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EBS/89/83
Correction 1

CONFIDENTIAL

May 15, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Staff Report for the 1989 Article IV Consultation
and Request for Arrangements Under the Enhanced Structural
Adjustment Facility

The following corrections have been made in EBS/89/83 (4/24/89):

Page 23, lines 2 and 3: for "import authorization and the import license"
read "import license and the related import
authorization"

Page 31, footnote 1, line 3: for "the third" read "the second"

Page 34, para. 1, penultimate line: for "issue import authorizations and
import licenses"
read "issue import licenses and
related authorizations"

Page 51, Table V, Appendix I, column 2, line 1: for "May 15, 1989"
read "June 15, 1989"

Corrected pages are attached.

Att: (4)

in particular the easing of requirements for granting the exporter/-importer card and the elimination of the import license and the related import authorization issued by the Ministry of Commerce.

Following these reforms, Mauritania will still maintain discretionary controls on imports and the sale of foreign exchange for invisibles, including travel expenses and remittances abroad by foreigners working in Mauritania. However, bonfide requests for higher amounts for invisibles are granted on a case-by-case basis. ^{1/}

The Government is also determined to strengthen its debt management system so as to avoid further accumulation of arrears on external debt. The Government's demand management policies are designed to bring about an improvement in the external position and the related financing requirements, thereby reducing the external debt service ratio, before rescheduling, from 54 percent in 1988 to 29 percent of exports of goods and services by 1993 (Appendix Table IV). In addition, the Government has also put in place a committee responsible for external debt management and monitoring to ensure a timely servicing of the debt. In this light, appropriate training is being provided to the relevant staff at the Central Bank and Ministry of Finance, and a computerized debt management system is to be set up, before the end of 1989, with World Bank-financed technical assistance.

V. Benchmarks and Performance Criteria

The proposed benchmarks and performance criteria for purposes of monitoring the program are shown in Table 7. The ceilings at end-March, end-June, end-September, and end-December 1989 on the expansion of net domestic assets and credit to the Government, the limits on concessional loans and the nonaccumulation of domestic and external arrears, and the maximum level of net external liabilities of the Central Bank have been established as quantitative benchmarks. In addition, the quantitative benchmarks for end-September 1989 will also constitute performance criteria.

Furthermore, the following will constitute structural benchmarks under the program: (i) completion of measures that will lead in 1990 to the integration of the minimum lump-sum tax (IMF) and the turnover tax (TCA); (ii) implementation of measures for the reform of the cereal marketing system and, in particular, a further reduction in the CSA fleet of trucks; (iii) the elimination of price controls on two thirds of imported industrial and commercial products that are subject to the maximum profit mark-up; (iv) a modification of data collection on retail prices of goods included in the CPI to reflect actual prices instead of

^{1/} For a complete description of Mauritania's exchange system, see the 1988 Annual Report on Exchange Arrangements and Exchange Restrictions.

Table 7. Mauritania: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989

Performance criteria and quantitative benchmarks	Stock at Dec. 31, 1988	Maximum cumulative change from Dec. 31, 1988 to		
		June 30, 1989 Benchmarks	Sept. 29, 1989 Perf. crit.	Dec. 29, 1989 Benchmarks
(In millions of ouguiyas)				
Domestic sector				
Net domestic assets <u>1/</u>	26,929	700	900	1,400
Net credit to Government <u>1/</u>	5,325	4,320	4,120	3,320
Accumulation of domestic arrears	—	—	—	—
(In millions of SDRs)				
External sector				
External arrears on government debt	18.7	—	—	-18.7 <u>3/</u>
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—
Contracting or guaranteeing non-concessional debt by the Government in the 1 to 15 year maturity range during period <u>2/</u>	—	—	—	—
Quantitative benchmark	Stock at Dec. 31, 1988	Maximum stock at the end of		
		June 30, 1989 Benchmarks	Sept. 29, 1989 Benchmarks	Dec. 29, 1989 Benchmarks
(In millions of ouguiyas)				
External sector				
Net foreign liabilities of Central Bank	5,562	5,900	5,800	5,700

1/ Net credit to Government includes issues of treasury bonds amounting to UM 3.46 billion to be effected before March 31, 1989 in the context of the banking system restructuring, as well as counterpart funds from World Bank program loans deposited at the Central Bank. It is assumed that the counterpart funds that amounted to UM 0.86 billion at December 31, 1988 were utilized by March 31, 1989. Net credit to Government excludes credit from the Treasury to the private sector. The program also assumes that Paris Club rescheduling will permit the Government to reduce its recourse to bank credit by UM 200 million in the third quarter and UM 800 million in the fourth quarter. In the event that bill issues differ from what is assumed in the program, and the difference in the amount is fully reflected in the central bank's nonperforming old loans to domestic commercial banks, the ceiling on net credit to Government will be adjusted accordingly. In case the counterpart fund deposits are higher than the amount programmed, net credit to the Government will be reduced correspondingly. In case the Paris Club rescheduling provides relief larger than programmed, net credit to the Government will be reduced accordingly.

2/ Excludes possible Paris Club rescheduling.

3/ To be rescheduled at the forthcoming Paris Club expected before the end of 1989.

7 percent. The rate of inflation slowed to 6.3 percent compared with 8.2 percent in 1987. ^{1/} In the external sector, the current account deficit was reduced to a level equivalent to 17.8 percent of GDP in 1988, but the overall balance of payments deficit (SDR 49.9 million) exceeded the level recorded in 1987 owing to lower disbursements of medium- and long-term loans. Despite debt relief of SDR 29.3 million obtained in 1987 for 1988, external payments arrears amounted to SDR 9.8 million.

3. The economic and financial results achieved in 1987 and 1988 show that, in comparison with the Government's economic and financial program targets, the Treasury's operations surplus (on a cash basis) was higher than projected in 1987 (3.2 percent compared with 2.1 percent) and lower than projected in 1988 (2.1 percent compared with 2.6 percent); domestic credit ceilings were observed in 1987 but slightly exceeded in June 1988; government borrowing from the Central Bank was below the program ceilings throughout the period; the current account deficit targets (17.9 percent and 13.9 percent of GDP, respectively) were not met. The Government observed the limits imposed on the signing or guaranteeing of nonconcessional loans with 1- to 15-year maturities. Short-term noncommercial credit to the Government and the commercial banks did not increase. However, arrears on external payments not covered by the rescheduling accumulated in 1987. The relative weakness of some of the results, and in particular of the rate of economic growth, can be explained to some extent by the fact that, during 1987 and 1988, the Government was unable to introduce some of the major structural reforms agreed upon.

4. In the area of taxation, the preparation of a new customs tariff and a new investment code proved to be unexpectedly complicated and was not completed until the last quarter of 1988. The anticipated elimination of customs exemptions on imports of raw materials and intermediate goods and of exemptions on petroleum product imports granted to externally financed projects, which was initially to have taken place by the end of 1987, was not implemented until January 1989. The recommendation of Fund technical assistance missions regarding the partial deduction of the minimum lump-sum tax (IMF) (50 percent) from the business profits tax (BIC) was implemented, but the IMF has not yet been incorporated into the turnover tax (TCA). As regards the restructuring of the banking system, despite the administrative and legal progress made, the proportion of delinquent loans recovered was small, and efforts to privatize the National Bank of Mauritania (BNM), created by the merger of the International Bank of Mauritania (BIMA) and the Mauritanian Banking Company (SMB), have not yet been successful. The simplification of the interest rate structure

^{1/} The consumer price index currently used underestimates inflation because it is based essentially on official prices. A reform to improve the reliability of the index will be implemented by the end of the second quarter of 1989.

is still under study. Moreover, the reform of the incentives system and institutional framework begun in 1987, involving elimination of the system of maximum margins and reduction in the number of products subject to administrative price determination (homologation des prix), was not as comprehensive as anticipated. In the international trade sector, the procedures for small- and medium-sized businesses to obtain import-export cards were simplified, but this card and the import license continue to be used for quantitative restrictions of import. The introduction of administrative reforms to strengthen the management of the external debt has not yet been completed, and as a result, external payments have frequently fallen into arrears.

5. In the agricultural sector, in June 1988 the Government issued a declaration on cereals policy encouraging the private sector to participate in the production, processing, and marketing of local cereals, with the aim of eventually ending the monopoly of SONIMEX and the Food Security Agency (CSA) in the marketing of local rice and food aid, respectively. The first stage in the implementation of this declaration was completed in November 1988, when the delivery price for rice purchased by SONIMEX from the CSA was raised as a step toward the elimination by 1990 of the cross-subsidy between the two state enterprises by 1990. The second stage, involving the sale by the CSA of its rice mills and part of its fleet of freight trucks by end-December 1988, has been delayed.

6. The Government is determined to take the steps required for a rapid implementation of the structural reforms that have fallen behind schedule under its structural adjustment program. It will adopt additional measures to create a competitive environment favoring efficient economic activity, providing the incentives needed for increasing production and, at the same time, eliminating monopoly profits and administrative rigidities.

I. Medium-Term Objectives and Policies

7. In the updated policy framework paper, the Government established the following macroeconomic objectives for the period 1989-91: to achieve an average annual real GDP growth of 3.5 percent; to reduce the inflation rate, as measured by the GDP deflator, to 4.5 percent by 1991; and to reduce the current account deficit of the balance of payments (excluding official transfers) to the equivalent of 9.8 percent of GDP in 1991, compared with 17.8 percent in 1988. On the basis of current projections, this deficit can be financed by net capital inflows, which will reduce the overall balance of payments deficit to the equivalent of 1.6 percent of GDP in 1991. Taking into account the need to strengthen gross official reserves to a level equivalent to two months of imports, a financing gap estimated at SDR 35 million will emerge. This gap can be covered essentially by exceptional aid and possible drawings under

the enhanced structural adjustment facility (ESAF). Under these circumstances, it is expected that Mauritania will be able to maintain normal relations with its creditors at the end of the ESAF arrangement.

8. To achieve its growth and adjustment objectives, the Government will increasingly rely on providing appropriate incentives to the private sector through implementation of a new agricultural policy, a new investment code, rationalization of the customs tariff, liberalization of the exchange and trade system, and rehabilitation of the public enterprise sector, including in particular the restructuring of the banking system. These reforms will be supported by exchange rate, fiscal, credit, and monetary policies that will help increase the level of public savings and contain inflationary pressures. In order to raise the level of public sector savings, the Government will maintain an appropriate revenue effort, while controlling outlays. In particular, budgetary revenue will rise from 22.1 percent of GDP in 1988 to 23.6 percent in 1991, while current budgetary expenditures will be reduced from 22.1 percent of GDP to 19.2 percent in 1991. This should enable the Government to achieve a surplus in treasury operations (on a cash basis and excluding grants) equivalent to 4.8 percent of GDP by 1991, compared with a surplus of 2.1 percent of GDP in 1988. The larger surplus will be required to meet amortization payments on nonrescheduled debt and increase local counterpart funds needed to implement the government public investment program, largely financed by grants and external borrowing on concessional terms.

III. Program for 1989

9. To ensure that the macroeconomic objectives set forth in the PFP are reached, the Government has prepared an economic and financial program for 1989 that is designed to: (i) achieve a real GDP growth rate of 3.2 percent; (ii) limit the inflation rate, as measured by the GDP deflator, to about 7 percent, taking into account the flexible exchange rate policy and lifting of controls on most import prices; and (iii) reduce the deficit of the current account of balance of payments to 13.6 percent of GDP in 1989. On the basis of official estimates of a net capital outflow (SDR 25.5 million), the overall balance of payments deficit, before debt rescheduling, will be limited to SDR 58 million. A total financing gap estimated at SDR 86.6 million will emerge, taking into account the targeted increase in gross official reserve to cover at least 1.3 months of imports and the rescheduling of arrears on debt service due in 1988. The gap could be financed through a very comprehensive debt rescheduling requested by the Government from the Paris Club and other bilateral creditors and by disbursements under the Fund's ESAF. The Government will implement demand management measures and structural reforms to achieve the targets it has set for 1989. The principal measures include: (i) a liberalization of price controls and of exchange and trade system; (ii) an appropriate and flexible exchange rate policy; and (iii) a streamlining of the tariff policy.

a. External sector policies

10. Pursuant to its declaration on the promotion of private investment, the Government seeks to create a favorable climate for economic activity by liberalizing prices and foreign trade controls in order to eliminate private rents resulting from any existing quota systems. The Government has decided in 1989 to ease further the requirements for obtaining a card needed to engage in foreign trade. The minimum turnover required will be reduced from UM 15 million to UM 9 million for corporations and from UM 12 million to UM 6 million for individual traders. The required advance payments of tax obligations under the minimum lump-sum tax (IMF) will be lowered from UM 300,000 to UM 240,000. Measures will be taken to accelerate the administrative procedures for issuing the card. The commission in charge of reviewing applications will have to issue the card within 30 days and the number of its members will be reduced from 12 to 8. The card will be eliminated by 1990. The import licensing system will be abolished in 1989 and import procedures will thus be reduced to a declaration of intent to import domiciled with the importer's bank and presented to the Central Bank for purchase of foreign exchange. As a result, the function of the Ministry of Commerce to issue import licences and related authorizations is effectively eliminated.

As for the exchange system, the Government has decided to allow exporters of manufactures to retain 25 percent of export proceeds in foreign currency, as an additional incentive for promoting non-traditional exports (gypsum, mineral water, leather goods, etc.)

11. The tariff reform, prepared with financial assistance from the World Bank, came into force with the 1989 budget. Its aim is to simplify the tariff system while reducing the level of effective protection, promoting competition, and improving the efficiency of resource allocation. On the basis of the proposed new rates, the weighted average import duties (excluding consumption taxes) will decline as follows:

- from 35 percent in 1987 to 32 percent in 1989 on consumer goods;
- from 23 percent to 9 percent on intermediate goods; and
- from 36 percent to 31 percent on capital goods.

In addition, customs duties on imported inputs have been harmonized at a moderate level.

12. The Government will rely on an appropriate exchange rate policy, and prudent fiscal and monetary policies to control aggregate demand, particularly demand for imports. The exchange rate policy will aim at maintaining the real effective exchange rate of the ouguiya at its

Table V. Mauritania: Proposed Schedule of Disbursements
 Under ESAF Arrangement

Amount	Availability date	Conditions necessary for disbursement <u>1/</u>
8.475 million	June 15, 1989	Executive Board approval of the ESAF arrangement and the first annual arrangement thereunder.
8.475 million	After November 14, 1989	Observance of the performance criteria for September 29, 1989, and completion of the semiannual review under the arrangement
8.475 million	After March 14, 1990	Executive Board approval of the second annual arrangement
8.475 million	After September 14, 1990	Observance of the performance criteria for June 29, 1990, and completion of the semiannual review under the arrangement.
8.475 million	After March 14, 1991	Executive Board approval of the third annual arrangement.
8.475 million	After September 14, 1991	Observance of the performance criteria for June 30, 1991, and completion of the semiannual review under the arrangement.

Source: IMF.

1/ Other than the generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

MAURITANIA - Basic Data

Area, population, and GDP per capita

Area	1.0 million square kilometers
Resident population: Total (1987)	1.86 million
Growth rate	2.6 percent
GDP per capita (1987)	SDR 389

	1985	1986	1987	1988
<u>GDP (at 1982 market prices)</u>				

Total (in millions of ouguiyas)	39,931	41,203	43,260	44,244
Annual rate of growth	2.9	5.4	2.8	2.5
In percent of total				
Agriculture	20.1	20.8	21.1	21.0
Fishing	8.0	8.3	7.9	7.1
Mining	14.9	14.2	13.4	13.6
Manufacturing	5.7	5.6	5.5	5.4
Government	12.3	12.5	13.2	13.1
Gross fixed investment	24.6	21.7	19.9	16.4

Prices (percent change)

GDP deflator	15.4	7.9	7.3	6.6
Consumer price index	13.6	7.8	8.2	6.3

Central government finance

(In millions of ouguiyas)

Recurrent revenue	13,044	14,962	17,216	17,959
Foreign grants	5,737	3,347	4,884	8,953
Total expenditure	21,235	19,865	23,348	25,143
Recurrent	14,820	84,654	15,592	16,571
Development	6,415	5,211	7,756	8,572
Overall deficit (-) (commitment)	-2,454	-1,556	-1,248	1,769
Changes in arrears (decrease (-))	-6,887	617	218	-275
Overall deficit (-) (cash basis)	-9,341	-939	-1,030	1,494
Foreign borrowing (net)	-150	-3,675	-1,594	-3,870
Domestic borrowing	-1,087	-585	-442	803
Of which: from banking system	(-530)	(-271)	(-424)	(883)
External debt relief and exceptional assistance	10,578	5,199	3,065	1,573