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July 6, 1994

To: Members of the Executive Board

From: The Acting Secretary

Subject: Mauritania - Midterm Review of the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the midterm review of the second annual arrangement under the enhanced structural adjustment facility for Mauritania, which is tentatively scheduled for discussion on Wednesday, July 27, 1994. A draft decision appears on page 20.

Mr. Ghesquiere (ext. 34535) or Miss Valdivieso (ext. 38516) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the African Development Bank (AfDB) and the European Communities (EC), following its consideration by the Executive Board.

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MAURITANIA

Staff Report for the Mid-Term Review of the Second Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the Middle Eastern Department

(In consultation with the other departments)

Approved by P. Chabrier and C. Puckahtikom

July 5, 1994

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I. Introduction

On January 26, 1994, the Executive Board approved the second annual arrangement under the 24-month ESAF arrangement for Mauritania. Discussions for the midyear review were held in Nouakchott during June 4-8, 1994. 1/ In the attached letter to the Managing Director dated June 29, 1994 the authorities report on progress achieved thus far, request a waiver for the nonobservance of some performance criteria for end-March 1994, and propose economic policies and benchmarks for the remainder of the year. It is proposed in the draft decision that the Executive Board grant the request for a waiver of performance criteria and complete the review. This would allow the final disbursement (SDR 8.475 million) under the ESAF arrangement to take place.

II. Recent Developments and Performance Under the Program

Implementation of the program supported by the first annual ESAF arrangement that ended in September 1993, yielded early positive results. Prominent among these were: (i) the maintenance of improved external competitiveness through the steady implementation of restrained fiscal and monetary policies and the associated deceleration of inflation; (ii) reform of the banking system, including the closure and liquidation of the development bank, full privatization of all but one commercial bank, and a solution to insolvency through the recapitalization of three of the four commercial banks; and (iii) progress in resolving Mauritania's external debt problems, mainly through a Paris Club rescheduling. Reflecting the policies pursued and spurred by higher production of iron ore as well as the impact of abundant rains on agriculture, economic growth performance (5 percent) exceeded the original program objective (3.5 percent) in 1993 (Table 1).

During the last quarter of 1993, however, external developments were less favorable than had been expected when the second-year program was designed. Mauritania's export receipts were adversely affected toward the end of 1993 by a sharp decline in world market prices and export volumes for cephalopod as well as in the export price for iron ore. As a result, the external current account deficit (excluding official transfers) for all of 1993 widened to 21.1 percent of GDP against a target of 19.3 percent, and the gross reserves target of the Central Bank for end-December was missed by SDR 17 million (Table 2).

1/ The staff representatives were Mr. Ghesquiere (Head), Ms. Valdivieso, Messrs. Martey and Salehizadeh (all MED), Mr. Cartiglia (PDR), and Ms. Kime (Staff Assistant - PDR). Mr. Knight (MED) joined the mission for the final meetings. World Bank staff participated in most of the discussions. The mission met with the Governor of the Central Bank (Mr. Ould Michel), the Ministers of Finance and Planning (Mr. Ould Cheik Ahmed and Mr. Ould Sidi), and other senior officials.

Table 1. Mauritania: Selected Economic and Financial Indicators, 1991-94

	1991	1992	Prog. 1/ 1993	Est. 1993	Prog. 2/ 1994	Proj. (With Measures) 1994
	(Annual percentage changes, unless otherwise noted)					
National income and prices						
GDP at constant prices	2.6	1.7	4.9	4.9	4.3	4.1
GDP deflator	9.8	10.0	7.3	5.3	3.6	6.4
Consumer price index (period average)	5.6	10.1	10.0	9.3	3.2	3.7
External sector						
Exports, f.o.b. (in SDRs)	2.9	-8.1	2.6	-2.6	4.3	-4.2
Imports, c.i.f. (in SDRs)	-6.3	5.8	-9.6	-9.7	-9.2	-12.7
Export volume	-4.0	-7.1	11.9	12.4	2.9	-16.0
Import volume	-5.0	8.4	-11.7	-12.9	-9.2	-13.0
Terms of trade	8.1	0.1	-10.4	-15.4	1.8	13.3
Nominal effective exchange rate (depreciation -) 3/	-12.4	-11.0	-16.0	14.4	...	...
Real effective exchange rate (depreciation -) 3/	0.1	-13.4	-23.5	-8.6	...	...
Consolidated government operations						
Total revenue (excluding grants)	1.6	-2.0	46.9	43.8	7.9	10.7
Total expenditure and net lending 4/	2.1	-3.9	64.7	65.5	-15.0	-15.1
Money and credit						
Net domestic assets 5/	24.6	6.1	-19.0	-11.7	-34.3	-42.0
Domestic credit 5/	18.8	0.9	7.3	12.3	-10.2	-16.7
Credit to the Government 5/	1.9	-2.4	5.1	8.0	-11.7	-18.5
Credit to the economy 5/	16.9	3.3	1.5	4.2	1.8	1.8
Money and quasi-money (M2) 5/	9.3	7.2	3.3	0.7	3.9	-2.5
Velocity (GDP relative to M2)	3.6	3.9	4.2	4.2	4.4	4.6
Interest rate 6/	9.5	9.5	...	9.0	...	...
	(In percent of GDP)					
Investment and savings						
Gross capital formation	17.9	22.5	24.8	24.4	18.1	17.5
Domestic savings	10.0	9.3	12.7	10.7	11.6	9.6
National savings	3.2	6.0	5.5	3.3	5.7	3.7
Consolidated government operations						
Revenue, excluding grants	22.2	19.5	25.4	25.6	25.3	25.6
Expenditure and net lending 7/	28.9	24.9	36.3	35.5	28.6	28.0
Of which: Bank restructuring	0.7	--	6.7	6.8	0.2	0.2
Overall surplus or deficit (-) 8/	-6.7	-5.4	-11.0	-11.0	-3.3	-2.4
Primary balance (deficit-)	-4.1	-2.4	-7.0	-6.9	-0.2	0.6
External sector						
Current account balance						
Excluding official transfers	-14.7	-16.6	-19.3	-21.1	-12.4	-13.8
Including official transfers	-7.4	-8.8	-6.0	-9.9	-1.9	-1.8
Debt outstanding	156.7	161.8	201.0	203.1	190.4	188.2
Debt service ratio before debt relief 9/	34.7	41.8	41.4	44.3	30.5	35.4
Of which: On Fund resources	3.2	2.2	1.7	1.8	1.5	1.8
Debt service ratio after debt relief 9/	33.7	40.7	28.1	30.4	22.6	26.6

Table 1 (concluded). Mauritania: Selected Economic and Financial Indicators, 1991-94

	1991	1992	Prog. 1/ 1993	Est. 1993	Prog. 2/ 1994	Proj. (With Measures) 1994
	(In millions of SDRs, unless otherwise specified)					
Exports f.o.b.	320	294	302	286	315	274
Imports c.i.f.	307	325	294	293	266	256
Current account deficit (excluding grants)	-122	-140	-133	-143	-90	-100
Overall balance (deficit-)	-100	-61	-2	-19	-3	1
Gross official reserves (in months of imports)	1.2	1.2	1.4	1.0	1.9	1.4
Memorandum item:						
Nominal GDP (in billions of ouguiyas)	92.6	103.6	116.6	114.5	126.0	126.8

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

1/ As shown in EBS/93/208 (as revised projections).
2/ As shown in EBS/93/208.
3/ Based on the Information Notice System (INS). Data refer to end of period.
4/ Includes treasury operations (commitment basis) and expenditures financed through external grants and loans.
5/ Annual changes in percent of broad money at the beginning of the period. Figures for net domestic assets exclude valuation changes; for 1993 and 1994 they are based on constant programming exchange rates of SDR 1 = UM 144.5 and SDR 1 = UM 171.7, respectively.
6/ Interest rates on savings deposits of 12 months.
7/ Includes restructing operations.
8/ Includes restructuring operations; excludes grants.
9/ As a percentage of exports of goods and services.

Table 2. Mauritania: Balance of Payments, 1991–94

	1991	1992	Prog. 1/ 1993	Est. 1993	Prog. 2/ 1994	Proj. (With Measures) 1994
			(In millions of SDRs)			
Trade balance	13	−30	8	−7	48	18
Exports, of which:	320	294	302	286	315	274
Iron ore	155	110	117	114	125	113
Fish	162	174	171	158	175	148
Imports, c.i.f.	−307	−325	−294	−293	−266	−256
Services (net)	−123	−129	−136	−136	−133	−119
Nonfactor services	−79	−81	−91	−86	−95	−75
Factor services, of which:	−45	−47	−45	−49	−39	−44
Interest payments due	−46	−48	−46	−47	−39	−43
Private unrequited transfers (net)	−11	19	−6	−1	−5	1
Current account (excluding official transfers)	−122	−140	−133	−143	−90	−100
Official transfers	61	66	92	76	76	87
Adjustment grants	4	14	21	16	8	14
Other (net)	57	52	71	60	67	73
Current account (including official transfers)	−61	−74	−42	−67	−14	−13
Capital account	−40	14	40	48	11	14
Direct investment	4	5	15	12	4	4
Official medium– and long–term loans	−18	8	24	12	16	19
Disbursements	53	85	99	87	61	65
Project loans	41	76	66	55	37	40
Program lending	13	9	34	33	25	24
Principal due	−72	−77	−75	−75	−45	−45
Other capital and errors and omissions	−25	--	1	25	−10	−10
Overall balance	−100	−61	−2	−19	−3	1
Financing	100	61	2	19	3	−1
Net foreign assets (excluding arrears)	−11	−5	−22	−5	−18	−17
Central Bank	−21	41	−11	7	−10	−9
Assets	−10	--	−6	12	−13	−12
Liabilities	−11	41	−6	−4	3	3
Use of Fund resources (net)	−10	3	4	4	13	13
Other	−1	39	−10	−8	−9	−10
Commercial banks	10	−45	−11	−12	−8	−8
Exceptional financing	111	65	24	24	21	16
Accruals(+)/reductions(−)of arrears	108	62	−233	−170	−72	−135
Debt rescheduling and cancellation	4	4	196	194	--	--
Current maturities	4	4	43	43	--	--
Arrears	--	--	152	150	--	--
Financing gap 3/	--	--	62	--	93	152
			(In percent of GDP, unless otherwise specified)			
Current account deficit						
Including official transfers	−7.4	−8.8	−6.0	−9.9	−1.9	−1.8
Excluding official transfers	−14.7	−16.6	−19.3	−21.1	−12.4	−13.8
Overall balance	−12.2	−7.2	−0.3	−2.7	−0.4	0.1
Gross official reserves						
In months of imports	1.2	1.2	1.4	1.0	1.9	1.4
In millions of SDRs	47.7	48.0	53.7	36.5	66.7	48.5
Debt service ratio 4/						
Before debt relief	34.7	41.8	41.4	44.3	30.5	35.5
After debt relief (excluding arrears reduction)	33.7	40.7	28.1	30.4	22.6	26.6

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

1/ As shown in EBS/93/208 (as revised projection).

2/ As shown in EBS/93/208.

3/ Assumed to be filled with debt relief extended by bilateral official and private creditors and concessional external assistance.

4/ In percent of exports of goods and services.

Fiscal and credit policies during the last quarter of 1993 were more expansionary than foreseen. Although the overall fiscal deficit for the year as a whole was on target, at 11 percent of GDP, this outcome was achieved only as a result of the nonreplenishment of central bank capital and delays in externally financed fixed capital formation during the last quarter that more than compensated for revenue shortfalls associated with lower export proceeds for fish products (Table 3). The above-mentioned expenditure delays amounted to UM 2 billion, equivalent to 1.7 percent of GDP (Table 4). Net domestic credit was UM 1.4 billion higher than programmed as of December 1993 with the excess equally distributed between the Government and the private sector (Table 5). The larger than anticipated expansion of credit to the private sector led the authorities to reinstate bank-specific ceilings.

Entering into 1994 the program called for a consolidation of demand restraint and a deepening of structural reform. The overall fiscal deficit was programmed to fall to 3.3 percent of GDP. Fiscal and monetary policies were broadly on course by March 1994 and related performance criteria were met with the exception of that for the net domestic assets. The deficit of the consolidated government operations during the first quarter (UM 1.66 billion) was lower than programmed (UM 2.14 billion). Total government receipts were higher than projected as the favorable impact of the elimination of tax exemptions adopted in the budget for 1994 outweighed lower fiscal revenue from fish exports. Total expenditure was below the program limit owing to a shortfall in current and development expenditures which more than offset other unforeseen outlays. 1/ Reflecting the restrained fiscal stance but mainly an increase in local counterpart funds of foreign assistance, net bank credit to the Government contracted at a faster pace than had been foreseen (Table 6). The reduction in the Government's recourse to the banking system, combined with the decline in net credit to the private sector, contributed to a contraction of broad money of 4.7 percent during the first quarter, compared with a programmed increase of 4 percent. Although the net domestic assets contracted by 5.8 percent over the six-month period ended March 1994, the reduction was less than programmed, owing to an increase in other items net. 2/ Thus, the performance criterion on net domestic assets at end-March was breached by a small margin (UM 300 million) or 0.5 percent of the ceiling.

1/ Expenditures yet to be allocated, representing the adjustment needed for the above-the-line items to match the financing.

2/ The consolidation of the accounts of one commercial bank with those of the Central Bank resulted in an unclassified liability at end-September 1993, which had been assumed to be maintained when the program was designed but was eliminated by March 1994.

Table 3. Mauritania: Consolidated Government Financial Operations, 1991-94

	1991	1992	Prog. 1993 1/	Est. 1993	Prog. 1994 2/	Proj. 1994 3/
			(In billions of Ouguiyas)			
Revenue	20.56	20.14	29.59	29.31	31.93	32.46
Tax receipts	15.33	17.06	21.91	21.58	25.51	25.20
Non-tax receipts	4.39	4.01	6.16	6.15	5.92	6.53
Other	0.84	-0.93	1.52	1.59	0.50	0.73
Expenditure and net lending	26.78	25.73	42.38	41.89	36.04	35.55
Current expenditure	20.78	19.49	22.99	23.31	22.76	23.08
Wages and salaries	5.42	5.96	6.44	6.44	6.70	6.70
Goods and services	4.65	4.87	5.57	6.02	5.93	6.25
Transfers and subsidies	2.13	1.84	2.13	2.10	2.20	2.20
Military expenditure	3.23	3.43	3.64	3.64	3.64	3.64
Interest on public debt	2.40	3.14	4.57	4.67	3.79	3.79
Other	2.95	0.25	0.64	0.44	0.50	0.50
Capital expenditure and net lending	6.00	6.24	19.39	18.58	13.28	12.47
Fixed capital formation	4.75	4.70	7.43	6.53	8.67	8.11
Restructuring and net lending	1.25	1.54	11.96	12.05	4.61	4.36
Restructuring public enterprises	0.53	1.44	2.70	2.81	4.06	3.81
Commercial bank reform	0.65	--	7.79	7.76	0.25	0.25
Other restructuring operations	--	--	0.15	0.18	0.15	0.15
Other	0.07	0.10	1.32	0.03	0.15	0.15
Unexplained outlays	--	--	--	1.27	--	--
Overall surplus/deficit (-)	-6.22	-5.59	-12.79	-12.58	-4.11	-3.09
Financing	6.22	5.59	12.79	12.58	4.11	3.09
External (net) 4/	0.06	0.57	5.87	4.01	5.72	6.65
Grants	1.54	2.73	5.28	3.73	3.64	4.62
Loans (net)	-1.48	-2.16	0.59	0.28	2.08	2.03
Domestic (net)	0.79	-0.99	2.23	2.96	-3.66	-5.32
Banking system	0.44	-0.61	1.47	2.20	-3.39	-5.05
Other	0.35	-0.38	0.76	0.76	-0.27	-0.27
Exceptional external financing	5.37	6.01	4.69	5.61	2.05	1.76
Memorandum item:						
Nominal GDP	92.6	103.6	116.6	114.5	126.0	126.8
			(As percent of GDP)			
Total revenue	22.2	19.5	25.4	25.6	25.3	25.6
Expenditure and net lending	28.9	24.9	36.3	35.5	28.6	28.0
Overall surplus/deficit	-6.7	-5.4	-11.0	-11.0	-3.3	-2.4
Overall balance 5/	-5.1	-2.8	0.2	-1.0	-0.1	1.4

Source: Data provided by the authorities; and Fund staff estimates and projections.

1/ As shown in EBS/93/208 (as revised projections).
2/ As shown in EBS/93/208.
3/ With additional measures.
4/ Excluding exceptional external financing.
5/ Excluding the additional impact of bank reform in 1993 and 1994 and classifying grants as revenue.

Table 4. Mauritania: Quantitative Benchmarks for December 1993

	Program		
	Unadjusted	Adjusted	Actual
	(In billions of ouguiyas)		
Net domestic assets 1/	51.23	49.08	53.22
Net credit to the Government	10.44	9.17	11.16
Government wage bill 2/	6.44	6.44	6.44
Overall balance of consolidated government operations 2/	-12.79	-10.76	-12.58
	(In millions of SDRs)		
External payments arrears on public debt	--	--	57.7
External payments arrears on short-term private debt	--	72.2	77.6
Increase in short-term debt of the commercial banks 2/ 3/	--	--	--
New noncessional external loans contracted or guaranteed by the Government 2/			
Less than 1 year 3/	--	--	--
1-15 years maturity	--	--	--
Net foreign liabilities of the Central Bank	100.5	94.4	118.8

Sources: EBS/93/208; and data provided by the authorities.

1/ Based on accounting exchange rate of UM 144.5 per SDR.
2/ Cumulative flows since January 1, 1993.
3/ Excludes short-term import credits.

Table 5. Mauritania: Summary of Monetary Survey, 1991–93

(In billions of ouguiyas; end of period)

	1991	December 1992		March 1993		June 1993		September 1993		December 1993	
	Dec.	Program 1/	Actual 2/	Program 1/	Actual 2/	Program 3/	Actual 2/	Program 3/	Actual 2/	Program 4/	Actual 2/
Net foreign assets	−23.7	−32.9	−29.0	−30.5	−27.4	−26.9	−26.0	−26.2	−25.0	−23.0	−25.6
Central Bank	−10.7	−20.8	−19.2	−18.0	−19.0	−17.6	−18.0	−17.4	−17.0	−14.5	−17.1
Assets	5.3	6.7	6.9	7.8	3.8	5.2	4.2	5.5	5.2	9.0	5.3
Liabilities	−16.0	−27.5	−26.1	−25.8	−22.8	−22.8	−22.2	−22.9	−22.2	−23.5	−22.4
Commercial banks	−13.0	−12.1	−9.9	−12.5	−8.4	−9.3	−8.0	−8.8	−8.0	−8.5	−8.4
Net domestic assets 5/	49.3	61.3	56.4	61.0	58.2	54.2	53.3	54.6	52.8	51.2	53.2
Domestic credit	49.4	51.9	49.6	51.7	50.6	50.2	49.6	52.0	49.4	51.6	53.0
Net claims on Government	9.6	11.6	9.0	11.1	9.7	9.2	8.2	10.9	8.2	10.4	11.2
Credit to the economy	39.8	40.3	40.7	40.6	40.9	41.0	41.4	41.1	41.1	41.1	41.8
Other items (net)	−0.1	9.4	6.8	9.3	7.6	4.0	3.6	2.6	3.4	−0.3	0.2
Valuation changes	0.3	8.7	8.2	8.7	9.7	8.7	8.7	8.7	9.3	9.3	9.6
Other	−0.4	0.7	−1.4	0.6	−2.1	−4.7	−5.1	−6.1	−5.9	−9.0	−9.4
Money and quasi-money	25.6	28.4	27.4	30.5	30.8	27.3	27.3	28.4	27.8	28.3	27.6
Currency	7.3	8.4	7.9	9.0	9.2	8.4	9.7	9.5	9.3	9.5	9.1
Demand deposits	12.0	13.0	12.3	13.0	12.8	11.3	10.6	11.6	11.5	11.6	11.8
Time deposits	6.3	7.0	7.2	8.5	8.7	7.6	6.9	7.2	7.0	7.2	6.6

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

1/ As shown in EBS/92/180.
2/ At original program exchange rate of SDR 1 = UM 144.5.
3/ As shown in EBS/93/105.
4/ As shown in EBS/93/208 (as revised projection).
5/ The annual change for 1992 in percent of broad money shown in Table 1 has been obtained by using the actual end of period exchange rate (SDR 1 = UM 158.26) and excluding valuation changes.

Table 6. Mauritania: Quantitative Benchmarks and Performance Criteria for December 1993 and March 1994

	Original Benchmark	Revised Benchmark	Actual	Performance Criteria 1/	Adjusted	Actual
		Dec. 1993			March 1994	
			(In millions of ouguiyas)			
Net domestic assets 2/	50.47	55.56	58.05	56.77	55.62	55.92
Net credit to the Government	10.62	10.44	11.16	11.65	10.27	9.55
Government wage bill 3/	6.44	6.44	6.44	1.88	1.88	1.87
Overall balance of consolidated Government operations 3/	-12.79	-12.79	-12.58	-2.18	-2.14	-1.66
			(In millions of SDRs)			
Arrears on external public debt	--	--	57.7	--	--	60.7
Arrears on external short-term private debt	--	72.2	77.6	72.2	72.2	68.2
Increase in short-term debt of commercial banks 3/ 4/	--	--	--	--	--	--
New nonconcessional external loans contracted or guaranteed by the Government 3/	--	--	--	--	--	--
- less than one year 4/	--	--	--	--	--	--
- 1-15 years maturity	--	--	--	--	--	--
Net foreign liabilities of the Central Bank	98.7	100.5	118.8	119.1	112.4	120.6

Sources: EBS/93/208; and data provided by the authorities.

1/ Except for net foreign liabilities of the Central Bank, where the ceilings constitute benchmarks,

2/ Based on accounting exchange rate of UM 171.7 per SDR except for original benchmark for December 1993 which has been converted at the exchange rate of UM 144.5 per SDR.

3/ Cumulative flows since January 1 of each year.

4/ Excluding short-term import credits.

On the external front, by contrast, export receipts continued to deviate from program assumptions. This was mainly due to exceptionally weak demand conditions for fish exports in the early part of 1994, particularly in the Japanese market which is affected by recessionary conditions and, to a lesser extent, to an unexpected decline in the catch. Export prices for iron ore were also lower than foreseen. In consequence, the external current account deficit during the first quarter exceeded expectations. By end-March, gross reserves of the Central Bank amounted to SDR 35 million, compared with SDR 40 million under the program. The external value of the ouguiya depreciated in real effective terms by 25 percent between September 1992 and April 1994 (Chart 1). Most of this depreciation took place in late 1992 and was maintained through 1993. Between November 1993 and April 1994, the real effective exchange rate registered a small appreciation amounting to 2.5 percent.

Progress on external debt was mixed. On the positive side, Mauritania remained current with multilateral and Paris Club creditors, allowing Paris Club creditors to confirm the rescheduling of 1994 maturities that had been part of the agreement reached in January 1993. However, arrears vis-à-vis non-Paris Club creditors that should have been cleared by end-March 1994 (a performance criterion) amounted to SDR 61 million, with the increase since September 1993 reflecting additional debt service falling due. The authorities are making their best efforts to eliminate these arrears. Frequent contacts through diplomatic channels have resulted in restoring relations with some creditor countries who have since declared their support for Mauritania in international fora. Discussions on rescheduling are slated for August-October 1994 with three of those creditors, who hold claim to 80 percent of the total stock of arrears to non-Paris Club bilaterals. Based on these efforts and favorable prospects for the elimination by the end of 1994 of these arrears, including through debt relief, the authorities request a waiver under the arrangement for nonobservance of this performance criterion. The authorities also request a waiver for the nonobservance of the performance criterion on the net domestic assets. Such a request can be justified in view of the small deviation, the restrained demand management in place, and the further tightening of the fiscal and monetary policy over the remainder of 1994 as discussed below.

Structural reform proceeded as envisaged in most areas, albeit with some delays. 1/ Most benchmarks for January-May 1994 were observed (Table 7). Among these, greater transparency has been achieved in the fiscal area through the preparation of monthly statements of the treasury accounts and comprehensive monthly monitoring of the use of local counterpart funds of foreign assistance. Also, a plan for reducing tax exemptions was prepared on schedule. The exchange system has been further liberalized through reduced reliance on surrender requirements of foreign exchange by exporters to the banking system and by commercial banks to the

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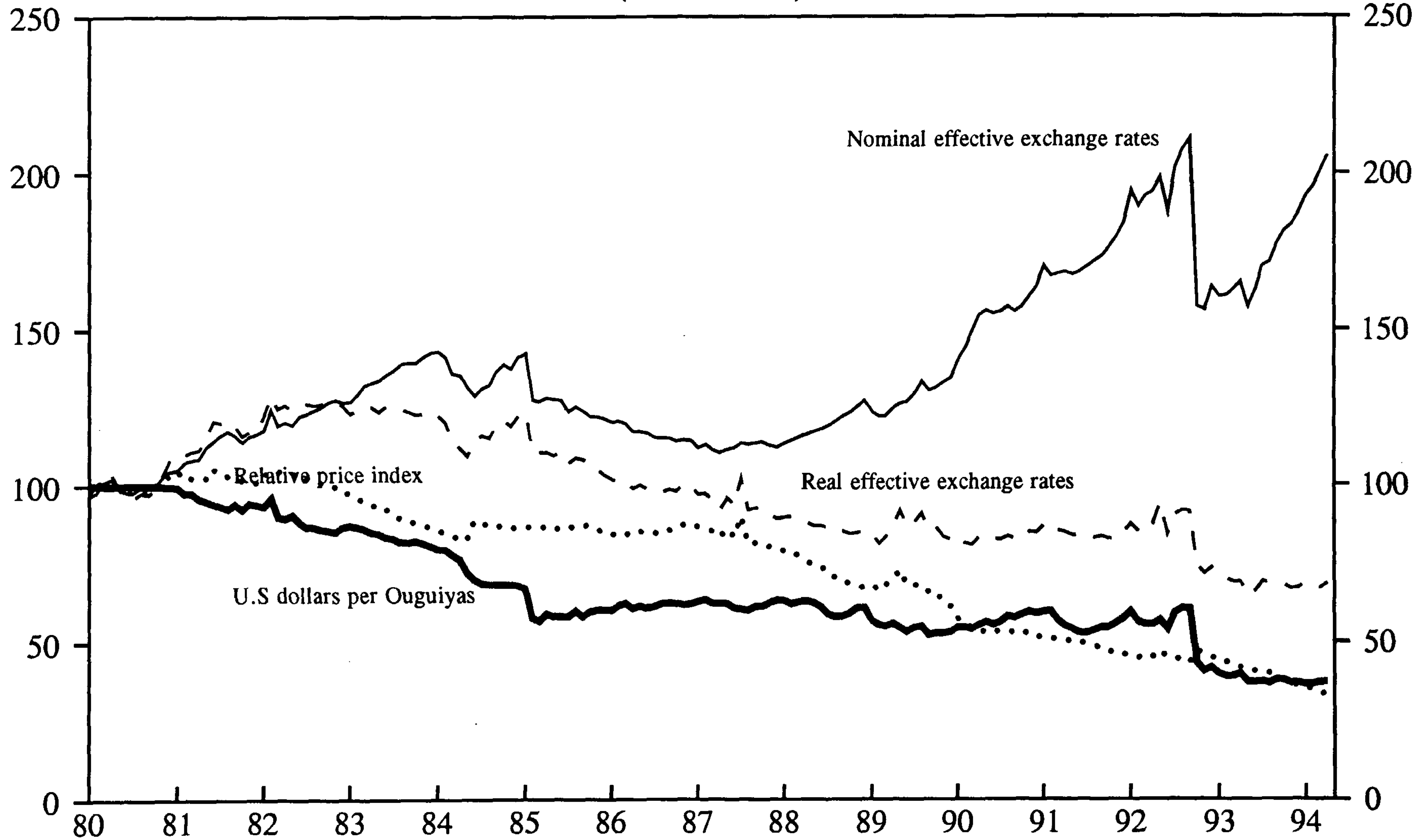
1/ For a detailed description of the ongoing and proposed reform of some public enterprises see paragraph 25 of the letter of intent.

CHART 1
MAURITANIA
REAL AND NOMINAL EFFECTIVE EXCHANGE RATES
(1980=100)



Source: International Monetary Fund, Information Notice System

Table 7. Mauritania--Structural Benchmarks Included in the ESAF Arrangement: December 1993-June 1994

	Measures	Schedule	Status of implementation
1.	Preparation of an updated action plan on liquidation or restructuring of public enterprises.	December 31, 1993	February 1994
2.	Preparation of monthly statements of treasury accounts beginning for September 1993 with a delay not exceeding 3 months. 1/	December 31, 1993	February 1994
3.	Extension to the Customs Office of inspection of licensed fishing trawlers.	January 31, 1994	On time
4.	Submission of an action plan to the donors based on the recommendations of the study of the poverty profile.	January 31, 1994	May 5, 1994
5.	Comprehensive monthly monitoring of the use of local counterpart funds of foreign assistance.	January 31, 1994	On time
6.	Submission to the Central Bank by each commercial bank of an action plan for eliminating its arrears vis-à-vis foreign correspondents.	March 31, 1994	Pending
7.	Bringing outstanding claims of commercial banks on borrowers belonging to a single group as well as on their directors and senior officials and their immediate relatives within the legal limits.	March 31, 1994	On time, except for borrowers belonging to a single group consisting of affiliated enterprises
8.	Submission to IMF of a comprehensive action plan for reducing tax exemptions.	March 31, 1994	On time
9.	Reduction in the share of Government in the equity of the SMCP to 35 percent.	May 31, 1994	Sale of 50 percent done as of end-February 1994; offering of an additional 15 percent to private sector to be done by September 1, 1994
10.	Privatization of the newly created company holding SMAR's sound assets.	May 31, 1994	66 percent to be sold by September 30, 1994 and the remainder by December 31, 1994
11.	Participation by agents of a qualified inspection firm in the control of exports of the fisheries sector.	June 30, 1994	To be done by September 30, 1994
12.	Implementation of periodic treasury bill auctions. 2/	June 30, 1994	On time
13.	Limiting the spread between the official exchange rate, the commercial bank exchange rate for bank notes and traveler's checks, and the commercial bank exchange rate for foreign currency accounts to 4 percent.	June 30, 1994	On time

1/ Structural performance criterion for March 1994.
2/ Structural performance criterion.

Central Bank. Banking supervision is being strengthened and compliance with loan concentration limits is being investigated with technical assistance from the Fund. By contrast, reform of the fisheries sector did not proceed as scheduled. Only 50 percent of the Fish Export Marketing Company (SMCP) had been privatized by end-May 1994, compared with 65 percent expected under the program, reflecting differences of view within the Government. The remaining 15 percent is now scheduled to be privatized by September 1, 1994. Slippages also occurred in regard to the surveillance of fish exports, including the hiring of a specialized firm, and other institutional improvements. 1/ The recovery of bank loans taken over by the Government slowed to UM 105 million during January-April 1994, casting doubt on the Government's goal of reaching UM 1 billion in 1994. 2/ The privatization of the newly created insurance company could not be completed by end-May 1994 due to longer than expected negotiations with prospective buyers; the sale of two thirds of the company is expected by end-September 1994 and the remainder will be sold before year-end.

III. Policy Issues

In reviewing the program, the authorities expressed encouragement at developments in key areas: fiscal and monetary policies have remained on course bringing inflation under control, external competitiveness has been maintained, the problems of bank insolvency have been addressed, the reform of state enterprises and the pursuit of appropriate pricing policies have averted the need for subsidies, and there has been significant progress toward liberalizing the exchange and trade system and resolving Mauritania's external debt problem. At the same time, the authorities expressed concern at the continued slippages in the external sector and prospective shortfall in the balance of payments objectives for 1994. They agreed with the staff that, in the absence of further measures, the external current account deficit (excluding official transfers) in 1994 could be expected to reach SDR 108 million (14.9 percent of GDP), compared with SDR 90 million (12.4 percent of GDP) envisaged in the program. This deterioration was predicated on a 13 percent shortfall in export proceeds reflecting mainly a lower volume of fish exports, as had already become apparent in the first quarter of the year, and the lower price of iron ore. Taking into account the latest projections of official transfers and capital flows, the weaker current account outcome would result in gross reserves of the Central Bank of SDR 40 million at the end of 1994 compared with a target of SDR 67 million.

1/ The enterprise that was contacted did not have the required expertise.

2/ The financial program incorporated the assumption that loan recovery during 1994 would amount to UM 200 million as a minimum; any excess had to be applied toward a reduction of net government debt.

Recognizing the need to respond to this setback in the external environment and slippages from the program targets, the authorities decided on a package of fiscal measures of UM 1.8 billion (1.4 percent of GDP) for the remainder of the year that was submitted to Parliament for approval in June 1994. Additional revenue measures amounting to UM 1.43 billion (1.1 percent of GDP) include in particular the sale of the insurance company, additional taxation of imports of petroleum products by the mining company, and the introduction of new taxes on cement, airport usage, and telephone service. 1/ On the expenditure side, the reduction (0.3 percent of GDP) results mainly from lowering authorized outlays for goods and services other than those related to education and health by 10 percent, and from reduced investment expenditure. A portion of these measures is needed to offset expected slippages in fiscal performance, but the balance (UM 1 billion) is intended to tighten domestic demand conditions. As a result, the fiscal deficit (excluding official transfers) in 1994 is now targeted at 2.4 percent of GDP, compared with 3.3 percent in the program approved last January. The expected decline in domestic absorption, combined with larger official transfers, mainly from the EU, should allow the attainment of the increase in reserves originally targeted for 1994, but would not make up for the shortfall that occurred in 1993.

Taking into account principal payments due, the need to eliminate all external arrears, the projected growth in international reserves, and the likely disbursement of funds already committed, as well as the prospective use of Fund resources under the second-year ESAF arrangement, there is a projected financing gap of SDR 152 million in 1994. This shortfall is expected to be covered through a combination of: (i) new concessional financing (SDR 8 million); (ii) rescheduling of arrears and of maturities falling due on debt vis-à-vis non-Paris Club bilateral creditors (SDR 85 million); (iii) the estimated discount of a debt buy-back operation expected to be undertaken with IDA support for government or central bank obligations (SDR 27 million); and (iv) restructuring of overdue obligations of commercial banks (SDR 32 million). In late June, the Executive Board of the World Bank approved the financing of experts who will advise the Government on the debt buy-back operation of unsecured commercial debt taken over by the Government. The buy-back operation should be completed by end-1994.

Over the medium term, the expectation is that the economic recovery in partner countries and the structural measures to be adopted in the fishing sector will bring export proceeds close to the path originally envisaged in the program. Tight demand management policies and an appropriate exchange rate policy are expected to help contain imports of goods and services in line with the reduced foreign exchange availability and preserve the attainment of the medium-term objective of the program.

1/ For further details, see paragraph 12 of the letter of intent.

The additional fiscal measures will be supported by a further tightening of monetary policy. As extension of credit to the private sector will remain unchanged with respect to the program pending strengthened banking supervision, the further reduction in recourse to bank borrowing by the Government will be reflected in a downward revision in the benchmark for the net domestic assets of the banking system for December 1994. 1/ Interest rates will remain positive in real terms. The projection of money growth underlying the financial program has also been revised downward (Table 8). It is expected that the tight credit policy stance consistent with cautious money demand projections will help bring the balance of payments outcome closer to the original external target.

The authorities noted other policy improvements designed to reinforce the tightening of the financial policies and ensure that the program remains on track. In the fiscal area, strict adherence to the timetable for the introduction of the VAT and the implementation of the recently prepared plan for eliminating exemptions will broaden the tax base in 1995. A review of expenditure control procedures has already yielded results and will avert the re-emergence of domestic arrears. 2/ A comprehensive public expenditure review with the World Bank envisaged for the last quarter of 1994 and the action plan for poverty alleviation recently submitted to the Consultative Group will allow the assignment of clear priorities across all categories of expenditure.

Financial sector reform is proceeding as planned with Fund technical assistance. The introduction of a system of periodic treasury bill auctions beginning in June 1994, involving close coordination between the Central Bank and the Ministry of Finance, will provide a pivotal market-determined interest rate, reduce reliance on direct instruments of monetary policy, and allow the Government to restructure its domestic debt. To allow market forces greater play, minimum interest rates on deposits have been reduced (see letter of intent, paragraph 20). A rediscount facility for treasury bills will be operational by September 1994. The supervisory capacity of the Central Bank is being strengthened. Compliance with prudential regulations is being monitored, including enforcement of loan concentration limits. The liquidation of the development bank is proceeding as scheduled. As regards the cash recovery of nonperforming loans taken over by the Government, the authorities are renewing efforts to accelerate the pace of recovery and achieve UM 600 million in 1994 as a minimum so as to lend credibility to the reform of the banking system. The shortfall from the original target of UM 1 billion will be compensated in 1995.

1/ The sharp fall in net domestic assets and in foreign liabilities during the last quarter reflects the impact of the IDA-assisted debt reduction operation.

2/ During the last quarter of 1993, there was a build-up of arrears on payments for electricity, telephone, and transportation. In addition, the allocations for these items in the 1994 budget understated likely expenditure. To resolve both problems, cash outlays expected in 1994 were revised upwards, including for eliminating last year's arrears.

Table 8. Mauritania: Monetary Program for 1994 1/

(In billions of ouguiyas; end of period)

	Actual		Projected		
	Dec. 1993	Mar. 1994	June 1994	Sept. 1994	Dec. 1994
Net foreign assets	−30.5	−29.6	−30.8	−31.3	−19.6
Central Bank	−20.4	−20.7	−22.3	−22.6	−16.1
Assets	6.3	6.0	4.3	5.0	8.3
Liabilities	−26.7	−26.7	−26.6	−27.6	−24.4
Commercial banks 2/	−10.1	−8.9	−8.5	−8.6	−3.5
Net domestic assets	58.1	55.9	56.1	55.3	46.6
Domestic credit	53.0	50.8	51.3	50.4	48.4
Net claims on Government	11.2	9.6	9.7	8.7	6.1
Credit to the economy	41.8	41.3	41.6	41.8	42.3
Other items net	5.1	5.1	4.8	4.8	−1.9
Money and quasi–money	27.6	26.3	25.3	24.0	26.9

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

1/ At exchange rate of SDR 1 = UM 171.7.
2/ Including through 1994 the external liabilities of the development bank (UBD) pending completion of its liquidation.

In order to contain the deterioration of the external accounts and ensure international competitiveness, the authorities reiterated their commitment to an exchange rate policy that emphasizes flexibility in the context of restrained domestic financial policies as well as the importance of a nominal anchor. They expressed the intention to initiate small adjustments in the exchange rate to offset a real appreciation (2.5 percent) since the beginning of the year. Beginning in July, they will limit the maximum spread within the multiple exchange rate system to 4 percent, primarily through more frequent adjustments, as needed, in the official exchange rate. Full unification will be achieved before December 1994. To enhance the role of market forces in allocating scarce foreign exchange, the auctions of import authorizations will be extended to cover all imports except petroleum products and those of the fishing and mining sectors. Also, beginning July 1, 1994, separate auctions for specific groups of products will no longer be held. The timing of acceptance of the obligations of Article VIII will depend, inter alia, on progress in eliminating the arrears on unsecured commercial debt and the multiple currency practice described above. The authorities agreed to establish a firm timetable before end-September 1994 for moving toward Article VIII status as part of the next Article IV consultation. On this occasion they also will develop more fully the operational aspects of the unified exchange rate regime that will be in place after November 1994.

In the discussions, the authorities acknowledged the need to complement the tight fiscal and monetary policy stance with an acceleration of structural reform in the fisheries sector. The delays in implementing the programmed reforms were attributed to the extreme complexity of the problems facing the sector, difficulties in forging a consensus on a reduced role for the public sector in production and sales, and the need to reconcile the involvement of foreign commercial enterprises with the Government's objective to reserve the exploitation of the high-valued species for national enterprises. The Government has invited international donors interested in the sector to resume the policy dialogue with a view to establishing an agreed forward-looking reform program by end-September 1994. The authorities also reaffirmed their commitment to a phased-in replacement of export taxes by a system of licensing and access rights for industrial fishing starting in September 1994. An additional 15 percent of the SMCP's equity will be offered to the private sector before the end of September 1994. Further measures aimed at improving the management of Mauritania's fishing grounds are described in the letter of intent.

The authorities indicated their strong interest in continued financial and advisory support from the Fund for their economic reform program, following the expiration of the current ESAF arrangement in January 1995. Further support in the form of a successor arrangement was seen as essential in helping remove the remaining structural impediments to sustained growth and external viability and in resolving the external debt problem. The staff indicated that further financial support under a successor ESAF arrangement will depend on the adoption of a comprehensive adjustment program, a fully satisfactory implementation of the current program, and on early and decisive action in the fisheries sector in order to unlock the sector's potential for growth of value added and employment over the medium term and to restore balance of payments viability.

IV. Staff Appraisal

Since October 1992, the Government of Mauritania has intensified its efforts at redressing the economy's deep-seated external imbalances and laying the ground for sustained economic growth under a program that is supported by an ESAF arrangement from the Fund. Implementation of the program has produced encouraging results so far. The steady pursuit of restrained financial policies following the 27 percent up-front devaluation of the ouguiya has been crucial in achieving price stabilization and preserving the initial gains in external competitiveness. There has also been significant progress in addressing the problems of bank insolvency and external arrears. Economic growth has held up. These commendable achievements, however, must be viewed against a fragile background that involved some policy delays in 1993 and remains characterized by a still large foreign debt, entrenched structural weaknesses, and the vulnerability of the economy to external shocks.

The authorities' determination to adopt additional fiscal measures and to further tighten monetary policy in response to unforeseen developments that threatened the attainment of the program objectives is to be commended. In 1993, they moved boldly to absorb the cost of the bank reform and again this year, in an attempt to offset weaknesses in export markets for fish and iron ore. The staff urges sustained implementation of tight demand management policies in order to ensure continued price stability and strengthen the balance of payments. The ongoing and prospective tax reforms, including notably the elimination of tax exemptions, the introduction of a value-added tax in 1995, and the strengthening of tax administration will be essential for expanding the tax base and reducing fraud, while lowering distortions and improving the elasticity of the tax system. The staff welcomes the increased transparency in the fiscal accounts and the recent adoption of expenditure control measures. It also supports the authorities' decision to conduct a full review of public expenditure with World Bank assistance. The introduction of treasury bill auctions will contribute to the establishment of a market-based system of interest rate determination.

Fiscal and monetary policies, if fully implemented, should provide adequate support for the exchange rate policy adopted by the Government. This should allow for a more decisive move toward liberalization of the exchange system. Increased reliance on market forces for exchange rate determination is essential in improving resource allocation. The recent decision by the Government to expand the coverage of the auction system of import authorizations is a step in the right direction. Also, allowing exporters to retain a portion of their foreign exchange and commercial banks to hold foreign currency deposits should contribute to the development of an interbank market. The staff welcomes the authorities' commitment to pave the way for a move toward convertibility by unifying the exchange rates before December 1994 and eliminating external arrears. This move, however, must be supported by an easing of the financial constraint and the complete rehabilitation of Mauritania's banking sector.

The completion of the reforms of the banking system is essential to foster financial intermediation and support private sector growth. The authorities rightly emphasize the strengthening of the Central Bank's supervisory capability as crucial for the consolidation of the progress already achieved. Policy slippages should be addressed forcefully. Loan recovery efforts have fallen short of the target set by the Government. Intensifying such efforts is essential to provide credibility to the reform and will allow a reduction of the Government's domestic debt.

Mauritania continues to have large overdue external obligations vis-à-vis non-Paris Club bilateral creditors, commercial banks, and private suppliers. The Government's commitment to eliminate all arrears by the end of 1994 is welcome. The authorities' recent contacts with non-Paris Club creditors and the approval by the Executive Board of the World Bank of the financing of experts to advise the Mauritanian Government on the buy-back operation of the unsecured commercial debt are significant steps toward a comprehensive resolution of Mauritania's debt problem.

While tight demand management policies have been put in place decisively, the implementation of structural reforms designed to help generate an adequate supply response has been more hesitant. The privatization of the insurance company has been delayed. The staff has consistently urged the authorities to introduce bold reforms in the fisheries sector, given its potential for increasing value added and employment over the medium term and its critical role for the achievement of external viability. Nonetheless, important delays have occurred in implementing regulatory and institutional changes, signaling hesitation in reducing the role of the State in the productive activities of the sector. The staff is conscious of the complexity of the problems that the Government is facing. Nevertheless, the recent deterioration of the market conditions for fish exports underlines once more the vulnerability of the economy to external shocks and the importance of developing an efficient sector which would be more resilient to such shocks. The staff urges the authorities to reach agreement with interested foreign partners on an action plan for the sector by end-September 1994 at the latest and urges its swift implementation. A good track record and decisive early action in the fisheries sector are essential conditions for proceeding with a new ESAF arrangement. The difficult prospects facing Mauritania make it all the more important that the allocation of access rights for industrial fishing, including for high-valued species by the national fleet, be fully transparent and consistent with market-based principles.

The consolidation of the above-mentioned structural reforms and increased transparency of the regulatory and judicial systems should encourage the development of a strong private sector and lay the ground for sustained economic growth. In turn, increased economic activity will create productive employment and allow improved standards of living as well as an increased share of public expenditure being directed toward social sectors, contributing to the development of human capital and poverty alleviation.

The staff notes Mauritania's determination to implement its adjustment and reform program as evidenced by the additional measures the authorities have taken and are committed to take, and to secure adequate financing. The authorities are aware of the risks that still lie ahead but are determined yto sustain their efforts. On this basis, the staff supports the authorities' request for a waiver for the nonobservance of the performance criteria specified in paragraph 2(a) (1) and (5) of the arrangement, recommends completion of the mid-term review, and approval of the proposed decision.

V. Proposed Decision

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

Mauritania: Mid-Term Review of Second Annual Arrangement Under the ESAF

1. Mauritania has consulted with the Fund on its economic and financial program for 1994 in accordance with paragraph 2(c) of the second annual arrangement under the enhanced structural adjustment facility (ESAF) for Mauritania (EBS/93/208, Attachment I, 12/28/93).

2. The letter from the Governor of the Central Bank of Mauritania, dated June 29, 1994 shall be attached to the second annual arrangement under the enhanced structural adjustment facility for Mauritania, and the letter dated December 20, 1993 on the economic and financial policies for Mauritania, shall be read as supplemented and modified by the letter dated June 29, 1994.

3. The Fund determines that the mid-term review contemplated in paragraph 2(c) of the second annual arrangement for Mauritania under the enhanced structural adjustment facility has been completed, and that notwithstanding the nonobservance of the performance criteria specified in paragraph 2(a) (1) and (5) of the arrangement, Mauritania may request disbursement of the second loan under the arrangement.

Mauritania: Fund Relations

(As of May 31, 1994)

I. Membership Status: Joined 9/10/63; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	47.50	100.0
Fund holdings of currency	47.51	100.0

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	9.72	100.0
Holdings	.20	2.1

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
SAF arrangements	11.53	24.3
ESAF arrangements	42.38	89.2

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF	12/09/92	12/08/94	33.90	25.43
ESAF	5/24/89	12/08/92	50.85	16.95
Stand-by	5/04/87	5/03/88	10.00	10.00

VI. Projected Obligations to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	5/31/94	1994	1995	1996	1997	1998
Principal	--	2.5	5.9	6.8	5.4	5.1
Charges/interest	--	.5	.6	.6	.6	.5
Total	--	3.0	6.5	7.4	6.0	5.6

VII. Exchange Rate Arrangement

Since January 22, 1974, the exchange rate of the ouguiya has been determined on the basis of a basket of currencies, comprising the U.S. dollar, the French franc, the Deutsche mark, the Spanish peseta, the Belgian franc, and the Italian lira. Since October 1992, there has been a dual exchange system which includes a limited market, at the level of commercial banks, for foreign currency notes and traveler's checks where the rate is freely determined. On May 31, 1994, US$1 was equivalent to UM 121.70 in the primary market.

VIII. Last Article IV Consultation

Mauritania is on the standard 12-month cycle for Article IV consultations.

Discussions for the 1993 Article IV Consultation together with negotiations for the second annual ESAF arrangement were held in Nouakchott during the period October 14-27, 1993.

The staff report (EBS/93/208) was considered by the Executive Board on January 26, 1994. The decision concluding the Article IV consultation was as follows:

Mauritania - 1993 Article IV Consultation

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Sections 2(a) and 3, in the light of the 1993 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63) adopted on April 29, 1977, as amended (Surveillance over Exchange Rate Policies).

2. As described in EBS/93/208, Mauritania maintains exchange restrictions evidenced by external payments arrears that are subject to Article VIII, Section 2(a) and a multiple currency practice arising from the existence of an official rate pegged to a basket of currencies and an exchange rate in the free market. The Fund notes the intention of Mauritania to unify the exchange rates not later than November 30, 1994, and to eliminate the exchange restrictions evidenced by external payments arrears by end-1994. In the meantime, the Fund grants approval for the retention of the above exchange restrictions and multiple currency practice that are subject to Article VIII, Sections 2(a) and 3 until December 31, 1994 or the date of completion of the 1994 Article IV consultation with Mauritania, whichever is earlier.

IX. Technical Assistance (since 1990)

1. MAE

a. Money and banking

Visits by panel expert on money market development in July and September 1990.

Technical assistance mission on monetary management techniques and banking supervision issues: December 9-18, 1991.

Technical assistance mission on the reform of the banking system: December 14-22, 1992.

Bi-monthly visits by panel expert on the restructuring of the banking system: August 1993-present.

Technical assistance mission on monetary management, banking supervision, and foreign exchange liberalization: February 20-March 1, 1994.

b. Exchange system

Technical assistance mission on the reform of the exchange system: October 5-10, 1992.

Bi-monthly visits by panel expert on the reform of the exchange system: December 1992-present.

c. Other

Advisor to the Governor: May 1994-present
External debt advisor: June 1989 to August 1993.
Advisor to the Governor: December 1989 to June 1992.

2. FAD

Technical assistance mission on improvement of tax administration and implementation of the consumption tax reform: September 30-October 8, 1992.

3. STA

Technical assistance mission on compilation of monetary statistics: January 18-31, 1990.

Technical assistance mission on compilation of monetary statistics: October 24-November 6, 1991.

4. PDR

Technical assistance mission on the reform of the exchange system: March 11-17, 1992.

X. Resident Representative: None

Mauritania - Financial Relations with the World Bank Group

(As of December 31, 1993)

1. Date of membership, IBRD/IDA: September 10, 1963

2. Capital subscription, IBRD: SDR 46 million
IDA: US$0.64 million

3. Status of disbursements:

	Amount (less cancellations) (In millions of U.S. dollars)			
	Committed		Disbursed	
	IBRD	IDA	IBRD	IDA
Three loans and twenty-four credits fully disbursed	146.0	156.3	146.0	156.3
Credits not fully disbursed:				
Agriculture, livestock, and rural development		40.1		17.6
Education		30.7		13.8
Population/Health II		15.7		1.8
Public enterprise		50.0		35.8
Development management		10.0		8.3
Water supply		10.5		--
Public Works		12.0		1.2
Total	146.0	325.3	146.0	234.8

4. IFC has financed a copper mining project (US$10.0 million) and a gold mining project (US$4.1 million).

5. Status of Bank Group dialogue and operations

To date, the Bank Group has approved 40 projects in Mauritania for a total of US$485.4 million. Of these, three are Bank loans for mining operations (US$66 million for MIFERMA in 1960, US$60 million for SNIM in 1979 for the Guelbs Iron Ore Project, and another US$20 million for SNIM rehabilitation in 1985). The others are 35 IDA credits totaling US$327.7 million and two IFC investments totaling US$14.1 million. The Bank Group's share in Mauritania's external capital assistance amounted to about 23.2 percent in 1985-90 on a disbursement basis.

The Bank plans continued support for the implementation of structural reforms aimed at (i) improving incentives to stimulate efficient development of private sector activities; and (ii) improving management of public sector resources through structural adjustment operations, complemented by more traditional investment operations. Policy reform is being accelerated by a number of adjustment operations, each focused on a limited range of policy issues. These operations also serve as a vehicle for maximum mobilization of cofinancing for adjustment under the Special Program of Assistance for Low-Income Debt-Distressed Countries in Sub-Saharan Africa (SPA).

In the agricultural sector, an Agricultural SECAL/Irrigation Improvement project, approved in February 1990, aims to maintain the momentum achieved in the final phase of the SAL I by supporting the implementation of a cereal market liberalization program and helping the Government make progress in land tenure, as well as sector-wide operations and an investment component to test various approaches related to irrigation development in the Senegal Valley. Development of private irrigation is being assisted through a small-scale irrigation project (FY85) and through a proposed irrigation promotion project (FY96). An agricultural services project (FY94) will aim at improving research and extension nationwide. The Second Livestock Project (FY87) is developing reforms to strengthen livestock.

A public enterprise sector loan, which was approved in June 1990, is supporting the Government's structural adjustment program aimed at deepening the reforms in the public enterprise sector. Actions under the proposed program include: (i) modification of the legal and institutional framework with the objective of eliminating state monopolies and facilitating increased private sector participation; (ii) a program of divestiture aimed at reducing the number of enterprises in the sector; and (iii) financial restructuring programs for key enterprises remaining in the sector, particularly SNIM, the iron ore mining company, which is by far the largest enterprise in the country. The PE Institutional Development and Technical Assistance Project, prepared in parallel with this adjustment operation, is providing support to the Government for implementation of the program.

In addition to the PE reform, a private Sector Secal (FY94) will aim at the strengthening of the institutional and legal framework in order to encourage private sector participation in all economic activities.

The Development Management Project (FY88) is financing the improvement of core government management capabilities within the Presidency, strengthening local administration, improving the capacity of the Ministries of Interior, Information and Telecommunications to manage municipal development, increasing civil service productivity and developing a framework for the continued implementation of administrative reforms at the central sector and local levels.

An Industrial and Artisanal Project (FY85) provided assistance through the Mauritanian Development Bank to finance economically viable SMEs. This project also provided for training to strengthen the private sector's accounting capability.

In the infrastructure sector, the Water Supply Project (FY92) is reinforcing the Nouakchott water supply system and rehabilitating the water and electricity system in the interior centers, while a Construction Project (FY93) is assisting in developing both the domestic construction industry and small and medium enterprises. Given the strong linkages between the provision of economic infrastructure and development, an infrastructure project will be prepared in FY97.

In the education sector, the Government is seeking to expand primary school enrollment and correct the imbalance between secondary and higher education. A program is being implemented under the Education Sector Restructuring Project (FY89) to reduce the unit costs of education to permit more rapid expansion. A Vocational Training Project (FY93) is assisting the Government in setting the priorities in secondary and technical education and adapting technical training to the demand for skilled workers. Another Education Restructuring II Project is planned for FY96. In the health sector, a Population/Health Project (FY92) to strengthen basic health service delivery and to promote family planning was approved in November 1991. A first Public Expenditure Review was carried out in 1991 and the preparation of a second one is underway. Its purpose will be to propose a series of reform measures aimed at strengthening the Government's ability to design and implement a multi-year public expenditure program consistent with both the macroeconomic outlook and the country's economic and social development priorities.

6. Resident Representative: The Bank has had a resident mission in Nouakchott since October 1985.

CONFIDENTIAL

Nouakchott, June 29, 1994

Mr. Michel Camdessus
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Camdessus:

1. In our letter to you of December 20, 1993 in which the Government of Mauritania requested the second annual arrangement under the Enhanced Structural Adjustment Facility (ESAF), we indicated that we would review with the IMF the economic performance under the program before the final disbursement under the arrangement. The purpose of this letter is to inform you of developments during the first six months of the program and to lay out the policy stance we have designed to attain the program objectives.

2. The main achievements under the ESAF-supported program in 1993 were: (i) maintenance of improved external competitiveness through restrained fiscal and monetary policies and the associated reduction in inflation; (ii) reform of the banking system, including the closure and liquidation of the development bank, full privatization of all but one commercial bank, and the recapitalization of three commercial banks; and (iii) progress in resolving Mauritania's external debt problems, mainly through a Paris Club rescheduling. Nevertheless, in the external sector, weak export prices for iron ore and fish products as well as a fall in workers' remittances resulted in an estimated external current account deficit (excluding official grants) of 21.1 percent of GDP in 1993, somewhat above the targeted level of 19.3 percent.

3. Accordingly, the main objectives for the second-year arrangement were (i) a narrowing of the external current account deficit to 12 percent of GDP along with a buildup of central bank reserves and elimination of remaining external arrears; (ii) containing the rate of inflation to no more than 3.2 percent; and (iii) a deepening of structural reforms in the fisheries sector as a basis for sustained economic growth and a return to external viability over the medium term. These objectives were to be achieved through restrained fiscal and monetary policies, reform of the fishing and banking sectors, and a greater role for markets in interest rate determination.

Recent developments and performance under the 1994 program

4. Since the second-year ESAF program commenced in October 1993 there have been several encouraging developments. Inflation has remained low, at 4 percent through the 12 months ended April 1994; on this basis, the objective of containing the rate of consumer price inflation in 1994 to 3.2 percent is within reach. Also, prospects are that the rate of growth in 1994 will be about 4.0 percent.

5. Fiscal and monetary policies have broadly adhered to the course laid out in the program. The overall government deficit during January-March 1994 amounted to UM 1.66 billion compared with a target of UM 2.18 billion under the program. Government revenue (UM 6.54 billion) was 11.4 percent higher than the level reached during the corresponding period in 1993 and 5.5 percent above the program target. This performance reflects the favorable impact of the new measures adopted in the budget, as the increased receipts from petroleum products outweighed the adverse impact of lower fiscal revenue from fish exports. Government expenditure amounted to UM 8.2 billion during the first quarter of 1994, compared with a target of UM 8.4 billion in the program. Reflecting the restrained fiscal and monetary policy stance, domestic credit outstanding at end-March 1994 was UM 51 billion, UM 2 billion less than foreseen under the program, all of it on account of lower net lending to the Government. Outstanding credit to the nongovernment sector at end-March 1994 amounted to UM 41.3 billion, slightly higher than the UM 41.1 billion foreseen under the program. Broad money contracted by 4.7 percent during the quarter, compared with a 4 percent increase envisaged under the program.

6. Performance criteria established in the ESAF arrangement with the IMF were observed for the end of March 1994, with the exception of the targets for reducing external arrears vis-à-vis non-Paris Club bilateral creditors and for the net domestic assets of the banking system. The latter fell by UM 2 billion (to UM 55.9 billion), about UM 300 million less than foreseen in the program. The Government is firmly committed to staying within the limits on the NDA for September and December 1994.

7. Most structural benchmarks for January-May 1994 were observed, including the preparation of monthly statements of the treasury accounts and of a comprehensive action plan to reduce tax exemptions. However, given the continuing difficult conditions in the fishing sector, the Government was able to reduce its share in the equity of the SMCP, the main marketing agency for fish exports, by only 50 percent against the 65 percent reduction foreseen in the program. The sale of the Government's equity in the newly created insurance company that holds SMAR's sound assets had not been completed by May 31, 1994. Negotiations are ongoing with potential buyers that have responded to the sale offer, and the Government is committed to sell 66 percent of the equity before September 30, 1994 and the remaining 34 percent by end-1994. As regards the banking sector, the Central Bank was provided with a listing of each bank's claims on groups of borrowers and on its own directors, senior officials, and immediate relatives. Banks have brought outstanding claims on all debtors within legal limits as scheduled,

except in the case of borrowers belonging to a single group consisting of affiliated enterprises where bank owners hold minority equity participation. The Central Bank is addressing the difficulties encountered in identifying the borrowers belonging to such groups by preparing a catalog that will be completed by October 31, 1994, together with the adoption of related regulations with the aim of complying with the legal limits by the end of 1994.

8. Progress in addressing the external debt problem has been slower than expected. On the positive side, Paris Club creditors confirmed in April 1994 that Mauritania had met the conditions for an extension of debt relief at enhanced concessional terms to the maturities falling due in 1994. Mauritania remained current on all obligations to multilaterals. However, the objective to eliminate the arrears vis-à-vis non-Paris Club bilateral creditors could not be realized and arrears to these creditors amounted to SDR 61 million by the end of March 1994 compared with SDR 54 million at end-September 1993. The authorities are in close contact with Algeria, the Abu Dhabi Fund, and the Kuwait Development Fund with a view to seeking rescheduling of obligations due to these creditors. In view of the reduction of arrears already achieved (mainly with Paris Club and other bilateral and multilateral creditors) and prospects for their complete elimination, including through debt relief, the Government wishes to request waivers for the nonobservance of the performance criteria mentioned above in order to obtain the final loan disbursement under the ESAF arrangement (SDR 8.5 million) following completion of the review by the IMF.

External policies

9. At the time when the program for 1994 was designed, it was anticipated that the external current account deficit would be held to SDR 90 million (excluding official transfers) equivalent to 12.4 percent of GDP, compared with an expected outcome of 19.3 percent for 1993. Given projected financing flows, it was expected that this current account outturn would be consistent with rebuilding gross reserves from an expected level of SDR 54 million at the end of 1993 to SDR 67 million while eliminating all external arrears. Unfortunately, the external environment for Mauritania's exports has been considerably less favorable than originally anticipated. In the last quarter of 1993, export proceeds lagged due to a marked fall in world market prices and export volumes for cephalopod as well as the lower than expected export price for iron ore. In the circumstances, the current account deficit for 1993 widened to 21.1 percent of GDP and the gross reserves target was missed by SDR 17 million. Although export prices for fish have recovered since the beginning of the year, prospects for exports in 1994 are now less favorable than expected earlier. In addition, although measures--including authorization for nonresidents to open foreign currency accounts--were taken to encourage the reflow of workers' remittances, these have not yet produced significant results. The likely outcome of the external current account deficit in 1994 is now SDR 108 million (14.9 percent of GDP), SDR 18 million above the program target. Given the

latest projections of official transfers and capital flows, gross reserves are now projected to be SDR 26.3 million lower than expected when the second-year program was designed.

10. Faced with this further deterioration in the external environment, the Government has decided to reinforce its adjustment efforts with a view to mitigating the effects of external imbalances. Mindful of the still heavy external debt service burden, the low level of international reserves, and the dependence on external aid flows, the Government has decided to take forceful measures to ensure that the program objectives are realized. This will be achieved through additional fiscal adjustment measures, a further tightening of monetary policy, continuation of a flexible exchange rate policy, and strengthening of the structural reform effort in the fisheries sector.

Fiscal policy

11. A fundamental objective of the 1994 program in the fiscal area was to reduce the deficit of the consolidated financial operations of the Government (commitment basis) to UM 4.1 billion, equivalent to 3.3 percent of GDP. To this end, the Government implemented important measures in the context of the 1994 budget to raise revenue and reduce expenditures. These included inter alia the elimination of import duty exemptions for petroleum products by SNIM and other state enterprises. Their impact in 1994, however, is now projected to be more than offset by the adverse effect on fiscal revenue of lower receipts, mainly from exports. In all, the consolidated deficit for the year as a whole on the basis of unchanged policies is now projected to exceed the program target, as the restraint of expenditures will be more than offset by the prospective shortfall in revenue. Taking into account the above-mentioned deviations from the external targets, and the shortfall in budgetary receipts from exports, the Government has decided to implement additional measures to strengthen fiscal performance, reduce government debt, and help bring about the needed external payments improvement in the remainder of 1994.

12. Accordingly, a package of measures raising recurrent and capital revenue amounting to UM 1.43 billion (1.1 percent of GDP) has been announced and included in the Budget Supplement of June 1994. These measures comprise:

(a) strict enforcement of the tax on livestock (UM 150 million);

(b) sale of public enterprises (new insurance company, UM 400 million);

(c) application of tax rates included in the table of the initial 1994 budget on "duties and taxes on petroleum products for SNIM" (UM 400 million). It should be noted that the initial projection of UM 800 million was based on presumptive tax assessment. The proposed measure will encourage SNIM to rationalize its use of petroleum products.

(d) imposition of consumption tax on cement of UM 2 per kilogram (UM 100 million);

(e) increase of 10 percent in tax on tobacco (UM 20 million);

(f) introduction of an airport departure tax for all passengers traveling abroad (UM 120 million);
(g) increase in the rate of business turnover tax (UM 140 million);
(h) introduction of a 16 percent tax on telephone communications (UM 100 million).

13. On the expenditure side, the Government will seek a reduction of UM 340 million (0.3 percent of GDP) through a 10 percent reduction of outlays on goods and services, maintenance, and supplies, except for education and health (UM 140 million), self-financed investment expenditures (UM 190 million), and other expenditures (UM 10 million). Expenditure control procedures will be reviewed to avoid the re-emergence of domestic arrears. The objective of freezing military expenditure in nominal amounts at their 1993 level will be strictly enforced. Subsidies or current transfers to public enterprises will be strictly avoided. To reflect the full pass-through of increases in world prices of petroleum products, local prices of petroleum products will be revised quarterly.

14. The total impact of these additional measures is estimated at UM 2.3 billion (1.8 percent of GDP) on a full-year basis. The Government believes that these measures, which will be implemented with utmost determination, will lower the consolidated deficit to UM 3.1 billion in 1994, 0.9 percent of GDP below the original target for the year. Furthermore, the Government will adhere strictly to its commitment to apply program-type foreign assistance or debt relief in amounts beyond those foreseen in the financial program exclusively toward the reduction of its outstanding debt or an increase of its bank deposits. Further in the fiscal area, the Government will continue its policy of enhancing transparency of government expenditure through careful monitoring of counterpart funds of program lending. In addition, from January 31, 1995 onward, the monthly treasury statements will be restructured to clearly differentiate transactions related to the current year as opposed to preceding years. Technical preparation of a value added tax will proceed with a view to having the tax fully operational by January 1, 1995.

Monetary policy

15. The original monetary policy target for 1994 was designed to be consistent with the objectives of consolidating recent progress in lowering inflation and the need for strengthening the balance of payments. The program called for a reduction in net recourse by the Government to the banking system. Credit extension to the private sector would be limited, taking into account the need for improved banking supervision over new lending in addition to the requirement to support economic activity. In view of the need for a further tightening of demand management policies and taking into account the results obtained on December 31, 1993, the limits for net bank credit to the Government for September and December 1994 and the target for money growth have been revised downward.

Adjustment and reform strategy

16. The additional fiscal policy measures (UM 1.8 billion) over the rest of 1994 will result in a smaller fiscal deficit than foreseen at the beginning of the year. This will result in lower credit to the Government and tighter money. The tightening of demand management policies will reduce absorption and raise savings. Lower imports of goods and services will mitigate--but not eliminate--the shortfall in respect of the external current account in 1994 stemming from lower exports. Adjustment policies will be reinforced by a strengthened reform in the exchange system, the financial sector, and the fisheries sector. Structural reforms in these sectors will contribute to economic efficiency by enhancing the role of market forces, and eliminating institutional impediments to investment and production.

Exchange system reform

17. Consistent with the objective of maintaining external competitiveness and reducing domestic absorption, the Government will continue to pursue an exchange rate policy that takes account of market forces and is underpinned by tight fiscal and monetary policies. To this end, available indicators in respect of the parallel exchange market, the free market for foreign currency notes, and the discount in the import authorization auctions will be taken into account. The system of auctions of import authorizations introduced in February 1993 has so far been applied only to a portion of the imports financed by the BCM. Consistent with the objective of moving toward unification of the exchange rates before December 1994, auctions of import authorizations will be extended. From July 1, 1994, no more separate auctions will be held for specific groups of products. At the same time, the auctions will be extended to cover all imports except petroleum products and imports by the fishing sector and SNIM. The eventual integration of the first two categories in the auction process will be reviewed at the time of the next Article IV consultation.

18. To consolidate the liberalization of the exchange system, the Government will unify the exchange rates before December 1994. Significant steps were taken in March 1994, when commercial banks were allowed to hold foreign currency deposits in accounts that the Central Bank opened abroad in its name. Exporters were authorized to retain part of their export proceeds in foreign currency denominated accounts with banks in Mauritania for subsequent payment of imports. These portions will be raised before end-October 1994 from 5 percent to 10 percent in the case of exports of services and from 10 percent to 20 percent in the case of exports of goods. Beginning in July 1994 the Central Bank will contain the spread between the official, the commercial bank exchange rate for banknotes and traveler's checks, and the rate for foreign currency accounts to no more than 4 percent. This limiting of the spread will be achieved through more frequent adjustments, as needed, of the official rate, or by the exceptional buying/selling of foreign exchange by the BCM in the market for banknotes and traveler's checks. The elimination of external arrears and unification of the exchange rates will result in the removal of remaining exchange

restrictions on current account transactions; in light of progress in these areas, an appropriate calendar for moving toward acceptance of Article VIII status will be agreed before end-September 1994.

Financial sector reform

19. The Government will commence prior to end-June 1994 the periodic auctioning of treasury bills along the lines recommended by the recent IMF technical assistance mission. As foreseen in the program, the creation of a market for treasury bills will serve as an important instrument for the Government's management of its debt as well as for the conduct of monetary policy. The formation of a Monetary and Budgetary Policy Committee will ensure close coordination between the Central Bank and the Ministry of Finance in determining the timing and amounts of auctions. In addition to providing scope for reducing excess bank liquidity, treasury bill auctions will contribute to the establishment of a market-based system of interest rate determination. By end-September 1994, the Central Bank will create a treasury bill discount window, with the discount rate determined in light of the actual treasury bill rates at the auctions during the preceding four weeks.

20. Minimum interest rates are currently in place for 3-month deposits (5 percent), 6-month deposits (7.5 percent) and 12-month deposits (9 percent). In order to enhance the role of market forces, the minimum interest rate on 12-month deposits will be abolished before the end of June 1994 and the minimum rate on 6-month deposits lowered to 7 percent. While ensuring that positive real interest rates are maintained, the Central Bank will review the possibility of further reducing the limits on deposit rates in light of actual and expected inflation and taking into account the need to support exchange rate policy.

21. The substantial progress in commercial bank reform already achieved will be consolidated during the remainder of 1994 and will make use of technical assistance from the IMF. The focus will be on strengthening the Central Bank's supervisory capability and on loan recovery. The agency in charge has recovered nonperforming loans taken over by the Government from the former UBD totaling UM 105 million during January-April 1994. While the original target of UM 1 billion for all of 1994 set by the Government--compared with an annual target of UM 200 million included in the program--may prove ambitious, efforts will be redoubled to accelerate the pace of recovery and achieve UM 600 million in 1994 as a minimum. The portfolio of bad loans of the BNM (UM 7 billion) will be taken over by the recovery agency by end-June 1994. A program for buy-backs of unsecured commercial debt taken over by the Government is under preparation in close cooperation with the World Bank. The Executive Board of the World Bank has approved the proposal for proceeding with hiring of experts to advise the Government on the debt reduction operation.

Fisheries sector reform

22. The fishing sector accounted, in 1993, for 48 percent of Mauritania's total current account receipts (excluding grants). Accordingly, the development of the fisheries sector ranks among the Government's top priorities. Recent setbacks in export proceeds from fish products underline the importance of timely implementation of the Government's action program in this sector. As agreed in the Consultative Group meeting in Paris, the Government will send before June 30, 1994 a letter to international donors interested in the fishing sector inviting them to resume the dialogue on the development of this sector, and indicating its firm intention to arrive at a concerted action plan by end-September 1994.

23. The goal of increased production and employment in the fisheries sector will be pursued by assigning a larger role to the private sector. The private sector's ownership of the SMCP was increased to 50 percent as of end-February 1994, and its commercial director has been appointed by the private sector. The private sector, in cooperation with foreign investors, is expected to engage increasingly in the local processing of fish, enhancing the value added of Mauritania's exports. In order to accelerate this process, the Government will propose a revision of the legal code governing the fisheries sector for Parliamentary approval before end-1994. It is expected that the revised law will become effective by February 1995. The labor-intensive artisanal fishing sector is being developed through various initiatives, centered on training, building crews, and the provision of small boats.

24. Other goals of the Government's fisheries policy are to optimize the management of Mauritania's fishing grounds in order to preserve their long-term value and allow the transfer of a share of the economic rent to the Government by putting in place a tax system that is efficient, nondistortionary, and enforceable. For this purpose, the Government has already imposed limitations on fishing gear and equipment including a ban on nets with a mesh size under 70 millimeter; strict enforcement on the part of the DCP is in place. The measure to regulate ship chandlers, originally foreseen by June 1994, will be part of the revision of the legal code covering the sector. The Government is firmly committed to the progressive replacement of the export tax system by a system of rights of access to resources for all industrial fishing. Beginning in September 1994 the existing export tax system for pelagic fishing will be replaced by a public auction-based licensing system. Beginning January 1, 1995, and over a period of three years, the export tax system for demersal and cephalopod will be replaced by a system of access rights, in accordance with the conclusions of the study by the consulting firm Maxwell and Stamp, and consistent with the aim of achieving transparency, efficiency, and the assurance of an adequate level of government revenue. To this end, by November 30, 1994, the Government will specify the procedures for the allocation of access rights for these two species. Before the end of September 1994, an additional 15 percent of the SMCP's equity will be

offered to the private sector and the control of exports of the fisheries sector will be reinforced through the use of agents of a qualified inspection firm.

Other structural reforms

25. During the first semester of 1994, the reform of the public enterprise sector has proceeded as scheduled, notably through the signature of the performance contract with the OPT, the implementation of the emergency action plan for Air Mauritanie, and the liquidation of the transportation company STPN. Actions envisaged for the second semester to further reform the sector include the initiation of the privatization of the gypsum company SAMIA and the decision to liquidate the fisheries company ALMAP by end-December 1994 in the absence of interested buyers. The Government is putting in place a framework program for the fight against poverty, which will promote employment through the development of micro and small enterprises, improve food security, and redirect social expenditure to the vulnerable groups. Recognizing the need to restructure public expenditure, the Government will conduct the second full public review of current and capital expenditure with the World Bank, during the last quarter of 1994.

Program monitoring

26. Performance under the 1994 program will continue to be closely monitored. The prior actions that will be undertaken before the distribution of the staff report to the Executive Board are listed in Table 1. By July 8, 1994, the Government of Mauritania will inform the Managing Director of the IMF of the completion of these actions. Benchmarks for implementation of structural policies outlined in this letter are presented in Table 2. The program's proposed quantitative benchmarks for the rest of 1994 are shown in Table 3 for (a) the net domestic assets of the banking system; (b) net bank credit to the Government; (c) the overall deficit of the consolidated central government operations; (d) the government wage bill; (e) the reduction in external payment arrears and avoidance of accumulation of new ones; (f) new public sector borrowing on nonconcessional terms; (g) short-term debt of the commercial banks; and (h) the level of the Central Bank's net foreign liabilities. The holding of a first treasury bill auction prior to June 30, 1994 is a performance criterion under the program.

27. The Government of Mauritania believes that the policies set forth above are adequate to achieve the objectives of the program, but will take any further measures that may prove necessary for this purpose. During the remainder of the arrangement period, the Government will consult with the Managing Director of the IMF either at its own initiative or whenever the Managing Director of the IMF requests such consultation on the adoption of any additional measures that may be appropriate. Moreover, after the period of the arrangement and while Mauritania has outstanding financial obligations to the IMF arising from loans under that arrangement, the Government will consult with the IMF from time to time at Mauritania's initiative or whenever the Managing Director requests such consultations, on

Mauritania's economic and financial policies. The Government will provide the International Monetary Fund with such information as it may request in connection with monitoring the progress made in implementing the economic and financial policies and in achieving the objectives of the program.

Sincerely yours,

/s/

Mohamedou Ould Michel
Governor of the Central Bank

Table 1. Mauritania: Prior Actions

The following measures will be taken before July 1, 1994:

- Implementation of periodic treasury bill auctions. 1/

- Adoption of a Budget Supplement containing detailed revenue and expenditure measures totaling UM 1.77 billion.

- Sending a letter to international donors interested in the fishing sector inviting them to resume the dialogue on the development of the sector, and indicating the Government's firm intention to arrive at a concerted action plan by end-September 1994.

- Announcement of the extension of the system of auctions of import authorizations to cover all imports except petroleum products and imports by the fishing sector and SNIM, and termination of auctions for specific groups of products.

- Transfer of bad loans of the BNM (approximately UM 7 billion) to the Loan Recovery Agency.

- Elimination of minimum interest rate on 12-month time deposits and lowering of minimum level on 6-month deposits to 7 percent.

The Mauritanian authorities will inform the Managing Director before July 8, 1994 that the above measures have been taken and will provide information on their main elements.

1/ Structural performance criterion.

Table 2. Mauritania--Structural Benchmarks Included in the ESAF Arrangement; June-December 1994

1.	Implementation of periodic treasury bill auctions. 1/	June 30, 1994
2.	Limiting the spread between the official, the commercial bank exchange rate for bank notes and traveler's checks, and the commercial bank exchange rate for foreign currency accounts to 4 percent.	June 30, 1994
3.	Offering for sale to the private sector an additional 15 percent of the equity of the SMCP.	September 1, 1994
4.	Privatization of the newly created company holding SMAR's sound assets:	
	(i) sale of 66 percent	September 30, 1994
	(ii) sale of the remaining 34 percent	December 31, 1994
5.	Agreement on a calendar for moving toward acceptance of Article VIII status.	September 30, 1994
6.	Participation by agents of a qualified inspection firm in the control of exports of the fisheries sector.	September 30, 1994
7.	Preparation by the Central Bank of:	
	(i) a catalog of commercial bank borrowers belonging to a single group consisting of affiliated enterprises	October 31, 1994
	(ii) bringing outstanding claims of commercial banks on the afore-mentioned borrowers within the legal limits	December 31, 1994
8.	Unification of the exchange rate	November 30, 1994
9.	Replacement of the export tax system of the fishing sector by a system of licensing/access rights for industrial fishing:	
	(i) introduction of a system of auctioned licenses for pelagic fishing	September 1, 1994
	(ii) specification of procedures for allocation of "access rights" for cephalopod and demersal consistent with the aim of achieving transparency, efficiency, and the assurance of an adequate level of government revenue.	November 30, 1994
	(iii) gradual replacement of the export tax system for cephalopod and demersal by a system of access rights.	Beginning December 31, 1994
10.	Introduction of a territorial fee for artisanal fishing.	December 31, 1994
11.	Approval by Parliament of revised legal code for fishing sector.	December 31, 1994

1/ Structural performance criterion.

Table 3. Mauritania: Quantitative Benchmarks for the 1994 Program 1/

	Est.	Indicative Quantitative Benchmarks		
	March 1994	June 1994	Sept. 1994	Dec. 1994
		(In millions of ouguiyas)		
Net domestic assets 2/	55,915	56,060	55,250	46,550
Net credit to the Government	9,550	9,700	8,690	6,109
Government wage bill 3/	1,880	3,540	5,137	6,700
Overall balance of consolidated Government operations 3/	-1,660	-4,110	-4,200	-3,090
		(In millions of SDRs)		
Arrears on external public debt	60.7	66.6	73.6	--
Arrears on external short-term private debt	68.2	68.2	68.2	--
Increase in short-term debt of commercial banks 3/ 4/	--	--	--	--
New nonconcessional external loans contracted or guaranteed by the Government 3/				
- less than one year 4/	--	--	--	--
- 1-15 years maturity	--	--	--	--
Net foreign liabilities of the Central Bank	120.6	129.8	131.8	93.8

Source: Mauritanian authorities; and Fund staff estimates.

1/ The benchmarks will be adjusted as explained in Table 4.
2/ Based on accounting exchange rate of UM 171.7 per SDR.
3/ Cumulative flows since January 1, 1994.
4/ Excluding short-term import credits.

Table 4. Mauritania: Adjustment Factors for the Quantitative Benchmarks, 1994 1/

	June	Sept.	Dec.
		Benchmarks	
		(In billions of ouguiyas)	
Net domestic assets			
Projected debt payments: current maturities and arrears reduction 2/	8.65	11.62	19.49
Net bank credit to Government			
Loan recovery	0.22	0.26	0.30
Overall balance of consolidated government operations			
Interest due on external debt	1.33	2.02	2.49
Bank reform outlays	0.25	0.25	0.25
Extra-budgetary	1.99	3.30	4.60
Program-related financing	4.64	4.76	6.72
Loan recovery	0.22	0.26	0.30
Privatization proceeds	0.13	0.13	0.53
		(In millions of SDRs)	
Net foreign liabilities of the Central Bank			
Projected debt payments: current maturities and arrears reduction 3/	50.4	67.7	113.5

Sources: Mauritanian authorities; and Fund staff estimates.

1/ Cumulative amounts from January 1, 1994; benchmarks will be lowered for shortfalls from amounts in table, except in the case of loan recovery and privatization proceeds where benchmarks will be lowered for the excess of loan recovery and privatization proceeds above the amounts in table.

2/ Same adjustment factor as for the net foreign liabilities of the Central Bank converted into ouguiyas at the exchange rate of UM 171.7 = SDR 1.

3/ Projected payments: (in millions of SDRs)

	QI	QII	QIII	QIV	Total
Current maturities: interest	8.0	6.0	6.7	14.4	35.1
Current maturities: amortization	15.8	15.8	10.6	17.9	60.1
Arrears reduction	4.8	--	--	13.5	18.3
Total	28.6	21.8	17.3	45.8	113.5