compared to 2.6% in 2006. This growth was propelled by performances in the telecommunications and public utilities sectors, which rose by 9.5% and 6.5% respectively.

Graph 3.21 : Trends in nominal GDP and Real Growth Rate



With regard to demand, the real GDP growth was driven by dynamic final consumption and investments. Trends in domestic demand were marked by a 4.6% increase in private consumption, compared to 4.2% in 2006. Final consumption by government increased by 5.8% compared to 0.3% in 2006, in line with increases in all categories of current expenditure excluding interest on public debts.

Growth in investments was 11.6% compared to 1.6% in 2006. This trend is the result of increased public capital expenditure and investments in mineral exploration, energy and telecommunications. It also follows a 3.3% increase in private GFCF and 22.4% increase in public GFCF.

With regard to external trade, imports rose by 10.8% after a 4.7% drop in 2006, due to the expansion in capital equipment and energy products requirements. Exports, mainly of uranium, gold and agro-pastoral products, grew by 2.8%.

In nominal terms, the rate of investment rose from 21.8% in 2006 to 23.0% in 2007. Gross domestic savings were 7.2% compared to 10.2%.

Economic trends in 2007 were accompanied by a general rise in the level of prices, in line with the upward trend in the prices of crude oil and general hike in commodity prices. The rate of inflation at the end of this period increased from 0.3% at the end of December to 4.7% for the same period in 2007. This trend reflects the combined effect of increases of 6.5% and 4.7% respectively in the prices of “alcoholic beverages, and tobacco” and “restaurants and hotels” as well as increase in oil prices, mitigated by the drop in the prices of foodstuffs and communication.

1.2 Public Finances

In 2007, the objective of the government’s fiscal policy was to continue budgetary consolidation, particularly through increased mobilization of domestic resources, current expenditure control and reduction of domestic arrears payments.

Budget revenues recorded a relatively high increase of 24.9% to settle at 15.4% of GDP, compared to 13.3% in 2006. This trend is better appreciated together with trends that have characterized its main components.

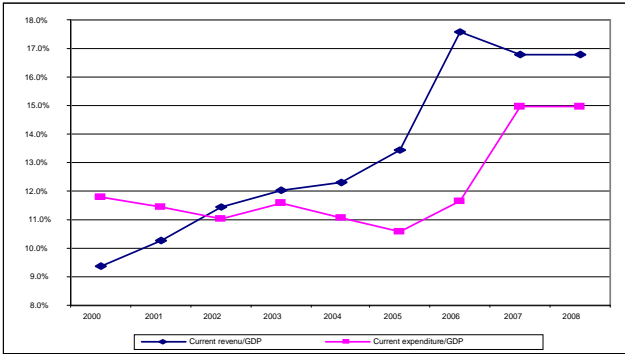
Indeed, tax revenues went up by 14.9% to stand at 11.8% of GDP in 2007, compared to 11.0% in 2006. This trend is the outcome of increased domestic revenues from taxes on goods and services and taxes on income and profits, as well as customs duties. Non-tax revenues recorded the highest increase of 84.9%, as a result of the payments in respect of operating licenses by investors in the telecommunications and mining sectors.

The level of grants mobilization also improved by 15.3% at the end of December 2007 to settle at 5.4% of GDP, compared to 5.0% in 2006.

Concerning total expenditures, the item “total expenditures and net loans” increased by 29.3%, bringing the ratio in relation to nominal GDP to 24.5%, which is slightly higher than that of 2006 (23.3%). This expansion in expenditure may be attributed to two components of expenditure, i.e. current and capital expenditures.

Current expenditures, fuelled by operating and transfer expenditures and subsidies, rose by 32.4% to settle at 11.9% of GDP in 2007, compared to 9.5% in 2006. Transfers and subsidies increased by 57.0%, accounting for 5.9% of GDP compared to 3.7% in 2006. The rise (+6.7%) in the wage bill was marginal, and this reduced their impact on fiscal revenues with a ratio which went down from 33.3% in 2006 to 31.0% in 2007.

Graph 3.22 : Trends in Current Revenue and Expenditure



Capital expenditures increased by 13.4% to settle at 10.5% of GDP, compared to 9.8% in 2006. This can be attributed primarily to the 43.1% increase in the component financed through domestic resources. Capital expenditures increased slightly by 1.8%. These trends are in line with infrastructure works carried out and the implementation of the objectives under the Poverty Reduction Strategy Framework.

All things considered, financial operations of the State in 2007 ended in the worsening of the deficits of major balances. Thus, overall deficits excluding grants and including grants in relation GDP were 8.6% and 3.2% in 2007 compared to 6.6% and 1.6% respectively in 2006.

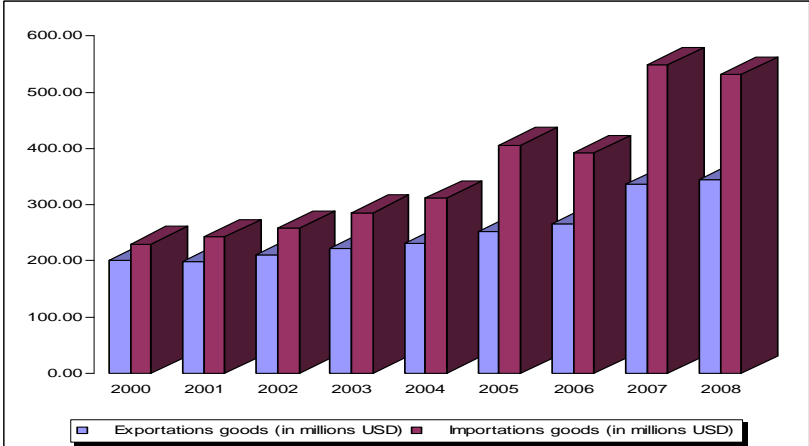
Concerning public debt, outstanding domestic and external public debt was estimated, at the end of 2007, at F CFA 432.1 billion, i.e. 22% of GDP compared to 28.2% in 2006, in line especially with the

debt relief initiatives in 2006. External debt servicing for 2007 was estimated at 31 billion, i.e. 2.7% of fiscal revenue compared to 9.9% in 2006.

1.3 External Sector

Concerning external accounts, there was a surplus of CFA F 15.5 billion on the overall position of the balance of payments. The trade balance was -212.8 billion in 2007 compared to -125.7 in 2006. This decline in trade balance is attributed to the 40.2% increase in imports, which was not offset by the 26.5% rise in exports. The improvement in exports is due to measures taken to boost production in the mining sector after the decline in 2006 and the 58.7% rise in the conventional price of uranium. The upward trend in imports was mainly due to procurement of capital goods and increase in petroleum bills.

Graph 3.23 : Trends in Exports and Imports



The balance of services was -119.4 billion, representing a 4.0% rise. Net surplus revenue was 17.8 billion in 2006, whereas net current transfers increased by 15.7%. All things considered, the current account deficit widened to CFA F 207.7 billion i.e. 10.6% of nominal GDP compared to 8.5% in 2006. Outside current public transfers, this deficit, in terms of GDP, was -14.4% compared to -11.1% in 2006.

The capital and financial operations surplus was 232.7 billion, representing a 20.1% decrease compared to 2006.

1.4 Monetary Sector

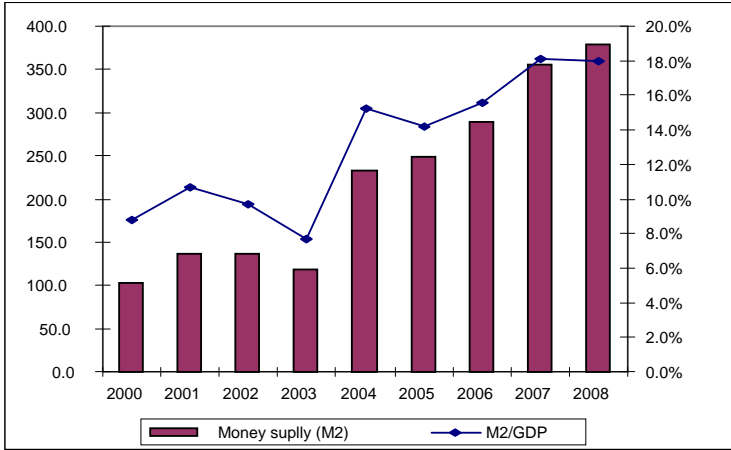
Within the UEMOA region, currency and credit management is based on interest rate policy and the compulsory reserves system. Within a context of relative inflation control, the Central Bank maintained its key rates unchanged at 4.25% for pension rate and 4.75% for discount rate. The mandatory reserve coefficient remained at 9.0% in Niger. This situation led to uneven growth in the main monetary aggregates at the end of 2007.

Indeed, the net external position of monetary institutions was 225.1 billion, showing a considerable increase of 44.8% compared to that of end of December 2006. This trend is exclusively attributable to the 72.8 billion increase in net external assets of the Central Bank, in line with the exceptionally high inflow of State resources in the form of direct investments in the sector, particularly in mining.

Outstanding domestic credit dropped by 29.3% to settle at 72.1 billion. The net position of the government improved by 28.7 billion, as a result of the 31.7 billion increase in State debt owed to banking institutions, whose effect was partially reduced through an increase of 3.0 billion in its debts. Credits in favour of the economy reached 122.5 billion, in line with an increase of 31.9 billion in ordinary credits.

Money supply grew by 23% to 356.2 billion at the end of December 2007. This trend in the overall liquidity resulted in an increase of 0.3% in currency in circulation and 42.0% in bank deposits.

Graph 3.24 : Trends in Money Supply



2 Performance under Macro-economic Convergence

The overall performance of Niger deteriorated in 2007. The country achieved five (5) criteria including two primary criteria, compared to six (6) in 2006. Fiscal deficit ratio deteriorated in spite of increased tax pressure. The relatively high increase in expenditure, particularly primary expenditure other than wage bills, is the cause of deterioration of budget indicators. In spite of a slight improvement, the rate of tax pressure remains one of the lowest in the sub-region. Increase in inflationary pressures has impeded the emergence of positive interest rates that can boost domestic savings mobilization efforts. However, the accumulation of inflation with respect to trading partner countries since 2004 remains at an acceptable threshold, thus ensuring a continuous appreciation and relative stability of the effective real exchange rate.

NIGER : POSITION	CONVERGENCE	Target	2003	2004	2005	2006	2007	2008. (*)
Primary criteria								
Budget deficit/GDP		≤4%	8.1	8.4	9.6	6.0	6.7	10.3
Rate of inflation		≤5%	-1.6	3.6	4.2	0.3	4.7	2.6
Monetary financing of budget deficit /Previous year tax revenue		≤ 10%	0.0	0.0	0.0	0.0	0.0	0.0
Gross external reserves in months of import		≥ 6	6.0	4.0	4.4	4.9	5.7	4.7
Secondary criteria								
Tax revenues/GDP		≥ 20%	9.0	11.0	10.3	1.0	11.8	12.0
Wage bill/Tax revenues		≤ 35%	37.5	35.3	34.7	33.3	31.0	30.8
Private invest./tax revenues		≥ 20%	26.6	20.3	28.1	25.3	31.6	28.0
Real interest rates		≥ 0	5.1	-0.1	-0.7	3.2	-1.2	0.9
Real exchange rate stability		± 5%	2.1	0.6	4.1	-2.0	-0.6	0.5
Total # of criteria met			6	5	5	6	5	6

Source: WAMA, BCEAO.

(*): Annual estimates

3 Prospects for 2008

As regards prospects, the main objectives for 2008 form part of the Accelerated Development Strategy for Poverty Reduction (ADSPR) 2008 -2012, adopted by the government in October 2007 at the end of an extensive participatory process. The programme aims to improve the MDG indicators and strengthen the macro-economic and macro-financial framework. However, the unfavourable international economic situation is likely to undermine these objectives, especially if this situation persists. In view of this trend, the government has set measured quantitative and qualitative objectives for 2008. These are to:

- Achieve a 3.8% real economic growth rate;
- Control prices by maintaining the rate of inflation below 2%;
- Improve basic budget balance through measures that are likely to optimize revenue and control increase in current expenditure;
- Reduce the stock of domestic arrears payments;
- Reduce the current account deficit of the balance of payments excluding grants by promoting and diversifying agro-pastoral export products, and promoting traditional exports.

In a bid to attain these objectives, the government has adopted measures to better manage water and strengthen the small scale irrigation system, and develop promising sectors and forest-agro-pastoral products. Concerning public finances, the main measures adopted aim to increase domestic resources through building the capacity of collection institutions, widening the tax base, reducing the scope of exemptions and pursuing the fight against tax evasion. Measures already in force would be strengthened at the customs and tax levels. These would increase budget revenues by 11.7%, and particularly tax revenues by 12.6%

4 Conclusions and Recommendations

On the whole, economic and financial activity was sluggish in 2007. The drop in the overall level of convergence, with fewer targets attained is one of the indicators. Moreover, the uncertainty resulting from a persistent unfavourable international economic situation increases the fragile nature of these achievements. The magnitude of the unfavourable differentials between the achievements of certain criteria, particularly that relating to fiscal deficit, requires extra budgetary adjustment efforts in order to better direct trends. The government should, among other things:

- continue specific actions on widening the tax base and improving tax revenue collection by consolidating measures recommended in the action plans of financial authorities;
- ensure current expenditures control, particularly those on equipment, transfers and subsidies;
- pursue and strengthen structural and sector reforms with a view to promoting strong and sustainable economic growth required for poverty reduction;
- Promote export products through sensitization and incentive policies to diversify products so as to increase sources of improving current account and balance of payments positions.