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December 28, 1993

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Staff Report for the 1993 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1993 Article IV consultation with Mauritania and its request for arrangements under the enhanced structural adjustment facility. Draft decisions appear on page 27 and 28.

This paper, together with the policy framework paper for Mauritania (EBD/93/190, 12/28/93), is tentatively scheduled for discussion on Wednesday, January 26, 1994.

Ms. Valdivieso (ext. 38516) or Mr. Salehizadeh (ext. 37318) 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 European Communities (EC) and the GATT Secretariat, following its consideration by the Executive Board.

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MAURITANIA

Staff Report for the 1993 Article IV Consultation and Request for Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the Middle Eastern and Policy Development and Review Departments

(In consultation with other Departments)

Approved by M. Knight and C. Puckahtikom

December 22, 1993

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I. Introduction

On December 9, 1992 the Fund completed the 1992 Article IV consultation with Mauritania and approved a 24-month ESAF arrangement in an amount of SDR 33.9 million (71 percent of the current quota) along with the first annual arrangement thereunder. 1/ In concluding the consultation (EBM/92/148, 12/9/92) Executive Directors welcomed the comprehensive adjustment and economic reform program and urged its steadfast implementation to help restore external viability and lay the basis for sustained economic growth.

Discussions for the 1993 Article IV consultation 2/ and negotiations for the second annual ESAF arrangement were held in Nouakchott during October 14-27, 1993. The Mauritanian representatives included the Governor of the Central Bank (Mr. Ould Michel), the Ministers of Finance and Planning (Mr. Kane Cheikh and Mr. Taki Ould Sidi), and other senior officials. 3/ In the attached letter to the Managing Director dated December 20, 1993, the Government proposes economic policies and benchmarks for 1994 and requests the second annual arrangement under the ESAF (Attachments I and II). In collaboration with the staffs of the Fund and the World Bank, the authorities have prepared an updated policy framework paper (PFP) for 1994-96 (EBD/93/190). 4/

The mid-term review of the first-year program was completed on July 26, 1993 (EBS/93/105). As of October 31, 1993, Mauritania's outstanding use of Fund resources amounted to SDR 47.1 million, equivalent to 99 percent of quota, all under SAF and ESAF arrangements. Following disbursement of the loans under the second year arrangement (SDR 16.95 million), Mauritania's obligations to the Fund at end-1994 would amount to 123.8 percent of quota (Table 1).

During 1990 to mid-1992 the authorities relaxed their adjustment effort at a time of reduced export earnings and a fall in foreign assistance. Fiscal policy was expansionary and the resulting imbalances gave rise to external arrears. Bank lending to the private sector, mainly fisheries

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1/ The resources available under the two-year arrangement represent the undrawn balance under the original three-year ESAF arrangement that expired on May 24, 1992.

2/ Mauritania is on the 12-month consultation cycle and has availed itself of the transitional arrangements of Article XIV. Further information on relations with the Fund is given in Appendix I.

3/ The staff representatives were Mr. Ghesquiere (Head--MED), Ms. Valdivieso (MED), Messrs. Salehizadeh (MED), Cartiglia (PDR), and Dorval (staff assistant--MED). World Bank staff participated in most of the discussions. Mr. Sarr, advisor to Mr. Santos, attended the policy meetings.

4/ The World Bank supports structural adjustment in Mauritania through various sectoral loans. For details, see Appendix IV.

Table 1. Mauritania: Fund Position During Period of the Enhanced Structural Adjustment Facility Arrangement

	Outstanding as of Oct. 31, 1993	1993 Nov. – Dec.	1994 Jan. – March	April – June	July – Sept.	Oct. – Dec.
			(In millions of SDRs)			
1. Structural adjustment facility loan (repayments)		–1.02	–0.68	–1.02	–0.68	–1.36
2. Enhanced structural adjustment facility loans		– –	8.48	– –	8.48	–0.51
Drawings		– –	8.48	– –	8.48	– –
Repayments		– –	– –	– –	– –	–0.51
3. Total Fund credit outstanding 1/ (end of period)	47.10	46.08	53.88	52.86	60.66	58.79
Under tranche policies	– –	– –	– –	– –	– –	– –
Under special facilities	– –	– –	– –	– –	– –	– –
Under structural adjustment facility	13.20	12.18	11.51	10.49	9.81	8.45
Under enhanced structural adjustment facility	33.90	33.90	42.38	42.38	50.85	50.34
			(In percent of quota)			
4. Total Fund credit outstanding 1/ (end of period)	99.2	97.0	113.4	111.3	127.7	123.8
Under tranche policies	– –	– –	– –	– –	– –	– –
Special facilities	– –	– –	– –	– –	– –	– –
Under structural adjustment facility	27.8	25.6	24.2	22.1	20.7	17.8
Under enhanced structural adjustment facility	71.4	71.4	89.2	89.2	107.1	106.0

Source: IMF, Treasurer's Department.

1/ Including loans from ESAF trust.

companies, accelerated despite loan repayment difficulties, leading to insolvency of some banks. To address these problems, the economic program supported by the current two-year ESAF arrangement is directed at a reduction of domestic and external imbalances, elimination of arrears, rehabilitation of the ailing banking sector, and strengthening of Mauritania's productive potential through structural reform, particularly in the fisheries sector.

II. Assessment of Performance in 1993

Since the program began in October 1992 there have been significant achievements. An upfront depreciation of the currency (27 percent) supported by firm demand restraint led to gains in external competitiveness that have since been maintained as consumer prices stabilized (Chart 1). 1/ The rate of price increase during 1993 is estimated at 10 percent on average, compared with a target in the program of 13.9 percent; the annual rate of inflation is expected to fall below 5 percent by December 1993 (Table 2 and Chart 2). Economic growth is estimated to reach 5 percent in 1993 (3.5 percent in the program) spurred by higher production of iron ore, the impact of abundant rains on agriculture that is expected to outweigh locust damage, and some improvement in the fish catch.

At the time of the mid-term review, the projected level of government expenditure was revised upward to incorporate the higher than initially expected costs of bank restructuring (UM 8.9 billion, equivalent to US$75 million or 7.6 percent of GDP), which had been difficult to estimate in advance. To offset this fiscal cost overrun, the Government firmed its policy stance in June 1993 through additional revenue measures (increased taxes on gasoline and tobacco products and higher profit transfers from public enterprises) and postponement of certain capital and restructuring expenditures, with the aim of containing the overall deficit in 1993 to UM 12.8 billion (11 percent of GDP) (Table 3 and Chart 3). Monetary policy was tightened in midyear to avert a spill over of financing of government expenditure for commercial bank reform into higher money growth and in order to underpin external adjustment (Table 4). Thus, the revised monetary program for 1993 called for a contraction of net domestic assets of the banking system of UM 6.4 billion (23 percent of beginning money stock), including through prudent extension of credit to the private sector, and based on the assumption of a fall in broad money of 3 percent.

Although fiscal and monetary policies remained broadly on track, quantitative benchmarks for end-September 1993, including for the overall government deficit, the net domestic assets, net credit to the Government, and the net foreign assets of the banking system were missed by relatively small margins. These benchmarks would have been observed in the absence of

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1/ As of September 1993 the depreciation of the ouguiya in real effective terms amounted to 22 percent over the preceding 12 months.

Table 2. Mauritania: Selected Economic and Financial Indicators, 1991-98

	1991	Est. 1992	Revised Prog. 1/ 1993	Revised Proj. 1993	Prog. 1994	Projections 1995	1996	1997	1998
			(Annual percentage changes, unless otherwise noted)						
National income and prices									
GDP at constant prices	2.6	1.7	3.3	4.9	4.3	3.4	3.1	3.2	3.3
GDP deflator	9.8	10.0	9.3	7.3	3.6	3.9	3.4	3.5	3.5
Consumer price index (period average)	5.6	10.1	11.5	10.0	3.2	3.8	3.5	3.5	3.5
External sector									
Exports, f.o.b. (in SDRs)	2.9	-8.1	2.8	2.6	4.3	4.8	3.9	3.5	4.9
Imports, c.i.f. (in SDRs)	-6.3	5.8	-3.7	-9.6	-9.2	-0.8	-1.1	5.0	6.5
Export volume	-4.0	-7.1	9.8	11.9	2.9	--	2.2	2.7	2.2
Import volume	-5.0	8.4	-5.1	-11.7	-9.2	-4.3	-3.1	2.5	4.1
Terms of trade	8.1	0.1	-8.0	-10.4	1.8	1.0	-0.6	-1.6	0.4
Nominal effective exchange rate (depreciation -) 2/	12.4	-11.0	-10.6	-16.0	...	...	...	...	...
Real effective exchange rate (depreciation -) 2/	0.1	-13.4	-22.0	-23.5	...	...	...	...	...
Consolidated government operations									
Total revenue (excluding grants)	1.6	-2.0	50.1	46.9	7.9	9.0	8.9	7.4	7.0
Total expenditure and net lending 3/	2.1	-3.9	67.2	64.7	-15.0	-4.5	3.2	3.4	3.8
Money and credit									
Net domestic assets 4/	26.3	6.1	-23.4	-15.0	-34.3	...	...	...	...
Domestic credit 4/	18.8	0.9	3.3	7.3	-10.2	...	...	...	...
Credit to the Government 4/	1.9	-2.4	7.3	5.1	-11.7	...	...	...	...
Credit to the economy 4/	16.9	3.3	-4.0	1.5	1.8	...	...	...	...
Money and quasi-money (M2) 4/	9.3	7.2	-2.6	3.3	3.9	...	...	...	...
Velocity (GDP relative to M2)	3.6	3.8	4.3	4.1	4.3	...	...	...	...
Interest rate 5/	9.5	9.5	...	...	...	...	...	...	...
				(In percent of GDP)					
Investment and savings									
Gross capital formation	17.9	22.5	25.4	24.8	18.1	16.6	16.9	17.2	17.6
Domestic savings	10.0	9.3	13.8	12.7	11.6	13.2	15.3	15.3	15.7
National savings	3.2	6.0	6.9	5.5	5.7	7.8	10.6	11.2	12.0
Consolidated government operations									
Revenue, excluding grants	22.2	19.5	25.8	25.4	25.3	25.7	26.2	26.4	26.4
Expenditure and net lending 6/	28.9	24.9	36.7	36.3	28.6	25.4	24.6	23.9	23.1
Of which:									
Bank restructuring	0.7	--	6.6	6.7	0.2	--	--	--	--
Overall surplus or deficit (-) 7/	-6.7	-5.4	-10.9	-11.0	-3.3	0.3	1.6	2.5	3.3
Overall surplus or deficit (-) 8/	-5.1	-2.8	1.5	0.2	-0.2	2.0	3.3	5.0	5.4
Primary balance (deficit-)	-4.1	-2.4	-7.2	-7.0	-0.2	3.2	4.5	5.2	5.7

Table 2 (concluded). Mauritania: Selected Economic and Financial Indicators, 1991-98

	1991	Est. 1992	Revised Prog. 1/ 1993	Revised Proj. 1993	Prog. 1994	Projections 1995	1996	1997	1998
				(In percent of GDP)					
External sector									
Current account balance									
Excluding official transfers	-14.7	-16.6	-18.5	-19.3	-12.4	-8.8	-6.2	-5.9	-5.5
Including official transfers	-7.4	-8.8	-5.2	-6.0	-1.9	-0.5	1.9	2.1	2.4
Debt outstanding	156.7	161.8	191.8	201.0	190.4	179.3	169.6	160.3	151.4
Debt service ratio before debt relief 9/	34.7	41.8	40.6	41.4	30.5	33.6	32.1	30.4	28.9
Of which:									
On Fund resources	3.2	2.2	1.6	1.7	1.5	2.0	2.1	1.7	1.5
Debt service ratio after debt relief 9/	33.7	40.7	23.4	28.1	22.6	18.9	19.7	18.8	18.1
				(In millions of SDRs, unless otherwise specified)					
Exports f.o.b.	320	294	303	302	315	330	343	354	372
Imports c.i.f.	307	325	313	294	266	264	261	275	292
Current account deficit (excluding grants)	-122	-140	-133	-133	-90	-68	-50	-51	-50
Overall balance (deficit,-)	-100	-61	3	-2	-3	-36	-15	-15	-14
Gross official reserves (in months of imports)	1.2	1.2	1.7	1.4	1.9	2.1	2.3	2.5	2.8
Memorandum item:									
Nominal GDP (in billions of ouguiyas)	92.6	103.6	117.4	116.6	126.0	135.4	144.3	154.1	164.9

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

1/ As shown in EBS/93/105.
2/ Based on the Information Notice System (INS). Data refer to end of period; for 1993 they refer to the 12-month period ended September 1993.
3/ Includes treasury operations (commitment basis) and expenditures financed through external grants and loans.
4/ Annual changes in percent of broad money at the beginning of the period.
5/ Interest rates on savings deposits of over one year.
6/ Includes restructing operations.
7/ Includes restructuring operations; excludes grants.
8/ Excludes the additional impact of the bank reform (1993 and 1994) and classifies grants as revenue.
9/ As a percentage of exports of goods and services; including the Fund.

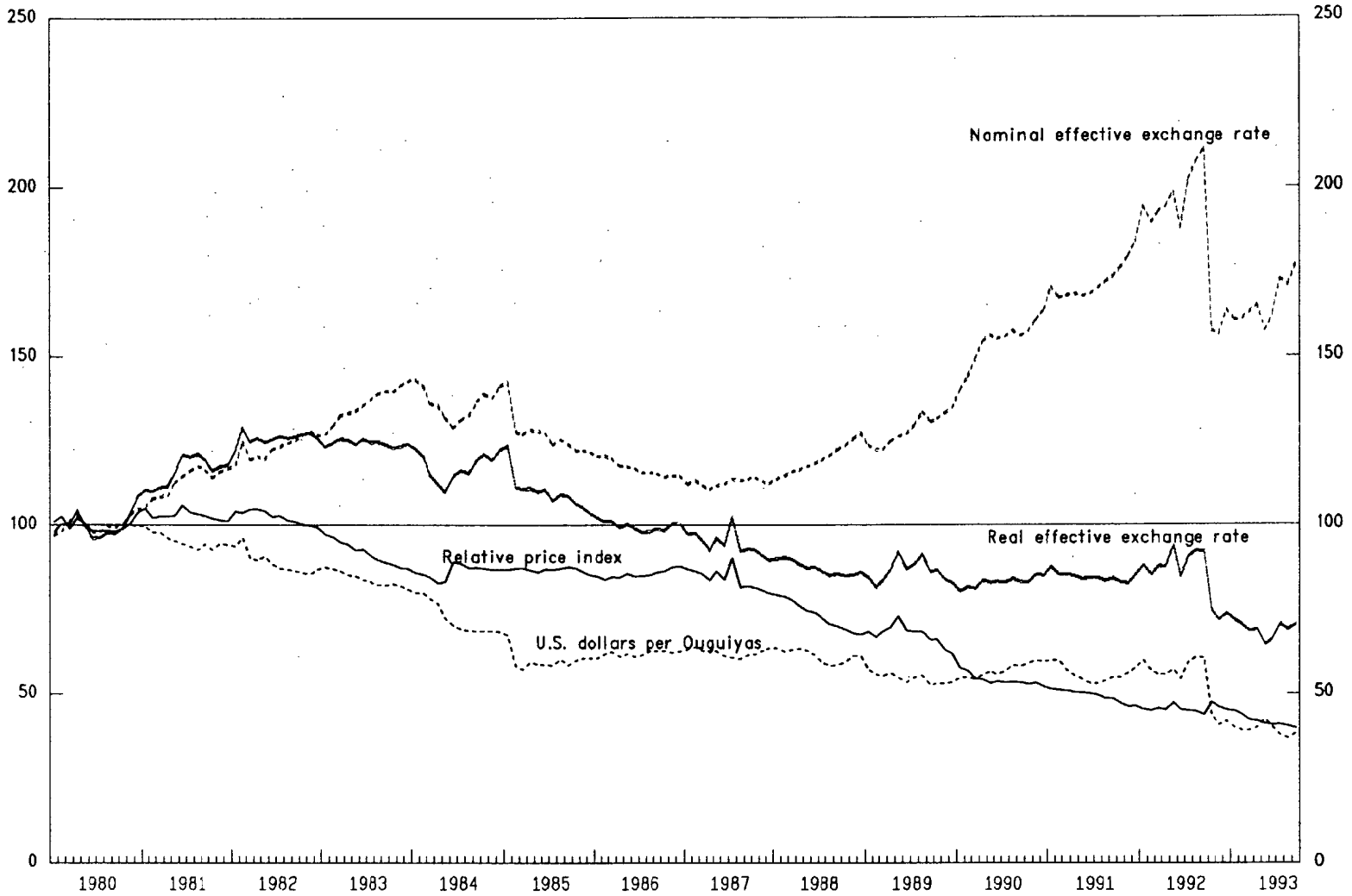
Table 3. Mauritania: Consolidated Financial Operations of the Government, 1991–94

	1991	Est. 1992	Rev. Prog. 1993 1/	Rev. Proj. 1993	Prog. 1994
		(In billions of ouguiyas)			
Revenue	20.56	20.14	30.24	29.59	31.93
Tax receipts	15.33	17.06	21.95	21.91	25.51
Nontax receipts	4.39	4.01	6.31	6.16	5.92
Other	0.84	–0.93	1.98	1.52	0.50
Expenditure and net lending	26.78	25.73	43.04	42.38	36.04
Current expenditure	20.78	19.49	23.55	22.99	22.76
Wages and salaries	5.42	5.96	6.44	6.44	6.70
Goods and services	4.65	4.87	5.97	5.57	5.93
Transfers and subsidies	2.13	1.84	2.13	2.13	2.20
Military expenditure	3.23	3.43	3.64	3.64	3.64
Interest on public debt	2.40	3.14	4.34	4.57	3.79
Other	2.95	0.25	1.02	0.64	0.50
Capital expenditure and net lending	6.00	6.24	19.49	19.39	13.28
Fixed capital formation	4.75	4.70	7.85	7.43	8.67
Restructuring and net lending	1.25	1.54	11.64	11.96	4.61
Restructuring public enterprises	0.53	1.44	2.32	2.70	4.06
Commercial bank reform	0.65	– –	7.79	7.79	0.25
Other restructuring operations	– –	– –	0.15	0.15	0.15
Other	0.07	0.10	1.38	1.32	0.15
Overall surplus/deficit (–)	–6.22	–5.59	–12.79	–12.79	–4.11
Financing	6.22	5.59	12.79	12.79	4.11
External (net) 2/	0.06	0.57	5.47	5.87	5.72
Grants	1.54	2.73	6.68	5.28	3.64
Loans	–1.48	–2.16	–1.21	0.59	2.08
Domestic (net)	0.79	–0.99	3.20	2.23	–3.66
Banking system	0.44	–0.61	2.04	1.47	–3.39
Other	0.35	–0.38	1.16	0.76	–0.27
Exceptional external financing	5.37	6.01	4.12	4.69	2.05
Memorandum item:					
Nominal GDP	92.6	103.6	117.4	116.6	126.0
		(As percent of GDP)			
Total revenue	22.2	19.5	25.8	25.4	25.3
Expenditure and net lending	28.9	24.9	36.7	36.3	28.6
Overall surplus/deficit (–)	–6.7	–5.4	–10.9	–11.0	–3.3
Overall balance 3/	–5.1	–2.8	1.5	0.2	–0.1
Primary balance	–4.1	–2.4	–7.2	–7.0	–0.2

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

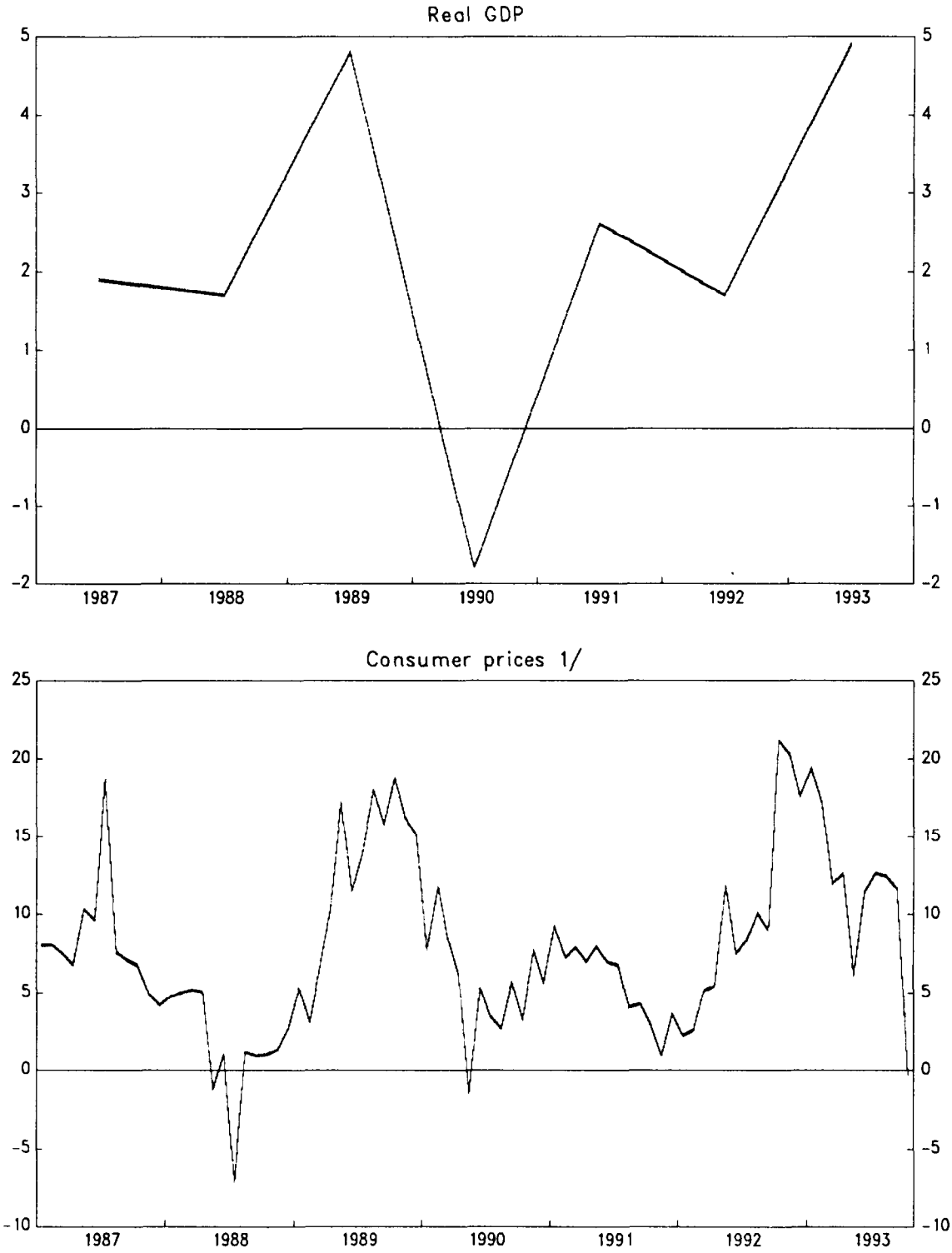
1/ As shown in EBS/93/105.
2/ Excluding exceptional external financing.
3/ Excluding the additional impact of bank reform in 1993 and 1994 and classifying grants as revenue.

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



Source: International Monetary Fund, Information Notice System.

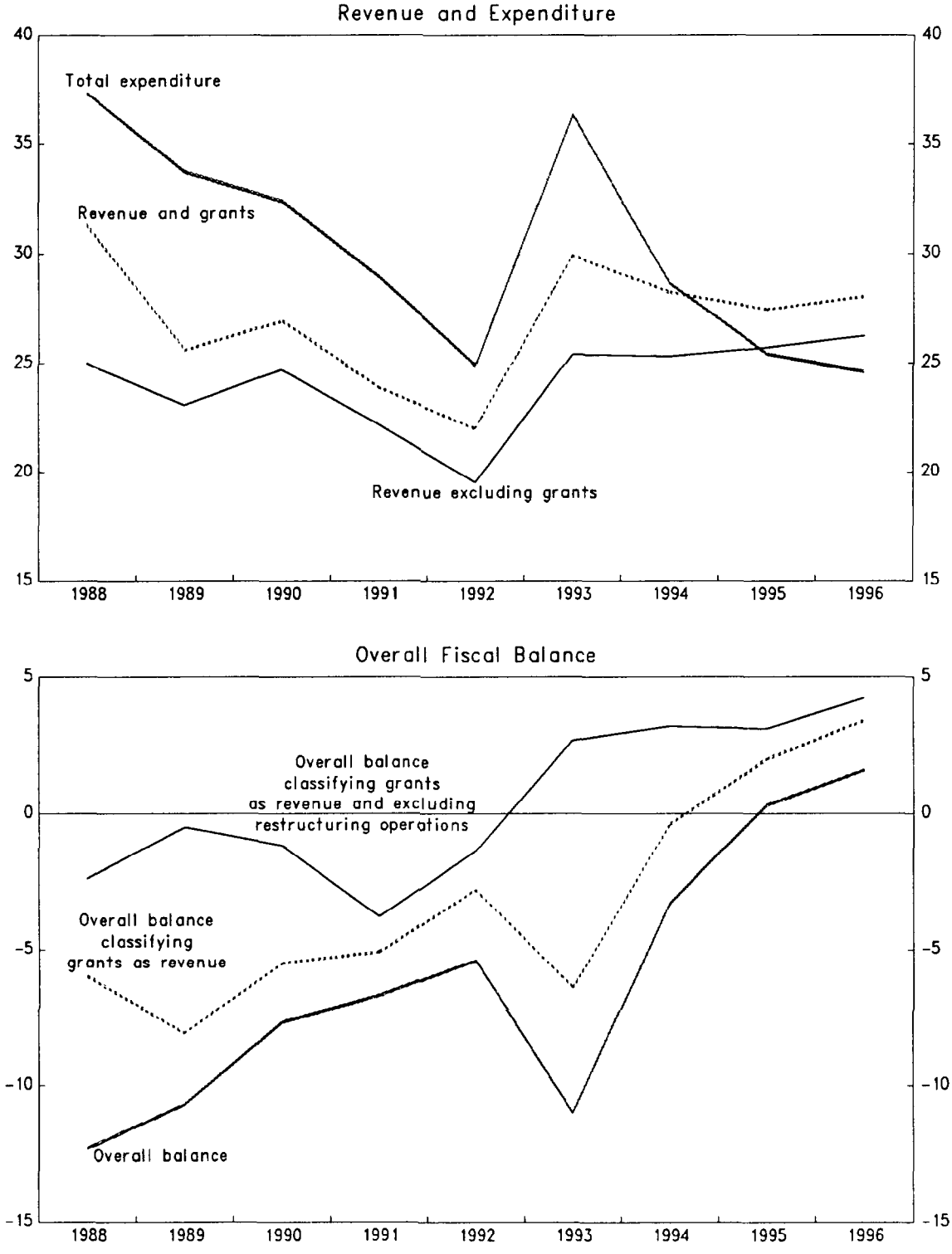
CHART 2
MAURITANIA
DEVELOPMENTS IN OUTPUT AND PRICES
(Annual percentage changes)



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

1/ Percent change over preceding twelve months.

CHART 3
MAURITANIA
FISCAL DEVELOPMENTS AND PROJECTIONS
(In percent of GDP)



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

Table 4. Mauritania: Flow of Funds – Revised Projections for 1993

(As percent of GDP)

	External Sector	Central Government	SNIM	Households and enterprise sector excluding SNIM	Banking Sector
Savings minus investment	–19.2	–10.9	–4.2	–9.2	5.1
Financing	19.2	10.9	4.2	9.2	–5.1
External					
Loans and official transfers 1/	23.6	9.0	5.9	8.7	– –
Direct investment	2.1	– –	– –	– –	2.1
Net foreign assets (increase –)	–6.5	– –	– –	– –	–6.5
Domestic	– –	– –	– –	– –	– –
Banking sector	– –	– –	– –	– –	– –
Loans	– –	1.3	– –	0.7	–2.0
Money and quasi–money	– –	– –	–1.7	1.0	0.7
Other financial assets 2/	– –	– –	– –	–0.6	0.6
Other sources	– –	0.7	– –	–0.7	– –

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

1/ The amounts shown under households and enterprise sector include official grants not allocated to the Government, covering notably food aid and technical assistance in an amount estimated at 6.9 percent of GDP.
2/ Acquisition by the private sector of equity in banking system.

built-in automatic adjusters for larger than expected foreign assistance during the third quarter and smaller than programmed outlays for external debt service, structural reform of the banking system, and foreign financed investment (Table 5). 1/ A portion of the amounts for which the benchmarks were adjusted was spent to compensate for a shortfall during the third quarter in receipts of fishing rights from EU countries. Based on the authorities' decision to compensate this shortfall, if it persists, through a reduction in expenditures during the fourth quarter, the fiscal and monetary targets for December 1993 were kept largely unchanged from those discussed during the mid-term review. The main exception is broad money growth which is now projected to reach 3 percent during 1993, largely reflecting a steeper reduction in the banking system's net foreign liabilities (Table 6).

The depreciation of the ouguiya paved the way for a liberalization of the exchange system. To enhance the role of market forces, a freely determined exchange rate for foreign currency banknotes and traveler's checks was introduced in late 1992 along with the existing official rate which is pegged to a basket of currencies. It was understood that the exchange rate system would be unified before the expiration of the two-year ESAF arrangement. Also, an auction system for import authorizations began operating in early 1993. Since the last Article IV consultation, Mauritania has eliminated the preferential exchange rate for workers' remittances and the multiple exchange rate practice that resulted therefrom. The exchange restriction on payments and transfers for current international transactions that was maintained in accordance with the transitional arrangements under Article XIV, Section 2, was eliminated in March 1993, when commercial banks were allowed to sell unlimited amounts of foreign banknotes and traveler's checks for bona fide travel, study, and medical requirements (Attachment V).

Notwithstanding tight demand management and a more competitive exchange rate that have prevailed during 1993, prospects are that the external current account deficit (excluding official grants) will be narrowed by only SDR 7 million to SDR 133 million (19.3 percent of GDP), compared with a target of SDR 95 million in the original program (Table 7). The more limited progress in external adjustment is attributable to several factors, including: weak export prices for iron ore and a 30 percent fall in the price of cephalopod, lower receipts of fishing rights, a fall in workers' remittances (partly due to the abolition of the preferential exchange rate), and the import of fishing vessels contracted earlier that had not been incorporated in the program. Inflows of official grants and loans at concessional terms in 1993 are projected to exceed program levels by a substantial margin, mainly reflecting delayed disbursement of World Bank

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1/ The automatic adjusters to the benchmarks reflect the Government's commitment under the ESAF arrangement to save larger than expected debt relief and disbursements of policy-based external assistance and to spend amounts budgeted for bank restructuring and debt service exclusively for their intended purposes.

Table 5. Mauritania: Quantitative Benchmarks for September 1993

	Program		
	Unadjusted	Adjusted 2/	Actual
	(In billions of ouguiyas)		
Net domestic assets 1/	54.62	52.34	52.80
Net credit to the Government 2/	10.94	7.31	8.23
Government wage bill 3/	4.85	4.85	4.85
Overall balance of consolidated government operations 3/ 4/	–7.66	–5.69	–6.66
	(In millions of SDRs)		
External payments arrears on public debt	--	--	54
External payments arrears on short–term private debt	8	8	72
Increase in short–term debt of the commercial banks 3/ 5/	--	--	--
New noncessional external loans contracted or guaranteed by the Government 3/			
Less than 1 year 5/	--	--	--
1–15 years maturity 6/	--	--	--
Net foreign liabilities of the Central Bank 7/	119.9	110.7	117.7

Sources: EBS/93/105; and data provided by the authorities.

1/ Excluding valuation changes; adjustment reflects the nonreplenishment of capital of the Central Bank of Mauritania by the Government to compensate for exchange losses (UM 0.95 billion) and lower than expected external debt payments (UM 1.33 billion).

2/ *Excluding valuation changes; adjustment reflects nonreplenishment of central bank* capital (UM 0.95 billion) and larger than projected policy–based financing (UM 2.68 billion).

3/ Cumulative flow since January 1, 1993.

4/ Adjustment reflects in addition to nonreplenishment of central bank capital, lower than projected extrabudgetary outlays (UM 0.33 billion) and expenditures associated with the reform of the banking system (UM 0.69 billion).

5/ Excludes regular import–related credits.

6/ Excludes rescheduling operations.

7/ The benchmark was adjusted on account of lower than projected payments on external debt (including arrears).

Table 6. Mauritania: Summary of Monetary Survey, 1991–93

(In billions of ouguiyas; end of period)

	1991	Dec. 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 3/	Projected 2/
Net foreign assets	−23.7	−32.9	−29.5	−30.5	−27.4	−26.9	−26.0	−26.2	−25.0	−23.9	−23.0
Central Bank	−10.7	−20.8	−19.2	−18.0	−19.0	−17.6	−18.0	−17.4	−17.0	−14.3	−14.5
Assets	5.3	6.7	6.9	7.8	3.8	5.2	4.2	5.5	5.2	9.8	9.0
Liabilities	−16.0	−27.5	−26.1	−25.8	−22.8	−22.8	−22.2	−22.9	−22.2	−24.1	−23.5
Commercial banks	−13.0	−12.1	−10.3	−12.5	−8.4	−9.3	−8.0	−8.8	−8.0	−9.6	−8.5
Net domestic assets	49.3	61.3	56.9	61.0	58.2	54.2	53.3	54.6	52.8	50.5	51.2
Domestic credit	49.4	51.9	49.6	51.7	50.6	50.2	49.6	52.0	49.4	50.2	51.6
Net claims on Government	9.6	11.6	9.0	11.1	9.7	9.2	8.2	10.9	8.2	10.6	10.4
Credit to the economy	39.8	40.3	40.7	40.6	40.9	41.0	41.4	41.1	41.1	39.6	41.1
Other items (net)	−0.1	9.4	7.3	9.3	7.6	4.0	3.6	2.6	3.4	0.3	−0.3
Valuation changes	0.3	8.7	8.7	8.7	9.7	8.7	8.7	8.7	9.3	8.7	9.3
Other	−0.4	0.7	−1.4	0.6	−2.1	−4.7	−5.1	−6.1	−5.9	−8.4	−9.0
Money and quasi-money	25.6	28.4	27.4	30.5	30.8	27.3	27.3	28.4	27.8	26.6	28.3
Currency	7.3	8.4	7.9	9.0	9.2	8.4	9.7	9.5	9.3	8.0	9.5
Demand deposits	12.0	13.0	12.3	13.0	12.8	11.3	10.6	11.6	11.5	11.0	11.6
Time deposits	6.3	7.0	7.2	8.5	8.7	7.6	6.9	7.2	7.0	7.6	7.2

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.

Table 7. Mauritania: Balance of Payments, 1991–98

	1991	1992	Rev. Prog. 1993 1/	Rev. Proj. 1993	Projections 1994	1995	1996	1997	1998
				(In millions of SDRs)					
Trade balance	13	–30	–11	8	48	65	81	80	79
Exports, of which:	320	294	303	302	315	330	343	354	372
Iron ore	155	110	110	117	125	133	137	146	153
Fish	162	174	180	171	175	183	193	203	213
Imports, c.i.f.	–307	–325	–313	–294	–266	–264	–261	–275	–292
Services (net)	–123	–129	–122	–136	–133	–131	–133	–134	–134
Nonfactor services	–79	–81	–73	–91	–95	–90	–94	–96	–96
Factor services	–45	–47	–50	–45	–38	–41	–39	–38	–38
Of which: interest payments due	–46	–48	–49	–46	–39	–41	–40	–39	–40
Private unrequited transfers (net)	–11	19	– –	–6	–5	–3	1	4	5
Current account (excluding official transfers)	–122	–140	–133	–133	–90	–68	–50	–51	–50
Official transfers	61	66	95	92	76	64	66	69	72
Adjustment grants	4	14	25	21	8	– –	– –	– –	– –
Other (net)	57	52	71	71	67	64	66	69	72
Current account (including official transfers)	–61	–74	–38	–42	–14	–4	15	18	21
Capital account	–40	14	41	40	11	–32	–31	–34	–36
Direct investment	4	5	15	15	4	4	4	5	5
Official medium– and long–term loans	–18	8	8	24	16	–33	–32	–36	–38
Disbursements	53	85	83	99	61	30	31	28	30
Project loans	41	76	58	66	37	30	31	28	30
Program lending	13	9	25	34	25	– –	– –	– –	– –
Principal due	–72	–77	–75	–75	–45	–64	–63	–64	–68
Other capital and errors and omissions	–25	– –	18	1	–10	–3	–3	–3	–3
Overall balance	–100	–61	3	–2	–3	–36	–15	–15	–14
Financing	100	61	–3	2	3	36	15	15	14
Net foreign assets (excluding arrears)	–11	–5	–13	–22	–18	–15	–24	–27	–30
Central Bank	–21	41	–17	–11	–10	–19	–28	–31	–34
Assets	–10	– –	–20	–6	–13	–6	–14	–19	–26
Liabilities	–11	41	3	–6	3	–13	–14	–12	–8
Use of Fund resources (net)	–10	3	13	4	13	–6	–7	–5	–5
Other	–1	39	–10	–10	–9	–7	–8	–7	–3
Commercial banks	10	–45	4	–11	–8	4	4	4	4
Exceptional financing	111	65	10	24	21	51	39	42	44
Accruals(+)/reductions(–)of arrears	108	62	–305	–233	–72	– –	– –	– –	– –
Debt rescheduling and cancellation 2/	4	4	173	195	– –	– –	– –	– –	– –
Current maturities	4	4	34	43	– –	– –	– –	– –	– –
Arrears	– –	– –	139	152	– –	– –	– –	– –	– –
Financing gap 3/	– –	– –	142	62	93	51	39	42	44
				(In percent of GDP, unless otherwise specified)					
Current account deficit									
Including official transfers	–7.4	–8.8	–5.2	–6.0	–1.9	–0.5	1.9	2.1	2.4
Excluding official transfers	–14.7	–16.6	–18.5	–19.3	–12.4	–8.8	–6.2	–5.9	–5.5
Overall balance	–12.2	–7.2	0.2	–0.3	–0.4	–4.6	–1.8	–1.8	–1.6
Gross official reserves									
In months of imports	1.2	1.2	1.7	1.4	1.9	2.1	2.3	2.5	2.8
In millions of SDRs	47.7	48.0	67.9	53.7	66.7	73.2	80.6	92.2	106.4
Debt service ratio 4/									
Before debt relief	34.7	41.8	40.6	41.4	30.5	33.6	32.1	30.4	28.9
After debt relief (excluding arrears reduction)	33.7	40.7	23.4	28.1	22.6	18.9	19.7	18.8	18.1

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

1/ As shown in EBS/93/105.
2/ Already agreed.
3/ Assumed to be filled through debt relief from bilateral official and private creditors and additional concessional external assistance. The gap for 1994 would be SDR 113 million if exclusion is made of the rescheduling of debt service due in 1994, that was covered under the 1993 Paris Club agreement.
4/ In percent of exports of goods and services, including the IMF.

cofinancing loans whose timing had become difficult to predict. As a result, the overall balance of payments deficit is expected to narrow from SDR 61 million in 1992 to SDR 2 million in 1993.

Progress in addressing the external debt problem has been uneven. On the positive side, a Paris Club rescheduling on enhanced concessional terms (SM/93/54) was agreed in January 1993 covering outstanding arrears and maturities due in 1993 and 1994. Mauritania has been current with these creditors and multilateral agencies since June 1993. In addition, some Middle Eastern and Asian bilateral creditors who are not members of the Paris Club have agreed to reschedule external debt obligations amounting to SDR 28 million. Nevertheless, notwithstanding debt service payments of SDR 8 million during January-September 1993 to other bilateral creditors outside the Paris Club and the formulation of proposals by the Mauritanian Government soliciting relief comparable to Paris Club terms, the benchmark under the program for end-September 1993 was not observed; overdue payments of interest and principal vis-à-vis bilateral creditors other than Paris Club members were SDR 54 million by end-September, 1993. 1/ Progress in clearing arrears on unsecured credits vis-à-vis foreign correspondent banks has also been slower than anticipated. Notwithstanding payment of SDR 28 million during the first nine months of 1993, these arrears remained at SDR 72 million at end-September as the preparation of debt relief proposals took longer than expected. 2/

Significant progress has been achieved in structural reform of the banking sector. Steps taken in 1993 include: the sale by the Government of its minority interest in three of the four commercial banks; capital augmentation of three banks, including through fresh capital infusion from abroad; and the promulgation of a new loan recovery law in February 1993 aimed at facilitating recovery of loan collateral. The UBD was closed in June and its liquidation is well advanced. Audits of the various banks' balance sheets for June 1993 have been completed, a program for loan recovery has been launched, and banking supervision is being strengthened.

As regards other areas of structural reform, pricing of petroleum products and public utility tariffs has been consistent with the need to avoid the re-emergence of subsidies. 3/ The import and sale of rice and tea have been opened to the private sector. Reform of public enterprises has been satisfactory, with significant cost-cutting achieved through

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1/ The Government has contacted all creditors through diplomatic channels proposing debt relief but has received only limited response.

2/ This total includes the external arrears of the four commercial banks in Mauritania for which no domestic currency funds have been paid to the Central Bank (SDR 57 million as of end-September 1993). They also include the overdue external obligations taken over by the Treasury from the former development bank (UBD), a portion of which is under dispute.

3/ Some cross-subsidization of petroleum products occurs, including pricing of diesel for fishing boats and of kerosene below their opportunity costs.

personnel reduction in several enterprises, an increase in equipment repair capacity in the mining company (SNIM), and in fraud reduction in the insurance company (SMAR). 1/ However, the financial performance of Air Mauritania has fallen short of target as tariffs did not keep up with costs. Also, the privatization of SMAR and the partial sale to the private sector of the Fish Export Marketing Corporation (SMCP) foreseen for end-September 1993 have been delayed. A public offering of 50 percent of the equity of the SMCP was only partially subscribed by end-November 1993 and the Government has reopened its offer at a lower price. Progress in these areas is expected to permit disbursement by March 1994 of the final tranche of the World Bank loan in support of public enterprise reform which had originally been expected to take place in 1993.

III. Economic Policies for 1994

As laid out in the authorities' Letter of Intent (Attachment II), the economic adjustment strategy for 1994 envisages a further reduction in inflation to an annual rate of 3.2 percent on average and a narrowing of the external current account deficit (excluding official transfers) to 12 percent of GDP. Tight fiscal and monetary policies are designed to play a key role in containing demand pressures while maintaining external competitiveness and permitting reduced reliance on exchange restrictions. The Government is committed to normalizing relations with foreign creditors following the elimination of external arrears by the end of 1994, including through further substantial debt relief. In the structural area, the program calls for a revitalized banking sector and resumption of financial intermediation; further restructuring and privatization of public enterprises; and reform of the fisheries sector to lay the basis for sustained growth of production and exports.

1. Fiscal and monetary policies

In the discussions for the Article IV consultation and the ESAF negotiations, the authorities were keenly aware that the consolidation of recent gains in lowering inflation, maintaining confidence in the exchange rate policy, and the narrowing of the external current account deficit all hinge critically on the implementation of tight fiscal and monetary policies. With this in mind, the Government has decided to revert in 1994 to the fiscal adjustment path that was laid out in the original program, following the one-time deviations that occurred in 1993 because of the need for expeditious actions on bank reform. Accordingly, the program calls for a reduction in the overall deficit of the consolidated government operations from 11 percent of GDP in 1993 to 3.3 percent of GDP in 1994 (Chart 4).

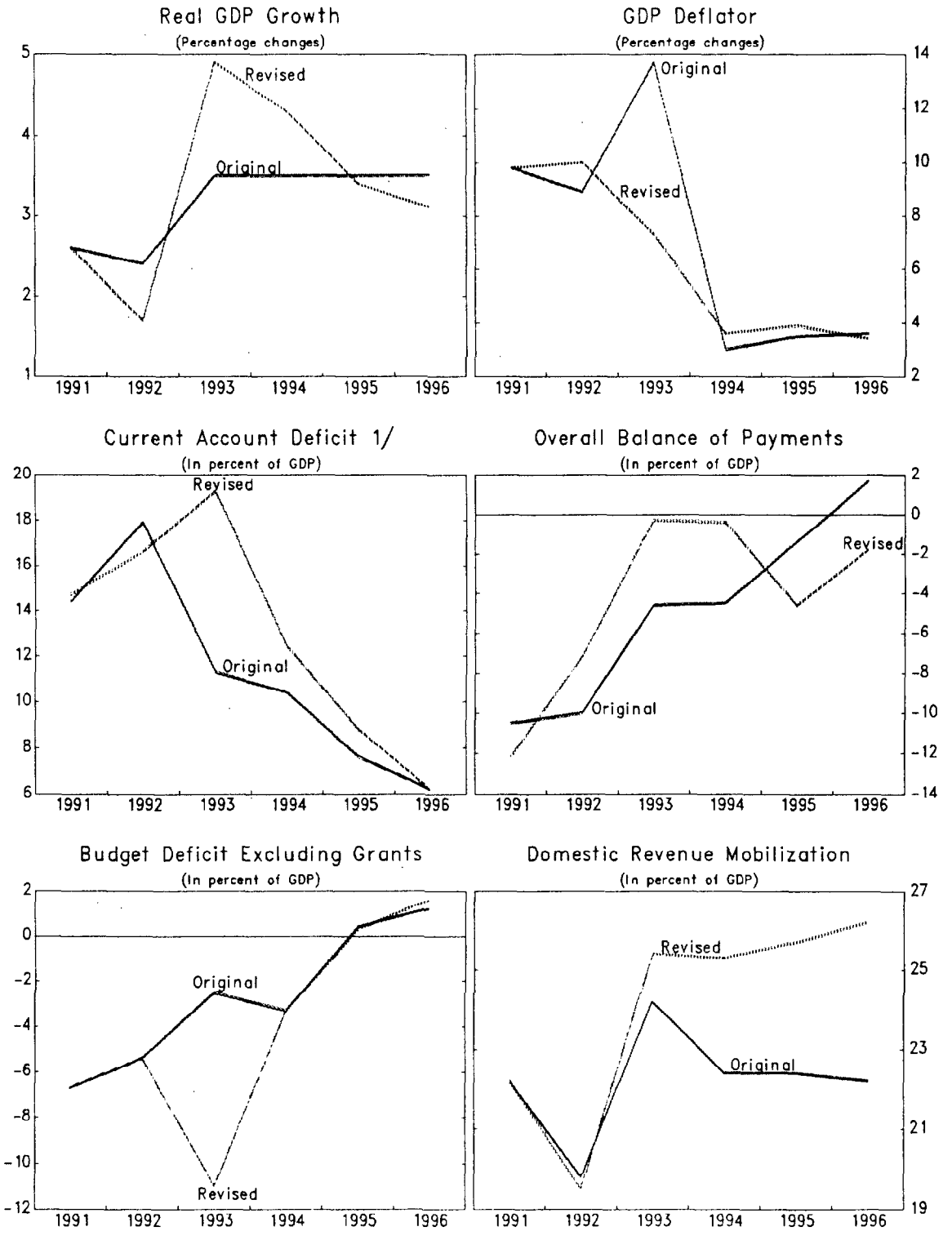
1/ There are reports of late payments by government agencies for the provision of electricity but the Government disputes these claims by the utility company (SONELEC).

To this end, the 1994 budget that is expected to be approved by Parliament in December 1993 includes measures totaling UM 5.53 billion (4.4 percent of GDP) (Table 8). As described in the Letter of Intent (Attachment II), measures on the revenue side include the elimination of import tax exemptions for the mining corporation and electricity company, increases in the turnover tax and the tax on gasoline, a wealth tax on the livestock sector, and higher proceeds from fishing licenses amounting to UM 3.3 billion in all. Capital transfers and restructuring outlays financed by domestic counterpart funds of foreign program assistance expected to be received in 1994 will be postponed to 1995 and beyond, lowering government expenditure and net recourse to domestic bank financing in 1994 by UM 2.2 billion. Expenditures thus delayed comprise in particular transfers to public enterprises, including the insurance company, agricultural extension agencies, and the fishing sector. It is the World Bank and the Fund staffs' assessment that these postponements (relative to other types of spending) have limited immediate efficiency ramifications, and are consistent with Mauritania's absorptive capacity.

Tax reforms that are already underway will be carried forward. Legislation of a value-added tax (VAT) prepared with Fund assistance was submitted to Parliament for approval in November 1993; the new tax is expected to be operational by January 1, 1995. To broaden the tax base, the authorities intend to eliminate tax exemptions further during 1994 and to prepare a study on the replacement of the schedular income tax by a general income tax. Tax administration will be strengthened, including through improved integration between the tax collection and audit functions. In the fisheries sector, the current system of export taxes will be replaced progressively, from September 1, 1994 onward, by a system based on auctioned licenses for industrial fishing and by a territorial fee system for artisanal fishing. These measures should strengthen the revenue base further, enabling the Government to achieve a small surplus beginning in 1995.

The 1994 budget calls for firm restraint of government expenditure. The increase in the wage bill will be limited to 4 percent, reflecting only salary scale progression and recruitment in the education and health sectors for social priority purposes (Table 3). The freezing of military expenditures at their 1993 level in nominal terms will lower them to 2.9 percent of GDP. Investment expenditure by the Government, other than restructuring outlays, is projected at 6.9 percent of GDP, compared with an average of 5.6 percent of GDP during the preceding five years. Restructuring outlays are expected to fall from UM 12 billion in 1993 to less than UM 5 billion in 1994. Statistical problems have been noted, however, and reported capital expenditures include some recurrent expenditures. A World Bank review of investment priorities is scheduled to be completed before end-1993 and improved monitoring under the program of the use of counterpart funds and of Treasury operations should improve assessment of investment outlays.

CHART 4
MAURITANIA
ORIGINAL AND REVISED ADJUSTMENT PROFILES



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

1/ Excluding official transfers.

Table 8. Mauritania: Measures Adopted as Part of the 1994 Budget

(In millions of ouguiyas)

Total	5,530
Revenue	3,330
Elimination of tax exemptions of petroleum imports by:	
SNIM	800
SONELEC	300
Imposition of profit taxes on foreign companies engaged in construction works in Mauritania	200
Introduction of a progressive tax on cattle	350
Increase of two percentage points in the turnover tax	600
Increase in the tax for the support fund of UM 4 per liter of gasoline and gas oil	200
Sale of licenses for:	
Surface fishing	600
Deep sea fishing	150
Sale of 65 percent of the capital of the SMCP	130
Expenditure	2,200
Postponement of use of counterpart funds of foreign assistance for:	
Capital transfers to public enterprises to cover cost of ealier lay-offs	250
Transfers to support programs for creation of micro-enterprises	200
Transfers to the government-owned insurance company SMAR to help cover operational losses	749
Transfers to specialized agricultural agencies and the recapitalization of SONADER	450
Transfers to Ministry of Fishing to finance studies on the reform of the sector	550

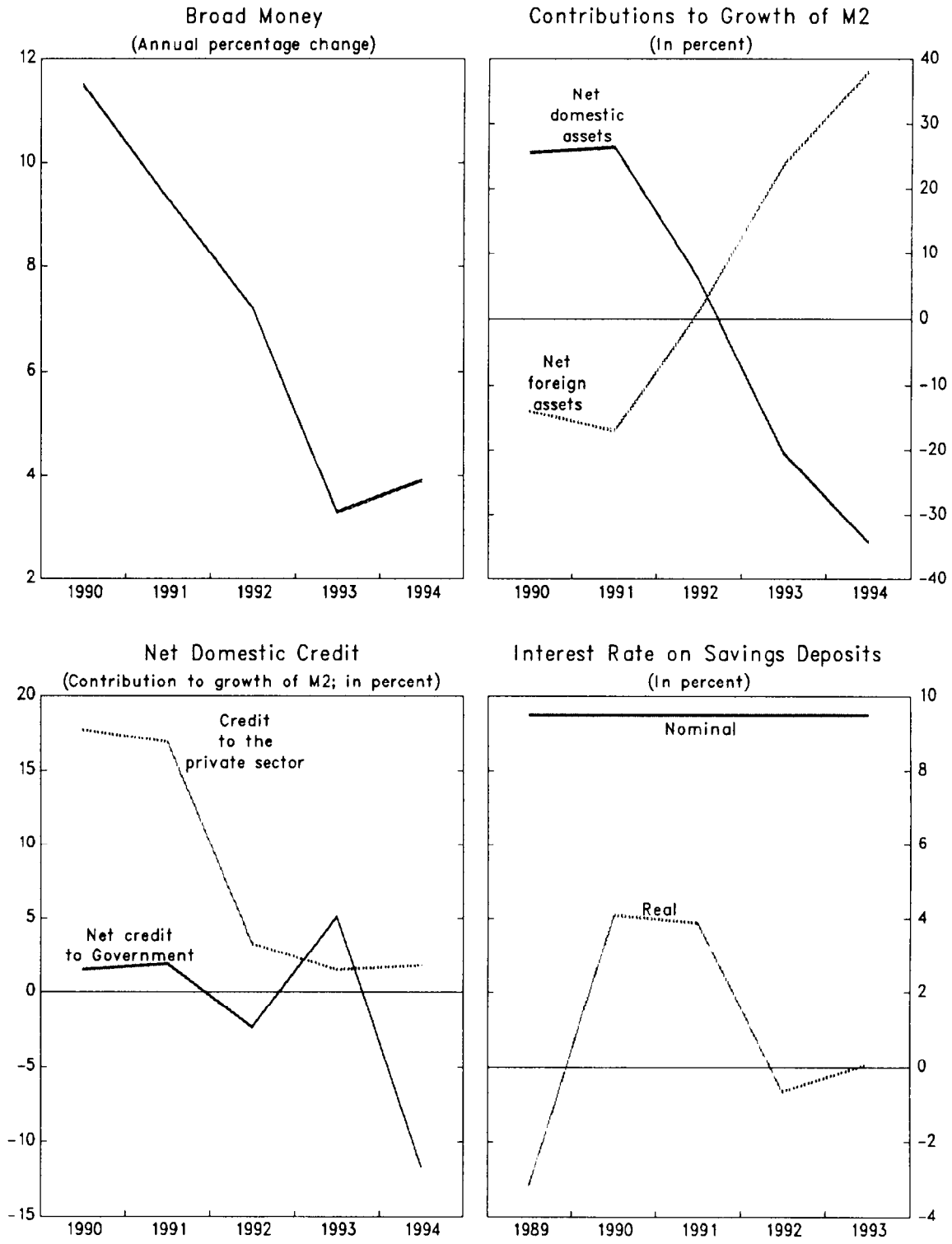
Source: Data provided by the Mauritanian authorities.

Consistent with the aim of private sector-led growth and a strengthening of the public finances, the Government intends to renew efforts at liquidating and restructuring public enterprises. The liquidation of the insurance company SMAR, originally envisaged by March 1993, is now expected to be completed by May 1994, following the appointment of a new chief executive officer. The Government's updated plans further call for additional sales of government equity in the SMCP by May 1994 consistent with limiting government ownership to 35 percent. Other enterprises will be identified for privatization. In enterprises that will remain public, (SNIM, SONELEC, OPT, and Air Mauritania), cost-saving efforts will be sustained to allow increased transfers to the Government and in order to avert the need for periodic recapitalization to cover operating losses. The Government is committed to strictly avoiding the emergence of new domestic arrears involving public enterprises and to develop a schedule for clearing outstanding arrears.

Monetary policy in 1994 will be consistent with the objectives of consolidating recent progress in lowering inflation and achieving a major reduction in the banking system's net foreign liabilities. The growth of broad money is expected to accelerate to 4 percent. The reduction in overdue external obligations of the banking sector through debt reduction (38 percent of beginning money stock) is taken into account in the monetary program which calls for a substantial fall in net domestic assets (Chart 5 and Table 9). Access to foreign financing in excess of the Government's overall borrowing requirement will allow retiring outstanding government debt with the banking system. The extension of credit to the private sector will remain cautious until the strengthened banking supervision is firmly established in line with the timetable laid out in the Letter of Intent. Further progress is envisaged toward a market-based system of interest rates by narrowing the maximum allowable margin between lending and deposit rates of commercial banks (Attachment II, Letter of Intent, para. 21).

Bank reform in 1994 will seek to enhance the role of market forces while consolidating the financial position of the banks. Increased competition among banks is expected to facilitate the development of an interbank market. Enforcement of loan concentration limits, and the possible entry of a new foreign-owned institution are expected to enhance competition and encourage improved financial intermediation. The introduction of a system of periodic Treasury bill auctions beginning in June 1994 will enhance reliance on market based instruments of monetary policy. At the same time, the need for the banks to eliminate their external arrears and strengthen their financial position may require some further capital increases from private sources and stepped-up loan recovery for the banks' own account. As to cash recovery of nonperforming loans taken over by the Government, quarterly targets for 1994 have been established consistent with an annual target of UM 1 billion. A review of existing prudential legislation will also be undertaken in 1994.

CHART 5
MAURITANIA
MONETARY DEVELOPMENTS



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

Table 9. Mauritania: Monetary Program for 1994

(In billions of ouguiyas; end of period)

	Program 1/	Projected 2/	Projected 3/	March 1994 3/	June 1994 3/	Sept. 1994 3/	Dec. 1994 3/
	December 1993						
Net foreign assets	−23.9	−23.0	−27.3	−28.0	−26.1	−25.4	−16.5
Central Bank	−14.3	−14.5	−17.3	−20.5	−18.4	−17.0	−13.0
Assets	9.8	9.0	9.2	6.9	8.8	11.1	11.5
Liabilities	−24.1	−23.5	−26.5	−27.3	−27.1	−28.1	−24.4
Commercial banks 4/	−9.6	−8.5	−10.0	−7.5	−7.7	−8.4	−3.5
Net domestic assets	50.5	51.2	55.6	56.8	53.9	54.4	45.9
Domestic credit	50.2	51.6	51.6	52.8	50.4	50.9	48.7
Net claims on Government	10.6	10.4	10.4	11.7	9.0	9.5	7.1
Credit to the economy	39.6	41.1	41.1	41.1	41.4	41.4	41.6
Other items net	0.3	−0.3	4.0	4.0	3.5	3.5	−2.8
Money and quasi−money	26.6	28.3	28.3	28.8	28.0	29.0	29.4

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

1/ As shown in EBS/93/105.
2/ At original program exchange rate of SDR 1 = UM 144.5.
3/ At exchange rate of SDR 1 = UM 171.7.
4/ Including through 1994 the external liabilities of the development bank (UBD) pending completion of its liquidation.

2. External policies

The Government's objective for the 1994 balance of payments is to sharply reduce the current account deficit to SDR 90 million (excluding official transfers), equivalent to 12.4 percent of GDP (Table 7). The target for 1994 is predicated on a modest increase in export receipts (4 percent) owing mainly to higher export volume of iron ore. Imports are expected to fall by 10 percent as a result of completion of major capacity expansion by SNIM, the nonrecurrence of exceptional imports of fishing vessels, and lower import demand related to tight demand management and increased domestic food production (Chart 6).

The lower current account deficit is consistent with the projected reduction in capital inflows, mainly reflecting lower official transfers and the winding down of project loan disbursements for SNIM, leaving the overall balance on current and capital transactions broadly in equilibrium. Scheduled external debt service in 1994 is 30 percent of exports of goods and services; debt service payments programmed, taking into account additional debt relief expected from non-Paris Club bilaterals, is projected at 23 percent of exports of goods and nonfactor services. Mindful of the need to pursue a prudent debt management policy, the authorities are committed to refrain from recourse to new nonconcessional financing other than normal short-term import-related credits.

Taking into account principal payments due, the need to eliminate all external arrears, the goal of raising the level of international reserves to eight weeks of imports, and the likely disbursement of funds already committed, as well as the second-year consolidation under the Paris Club agreement and prospective use of Fund resources under the second-year ESAF arrangement, there is a projected financing gap of SDR 93 million in 1994. 1/ This shortfall is expected to be covered through a combination of: (i) new concessional financing (SDR 12 million) including an SDR 7 million grant from IDA for debt reduction operations; (ii) rescheduling of maturities falling due on debt vis-à-vis non-Paris Club bilateral creditors (SDR 27 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 27 million). World Bank Board approval for the technical assistance grant is expected for March 1994 and the buy-back operation should be completed by November 1994. The authorities have already prepared an inventory of eligible debt estimated at SDR 45 billion and they have strengthened the action program to eliminate remaining bilateral arrears.

To help achieve the balance of payments objectives for 1994 the authorities stressed their continued commitment to an exchange rate policy that ensures international competitiveness. To this end, the official

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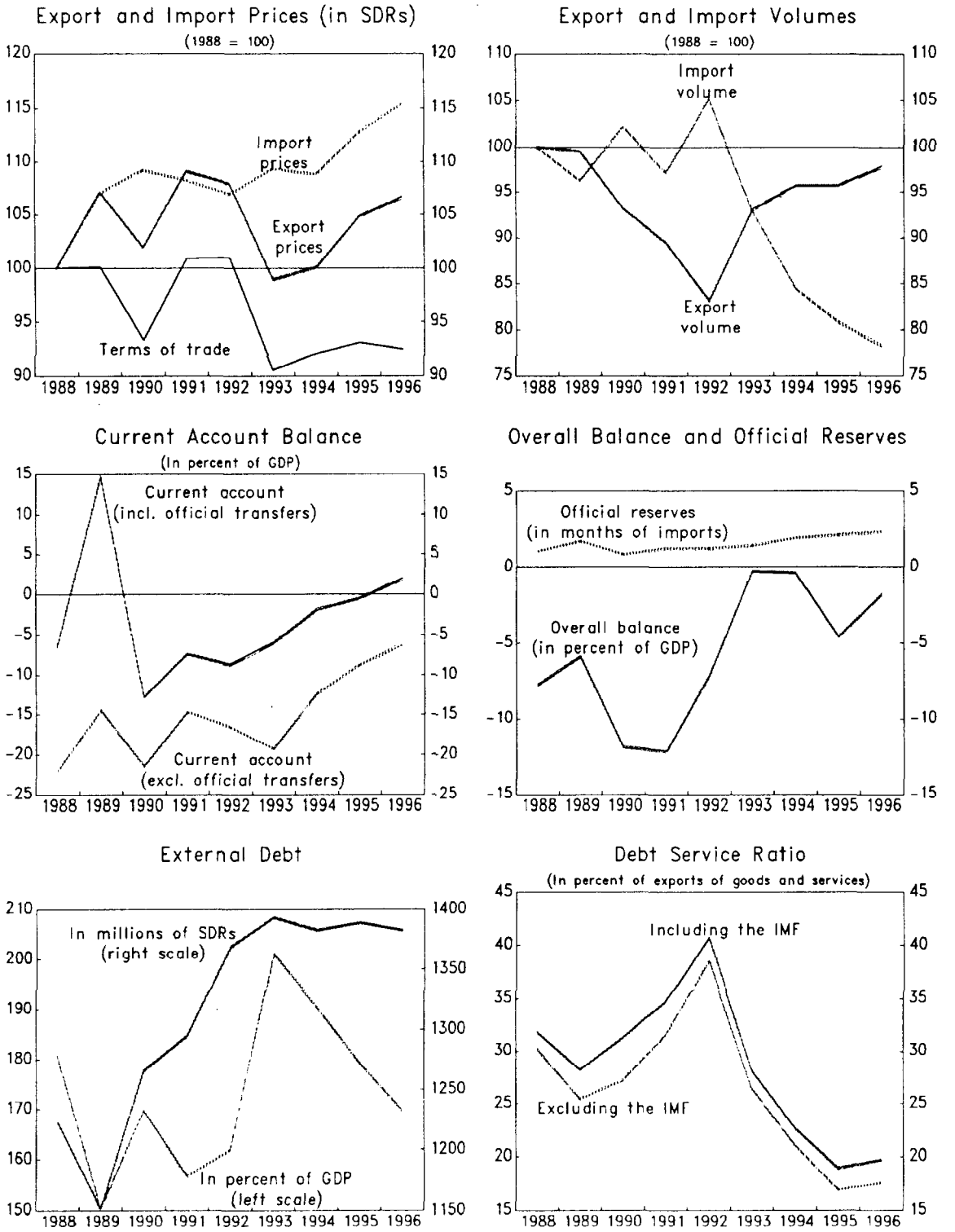
1/ SDR 113 million excluding the rescheduling of debt service due in 1994 that was covered under the 1993 Paris Club agreement.

CHART 6
MAURITANIA
EXTERNAL DEVELOPMENTS AND PROJECTIONS



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

exchange rate that is pegged to a basket of currencies and applies to most transactions will be kept under close review, taking into account a broad range of indicators (including movements in the free market rate, developments in auctions of import authorizations, and movements in the real effective exchange rate). Furthermore, the exchange rate in the limited market for foreign currency notes and traveler's checks that was introduced in late October 1992 at the level of the commercial banks will continue to be freely determined, at least until the midyear review of the exchange system when options for replacing the dual exchange system will be narrowed down.

The authorities are committed to reduce the maximum spread between exchange rates in the system to 4 percent by July 1994 and to unify the exchange rate system by end-November 1994. In order to narrow the spread, the Central Bank will rely, as needed, on more frequent adjustments in the official exchange rate and on varying the supply of foreign exchange it chooses to direct to either market (currently 100 percent goes to the official market). The modalities of operation will be determined with Fund technical assistance during February 1994 and in light of developments in international reserves, progress in establishing an interbank market, and in solving the external arrears problem. A number of intermediate steps will be taken as part of the 1994 program toward developing an interbank market. These include reduced reliance on surrender requirements of export proceeds to the Central Bank by allowing commercial banks and exporters to keep a portion of foreign exchange proceeds for their own utilization (Attachment II, Letter of Intent, para. 24).

Mauritania maintains exchange restrictions evidenced by external payments arrears that are subject to approval under Article VIII, Section 2(a). These include external arrears of the Central Bank vis-à-vis foreign commercial banks. Mauritania also engages in a multiple currency practice subject to Article VIII, Section 3 arising from the existence of an official rate pegged to a basket of currencies simultaneously with an exchange rate in the free market for foreign banknotes and traveler's checks. During the forthcoming mid-term review, which is to be completed before end-July 1993, a timetable will be considered for moving toward acceptance of the obligations of Article VIII status in light of progress achieved in resolving the external arrears of the banking sector and the development of an interbank market.

3. Structural policies and program monitoring

Reform of the fisheries sector aims to create conditions conducive to the efficient exploitation of Mauritania's rich fishing grounds, thus creating increased value added and employment opportunities. Sustained growth of production, however, is constrained by the need to prevent depletion through overfishing. The reform also seeks to improve the way the Government captures the sector's economic rent. The authorities are fully aware of the obstacles that impede attainment of these objectives. With this in mind, a program of measures slated for 1994 was announced during November 1993. The measures span a broad spectrum covering improved

surveillance, the phasing in of new forms of raising government revenue, and privatization of up to 65 percent of export marketing by May 1994. A more detailed description is provided in the Letter of Intent.

Structural reform in other areas will be intensified. To enhance the role of market forces, the policy of quarterly revisions of prices of petroleum products in light of import cost developments will be maintained, and public utility tariffs will be set with a view to avoiding the re-emergence of subsidies. The monopoly of the official distribution agency (SONIMEX) for the import and sale of tea was abolished in late 1992 and that for sugar will be abolished before the end of 1993. The dismantling of regulatory and legal impediments to the development of private sector activities should help foster export diversification. Studies to that effect will be conducted before March 1994 with assistance of the World Bank.

Sustained private sector-led growth is expected to encourage employment creation and to contribute to higher living standards over time. An action program based on the recommendations of a study of the poverty profile, conducted with World Bank assistance, is scheduled for submission to the donor community before January 1994. Expenditure policy in the 1994 budget is being redirected toward regional health care and primary and technical education.

Progress under the 1994 program will be monitored against quantitative and structural benchmarks and performance criteria. Disbursement of the second tranche under the ESAF arrangement is contingent upon a mid-term review to be concluded no later than July 31, 1994. The quantitative indicators of performance are subject to built-in automatic adjusters designed to encourage the Government to save foreign financing windfalls and to discourage deflection of selected investment and structural reform outlays toward current expenditure. 1/

In the consultation discussions the authorities were aware of the importance of an adequate statistical base for the formulation and monitoring of macroeconomic policies. They noted recent progress in enhancing the reliability of customs data. Further improvements are programmed for 1994 in regard to coverage of the balance of payments, the weighting of the consumer price index, and the provision of a detailed monthly account of central government transactions on a cash basis. Progress in the latter area is expected to enhance transparency in financial relations between the Treasury and other public sector agencies and will be closely monitored under the program (Attachment II, Letter of Intent, paras. 14 and 31, and Appendix III).

1/ For a more complete discussion, see Attachment II, Letter of Intent, paras. 29-32 and its Tables 3 and 4.

IV. Medium-Term Prospects

The ESAF program presented for Fund approval in December 1992 sought the achievement by 1995 of: (i) a sustainable rate of growth of 3.5 percent; (ii) annual inflation limited to 3.5 percent; and (iii) an external current account deficit (excluding official transfers) of not more than 7.5 percent of GDP, a level that could be financed through normal capital inflows without recourse to exceptional financing. Improvement in redressing the external imbalance was predicated on a recovery in the value of exports of close to 10 percent on average each year during 1993-95 and about 7 percent thereafter. The original targets for 1996 included a current account deficit of 6.3 percent of GDP and a debt service ratio of 20 percent of exports of goods and services compared with 30 percent in 1993.

The above medium-term scenario is being maintained in respect of economic growth and inflation reduction, and also in regard to the external current account deficit from 1996 onward. The major boost in export receipts that had been expected in 1993 and 1994 in response to structural change and the impact of the currency depreciation has not materialized mainly as a result of a steep fall in the price of cephalopod related to reduced demand in Japan. Prospects now are for moderate export growth beyond 1994 from a lower initial level, resulting in significantly scaled down export receipts by 1996. Import contraction is programmed in line with the reduced foreign exchange availability. Better prospects for agricultural production, lower petroleum product prices than previously foreseen, tighter monetary policy, and a more depreciated real effective exchange rate are expected to help contain imports of goods and services (Table 10). The larger current account deficits in 1993-95 are expected to be financed by increased official grants, reflecting new commitments, and by the debt reduction operation of short-term commercial obligations expected for 1994. This would allow external debt to be maintained at about SDR 1.4 billion by end-1996 (equivalent to 172 percent of GDP). Debt service due is expected to amount to 32 percent of exports of goods and services by 1996 before additional debt relief expected under the program, compared with 20 percent after debt relief (Table 11).

Net official transfers and capital inflows are projected at SDR 101 million on average during 1995-96, based on existing commitments. Remaining current account deficits, principal due, and the projected increase in the net foreign assets of the Central Bank exceed this amount by a significant margin. As a result, financing gaps average SDR 45 million a year during 1995-96 (Table 7). The expectation is that these gaps will be filled, in support of the authorities' continued economic reform and adjustment policy, through debt relief (including from the Paris Club) and disbursements at concessional terms from bilateral and multilateral sources beyond amounts currently committed. Under these circumstances, and given the projected improvements in the balance of payments and the debt profile, as well as Mauritania's good record of servicing its obligations to the Fund, and the

Table 10. Mauritania: Assumptions Underlying the Medium–Term Balance of Payments Projections, 1991–98

(Annual percentage changes; values in SDRs)

	1991	Est. 1992	Revised Program 1993	Revised Projection 1993	1994	1995	1996	1997	1998
Total exports, f.o.b.									
Value	2.9	−8.1	2.8	2.6	4.3	4.8	3.9	3.5	4.9
Volume	−4.0	−7.1	9.8	11.9	2.9	−−	2.2	2.7	2.2
Unit value	7.1	−1.1	−6.4	−8.4	1.3	4.7	1.7	0.7	2.7
Exports of:									
Iron ore									
Value	1.2	−29.3	−0.2	6.7	6.8	6.5	2.9	6.3	5.2
Volume	−6.5	−24.6	14.9	21.1	7.2	−3.8	−−	5.0	3.6
Unit value	8.3	−6.3	−13.1	−11.9	−0.4	10.8	2.9	1.3	1.5
Fish									
Value	6.7	7.3	3.2	−1.9	2.5	4.4	5.8	5.2	4.6
Volume	−2.2	4.7	6.4	5.8	−−	2.7	3.6	1.2	1.2
Unit value	9.1	2.5	−3.0	−7.2	2.5	4.2	3.9	6.2	7.5
Total imports, f.o.b.									
Value	−5.8	7.1	−3.4	−9.7	−9.6	−0.7	−0.9	4.9	6.5
Volume	−5.0	8.4	−5.1	−11.7	−9.2	−4.3	−3.1	2.5	4.1
Unit Value	−0.9	−1.2	1.7	2.3	−0.5	3.7	2.3	2.3	2.3
Total imports, without foodstuffs									
Value	−6.5	6.0	−2.0	−9.2	−15.5	−5.0	−1.1	2.9	6.6
Volume	−7.9	7.8	−4.2	−11.7	−14.9	−7.6	−3.0	0.9	4.6
Unit value	1.6	−1.7	2.3	2.9	−0.8	2.7	2.0	2.0	1.9
Total imports, without SNIM									
Value	−8.7	1.5	−2.0	−17.0	3.0	6.4	0.4	4.4	5.8
Volume	−8.2	2.6	−27.5	−18.8	3.4	2.4	−1.9	1.9	3.4
Unit Value	−0.6	−1.1	35.2	2.2	−0.4	4.0	2.4	2.4	2.4
Imports of:									
Foodstuffs and consumer goods									
Value	−17.1	10.9	−11.2	−19.8	7.9	7.1	−0.6	9.1	6.7
Volume	−12.8	10.6	−25.2	−21.0	7.7	0.5	−3.6	5.7	3.3
Unit value	−4.9	0.3	1.2	1.6	0.1	6.5	3.1	3.3	3.3
Petroleum products									
Value	−10.4	−21.9	−2.2	−1.9	5.1	4.3	3.7	5.6	5.2
Volume	0.9	−0.1	5.6	6.0	3.0	1.7	1.8	3.6	3.2
Unit value	−11.2	−21.8	−7.5	−7.5	2.1	2.5	1.9	1.9	1.9
Investment–related									
Value	−12.6	50.7	−10.6	−8.9	−14.0	−18.9	−10.3	5.8	5.5
Volume	−15.4	53.2	−13.2	−12.0	−13.2	−21.1	−12.0	3.8	3.5
Unit value	3.2	−1.6	3.0	3.5	−1.0	2.7	2.0	2.0	1.9
Investment–related, without SNIM									
Value	−18.4	2.1	−2.2	1.6	4.4	6.1	4.6	5.8	5.5
Volume	−21.0	3.8	−5.0	−1.9	5.4	3.3	2.6	3.8	3.5
Unit value	3.2	−1.6	3.0	3.5	−1.0	2.7	2.0	2.0	1.9
Terms of trade	8.1	0.1	−8.0	−10.4	1.8	1.0	−0.6	−1.6	0.4

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

Table 11. Mauritania: Medium–Term External Debt Projections, 1991–98

	1991	Est. 1992	Projections 1993	1994	1995	1996	1997	1998
			(In millions of SDRs)					
Total debt service due (including IMF)	127.8	140.9	138.8	100.5	124.3	124.5	122.1	123.9
Total debt service due (excluding IMF)	116.1	133.7	133.2	95.1	117.2	116.6	115.6	117.8
Principal due (excluding IMF)	71.9	81.7	81.6	51.3	70.3	70.7	70.6	73.5
Interest due (excluding the IMF)	44.2	47.1	44.9	37.5	40.1	38.4	38.3	38.6
Repurchases due to the Fund	9.6	6.0	4.4	4.2	5.9	6.8	5.4	5.1
Charges due to the Fund	2.1	1.3	1.2	1.2	1.2	1.1	1.1	1.1
Disbursements of medium– and long–term loans	53.4	85.1	99.1	61.5	30.2	31.2	28.2	30.1
Debt outstanding at end of year	1,294.1	1,368.0	1,392.8	1,382.3	1,388.6	1,382.2	1,378.1	1,374.4
Medium– and long–term loans	1,121.6	1,201.1	1,249.4	1,318.7	1,329.9	1,329.4	1,329.4	1,329.8
Fund resources	39.5	42.0	46.1	58.8	52.9	46.1	40.7	35.6
Short–term credit 1/	133.1	124.9	97.3	4.8	5.8	6.8	8.1	9.1
			(In percent of exports of goods and services)					
Total debt service due	34.7	41.8	41.4	30.5	33.6	32.1	30.4	28.9
Interest and charges	12.6	14.6	14.1	11.4	11.5	10.6	10.1	9.7
Of which: Fund charges	0.6	0.4	0.4	0.3	0.3	0.3	0.3	0.3
Principal and repurchases	22.1	26.4	26.4	16.3	21.3	20.7	19.6	18.5
Of which: Fund repurchases	2.6	1.8	1.3	1.2	1.7	1.8	1.4	1.2
Short–term credit	– –	0.8	0.9	2.8	0.8	0.8	0.7	0.7
Debt service after debt relief	34.7	40.7	28.1	22.6	18.9	19.7	18.8	18.1

Sources: Data provided by the Central Bank of Mauritania; and Fund staff estimates and projections.

1/ For the most part includes overdue external liabilities of the banking system.

small share of debt service due to the Fund, Mauritania can be expected to continue to discharge its future obligations to the Fund in a timely manner, even in the event of unfavorable external developments (Attachment IV and its tables).

V. Staff Appraisal

Since October 1992 the Government of Mauritania has renewed its efforts at redressing the economy's deep-seated external imbalances and preparing the ground for sustained economic growth. This strategy of adjustment and economic reform has been supported by an ESAF arrangement from the Fund.

Developments during the first year of the arrangement have been generally encouraging. An upfront currency depreciation was central to the initial adjustment phase. The subsequent pursuit of restrained financial policies has been a key element in containing inflation and preserving the initial gains in competitiveness. Economic growth has held up. Problems of bank insolvency have been addressed and progress is being made in resolving the large external arrears that testify to the severity of the imbalances of the early 1990s. 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.

For 1994, the authorities are determined to consolidate the progress already achieved in bringing down inflation and to make headway in redressing external imbalances. The tight fiscal and monetary policy stance in the program offers good prospects for approaching the goal of virtual price stability and lowering the resource gap in line with available external financing. Strict containment of expenditures and steady progress in ensuring that a full-fledged VAT becomes operational from January 1, 1995 onward will be important for the attainment of fiscal balance envisaged for 1995. Firm demand restraint will provide essential underpinning for the exchange rate.

The authorities' adjustment program for 1994 is ambitious. The high level of external debt, the limited foreign financing available, and the vulnerability of Mauritania's economy to external shocks all make it imperative that adjustment be pursued with determination in the face of adverse export prospects. Also, structural reform measures designed to lift the economy to a higher growth path have proven difficult to implement expeditiously and will in any event yield results only over time, making perseverance in implementing the program all the more important. The authorities should stand ready to adapt macroeconomic policies rapidly in the event of unforeseen external shocks, including through close review of exchange rate policy.

Sustained reforms of the banks and public enterprises remain critical to the strategy for Mauritania. Following the liquidation of the development bank and the restructuring of the other banks in 1993,

strengthened prudential supervision and a resolutely implemented loan recovery program should allow a revitalized banking system to resume financial intermediation. The privatization of public enterprises has proven difficult to implement on schedule. The staff urges every effort be made to adhere to the schedule established and to speed up exit mechanisms for loss making enterprises. Cost-cutting efforts and the avoidance of domestic arrears should strengthen the finances of the enterprises that will remain public.

Mauritania's fishing grounds are a source of national wealth that should serve the public interest and be managed in a way that maintains the renewable resource base. The staff welcomes the announced structural reform measures in this area and urges their full implementation in close cooperation with the World Bank and interested donors. Sustained implementation of bold reforms of the fisheries sector will be critical for the achievement of medium-term external viability.

An enhanced role of market forces and a realistic pricing mechanism rank among the most important achievements of Mauritania's economic reform efforts since the mid-1980s. Nevertheless, the process has not yet run its course. The further downsizing of the public sector, liberalization of the exchange system, and increased transparency of regulatory and judicial systems will all be required to encourage over time foreign investment and private sector activity, thus contributing to a more diversified export base. The development of an interbank market for foreign exchange and the use of indirect instruments of monetary policy will improve resource allocation.

Mauritania continues to have substantial overdue external obligations. The authorities have cleared arrears vis-à-vis multilateral organizations and Paris Club members and have made payments on private unsecured debt as judged prudent in light of cash flow developments. Progress in eliminating the remaining arrears and covering the financing gap for 1994 depends importantly on the expeditious implementation of the plan for commercial debt buy-backs under preparation with IDA assistance and on concluding discussions on bilateral debt relief with non-Paris Club members. Over the medium term, however, and even with determined efforts to sustain reform efforts, large financing shortfalls remain. In the staff's view, in order to obtain external financial support on the scale required, the authorities will need to demonstrate an unwavering commitment to carrying out their policy intentions. At the same time, success in sustaining the economic reform strategy hinges critically on early and adequate concessional external assistance and substantial further debt relief.

Mauritania has eliminated the preferential exchange rate applicable to workers' remittances and the exchange restriction maintained under Article XIV on the sale of foreign exchange in the free market. There remain restrictions on payments and transfers for current international transactions that are subject to approval under Article VIII, Section 2(a), evidenced by arrears on external payments. Mauritania also continues to maintain a multiple currency practice subject to approval under

Article VIII, Section 3. The staff welcomes the authorities' commitment to unify the exchange system before end-November 1994 and to consider an eventual move toward current account convertibility. In view of the authorities' timetable to eliminate the remaining restrictions during 1994, and progress already achieved in reducing arrears subject to Fund jurisdiction, the staff recommends their approval.

In light of Mauritania's consistently good record of payments to the Fund, its medium- and long-term prospects, the authorities' demonstrated resolve to adapt macroeconomic policies to meet the impact of adverse external shocks, and the limited scale of obligations to the Fund in relation to export earnings, the staff considers that there is reasonable assurance that future financial obligations to the Fund will be met in a timely manner. Accordingly, the staff believes that Mauritania's adjustment program deserves the support of the Fund under the second-year ESAF arrangement.

It is recommended that the next Article IV consultation with Mauritania be held on the standard 12-month cycle.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

A. Mauritania - 1993 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.

B. Mauritania - Request for ESAF Arrangement

1. The Government of Mauritania has requested the second annual arrangement under the enhanced structural adjustment facility.

2. The Fund has appraised the progress of Mauritania in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper for Mauritania set forth in EBD/93/190.

3. The Fund approves the arrangement set forth in EBS/93/208.

Mauritania - Second Annual Arrangement Under
the Enhanced Structural Adjustment Facility

Attached hereto is a letter dated December 20, 1993 from the Governor of the Central Bank of Mauritania, requesting from the International Monetary Fund the second annual arrangement under the enhanced structural adjustment facility, and setting forth the objectives and policies of the program to be supported by the second-year arrangement.

To support these objectives and policies, the Fund grants the requested arrangement in accordance with the following provisions, and subject to the Regulations for the administration of the structural adjustment facility and the Instrument to Establish the Enhanced Structural Adjustment Facility Trust:

1. Under the second annual arrangement:

a. the first loan, in an amount equivalent to SDR 8.475 million, will be available on January 31, 1994, at the request of Mauritania; and

b. the second loan, in an amount equivalent to SDR 8.475 million, will be available on July 31, 1994, at the request of Mauritania subject to paragraph 2 below.

2. Mauritania will not request disbursement of the second loan specified in paragraph 1.b above:

a. if the Managing Director finds that the data at the end of March 1994 indicate that:

(1) the limit on net domestic assets of the banking system, or

(2) the limit on net bank credit to the Government, or

(3) the limit on the overall deficit of the consolidated central government operations, or

(4) the limit on the government wage bill, or

(5) the limit on the reduction of total external payments arrears, or

(6) the limit on new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 0-1 year (except for normal import-related credits) and 1-15 years, or

(7) the limit on the increase in short-term debt of the commercial banks (except for normal import-related credits), or

(8) the preparation of monthly Treasury balances beginning for December 1993 within a delay of not more than three months, or

(9) the implementation of periodic Treasury bill auctions

referred to in paragraphs 29, 30 and 31, and specified in Tables 2 and 3 of the Letter of Intent is not observed; or

b. if Mauritania

(1) imposed or intensified restrictions on payments and transfers for current international transactions, or

(2) introduced or modified multiple currency practices, or

(3) concluded bilateral payments agreements which are inconsistent with Article VIII, or

(4) imposed or intensified import restrictions for balance of payments reasons; or

c. until the Fund has determined that the mid-term review of Mauritania's program referred to in paragraph 30 of the Letter of Intent has been completed.

If the Managing Director finds that any of the performance clauses that have been established in or under this paragraph 2 have not been met, the second loan specified in paragraph 1.b above may be made available only after consultation has taken place between the Fund and Mauritania, and understandings have been reached regarding the circumstances in which Mauritania may request that second loan.

3. In accordance with paragraph 32 of the Letter of Intent, Mauritania will provide the Fund with such information as the Fund requests in connection with the progress of Mauritania in implementing the policies and reaching the objectives supported by this arrangement.

4. In accordance with paragraph 32 of the Letter of Intent, during the period of the second annual arrangement, Mauritania will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests such consultation. Moreover, after the period of the second annual arrangement and while Mauritania has outstanding financial obligations to the Fund arising from loans under that arrangement, Mauritania will consult with the Fund from time to time, at the initiative of the Government or whenever the Managing Director requests consultation on Mauritania's economic and financial policies. These consultations may include correspondence and visits of Fund staff to Mauritania or of representatives of Mauritania to the Fund.

ATTACHMENT II

CONFIDENTIAL

Nouakchott, December 20, 1993

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

Dear Mr. Camdessus:

1. In our letter to you of October 5, 1992, the Government of Mauritania requested an arrangement under the enhanced structural adjustment facility from the International Monetary Fund in support of our economic and financial program for 1993. Developments under the program and the intended policy stance for the remainder of 1993 were reviewed in our letter to you dated June 25, 1993.

2. We have now prepared an updated policy framework paper for the period 1993-1996, with the assistance of staff of the IMF and the World Bank, which I am forwarding to you under separate cover. The policy framework paper describes the economic reform and adjustment strategy and Mauritania's external financing needs during 1993-96 and available resources that have been identified. Consistent with this medium-term framework, the Government has now prepared an economic and financial program for the period October 1, 1993 through December 31, 1994, which is described in detail in the remainder of this letter. In support of this program, the Government of Mauritania hereby requests the second annual arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 16.95 million.

Recent Developments and Performance Under the 1993 Program

3. Since the program began in October 1992 there have been significant achievements. Consumer prices have stabilized, following a steep increase in the wake of the currency devaluation at the outset of the program. The average rate of price increase during 1993 is now estimated at 10 percent, compared with a program target of 13.9 percent. The growth of economic activity is estimated at 5 percent in 1993 (3.5 percent in the program) owing to increased production of iron ore, the impact of good rainfall on agriculture, and improved fish catch.

4. Notwithstanding an increase in budgetary receipts estimated at 47 percent over 1992, fiscal policy could not be implemented as foreseen in the original program. Modifications to the program were required in June 1993 as a result of a significant overshooting of government expenditures that had become evident owing to the larger than expected fiscal cost of the bank restructuring, additional outlays associated with larger foreign assistance, and higher than expected interest payments due. In response,

the Government took steps to strengthen its finances in June 1993 through additional revenue measures (taxes on gasoline and tobacco products and profit transfers from public enterprises) and postponement of capital expenditures (including outlays for structural reform). These additional measures notwithstanding, benchmarks for end-September 1993 in regard to the overall deficit and net bank credit to the Government could not be observed due to delays in payments of fishing rights by EU countries.

5. The conduct of monetary policy has contributed to the deceleration of consumer prices. To help adjust to the decline in export prices and contain the expansionary impact of the larger budget deficit, the Government decided on a significant tightening of monetary policy beginning in June 1993. The aim was to ensure that the budgetary transfers for the recapitalization of the commercial banks did not give rise to additional money growth. Also, cautious credit extension to the private sector was called for while banking supervision was being strengthened. Available evidence through end-September 1993 indicates an increase in money growth of less than 2 percent since January. This feeble increase is associated with a fall in net domestic assets that has allowed a steeper drop in net foreign liabilities of the banking system than initially foreseen.

6. The exchange rate adjustment that took place in October 1992 resulted in a substantial real effective depreciation, strengthening external competitiveness. The virtual stabilization of domestic prices since November 1992 has allowed these gains in competitiveness to be broadly maintained. The liberalization of the exchange system has proceeded as planned, including the removal of restrictive features comprising: prior export authorizations, the preferential exchange rate for workers' remittances, and restrictions on transactions in the free market for foreign currency banknotes and traveler's checks. A system of auctions of import authorizations was introduced in January 1993 and extended to all imports except oil products, and those by the mining corporation (SNIM) and the fisheries sector.

7. Tight demand management and the depreciation of the currency could not prevent an increase in the external current account deficit (excluding official grants) from 16.5 percent of GDP in 1992 to an estimated 19.3 percent in 1993. This deterioration results from weak export prices for fish products and iron ore, delays in export receipts of pelagic fish, a fall in workers' remittances, and the import of fishing vessels that had been contracted earlier.

8. Progress in addressing the external debt problem has been uneven. On the positive side, Paris Club creditors agreed in January 1993 to debt relief at enhanced concessional terms. All bilateral agreements were signed by August 1993, and Mauritania has stayed current with these creditors and multilateral agencies since June 1993. In addition, some non-Paris Club creditors have granted debt relief. Nevertheless, notwithstanding substantial debt service payments and government efforts to propose debt relief options, the end-September benchmarks under the program related to arrears reduction could not be observed. At end-September overdue

obligations on private credits amounted to SDR 72 million (SDR 8 million in the program) and those vis-à-vis bilateral non-Paris club creditors, for which the Government has formally requested debt relief, amounted to SDR 54 million (compared with their elimination assumed in the program). Renewed efforts are underway, including a debt repurchase operation that is being prepared with IDA assistance.

9. Consistent with the program, substantial progress was achieved in 1993 in strengthening the banks, building on technical advice from the IMF. This included the sale by the Government of its minority interest in three banks (BAMIS, BMCI, and BNM), the recapitalization of two joint venture banks (BAMIS and BALM) with substantial support from the foreign partners, and the promulgation of a new loan recovery law in February. The development bank (UBD) was closed and its liquidation is proceeding in good order. A restructuring agreement was concluded between the Central Bank and the owners of the BNM aimed at a comprehensive solution for this bank at a budgetary cost that was strictly limited.

10. Progress has also been achieved in some other areas of reform. Pricing of petroleum products and public utility tariffs has been consistent with avoiding the re-emergence of subsidies. Cost-cutting efforts have been sustained by SNIM and other public enterprises. By contrast, certain ailing public enterprises such as the insurance company (SMAR) have not been liquidated as foreseen. Reform of the fisheries sector has suffered from postponement of the partial privatization of the fish export marketing company (SMCP) and delays in the preparation of tax reform for this sector.

Fiscal Policy and Public Sector Reform

11. The Government is convinced that consolidation of recent gains in lowering inflation, maintenance of confidence in its exchange rate policy, and the narrowing of the external current account deficit all hinge critically on steadfastness in the pursuit of fiscal policy. With this in mind, the Government has decided to revert in 1994 to the fiscal adjustment path laid out in the original program, following the exceptional deviations that occurred in 1993. Accordingly, in 1994 the overall deficit of the consolidated operations of the Government (including restructuring expenses and interest due and with grants considered as financing items) will not exceed the equivalent of 3.3 percent of GDP. 1/ To this end the Government will take the following measures as part of the 1994 budget:

- elimination of tax exemptions of petroleum imports by SNIM (UM 800 million);

- elimination of the exemption of taxes on imported petroleum products by the utility company (SONELEC) (UM 300 million);

1/ Including on the revenue side only UM 200 million of the projected recovery of UM 1 billion in 1994 of nonperforming bank loans taken over by the Government.

- imposition of profit taxes on foreign companies engaged in construction works in Mauritania (UM 200 million);

- introduction of a progressive tax on livestock (UM 350 million);

- a two percentage point increase in the turnover tax (UM 600 million);

- increase in the tax for the support fund of UM 4 per liter of gasoline and gas oil (UM 200 million);

- sale of licenses for pelagic fishing (UM 600 million) and deep sea fishing (UM 150 million); and

- sale of 65 percent of the capital of the SMCP (UM 130 million);

In addition, the Government will postpone transfer payments and restructuring outlays financed by use of counterpart funds of foreign assistance in an amount of UM 2.2 billion. The total impact of these measures is estimated at UM 5.53 billion in 1994 (4.4 percent of GDP).

12. On the structural side, the tax reform underway will be strengthened with a view to enhancing buoyancy, reducing distortions, and improving compliance. The value-added tax (VAT) that has been prepared with technical assistance from the IMF will be presented for approval to Parliament before end-1993 and is expected to become fully operative by January 1, 1995. The VAT will be introduced with a reduced rate of 5 percent and a principal rate of 13 percent during 1995; the principal rate will be raised to 15 percent beginning January 1996. To avoid revenue loss during the initial period, the VAT will coexist with the minimum turnover tax during 1995 which will be eliminated effective January 1, 1996. With a view to broadening the tax base, a comprehensive action plan for reducing tax exemptions will be drawn up before end-March 1994, and put in place beginning in mid-1994. Tax administration will be strengthened through the actions of the pilot unit which will be responsible for collection and audit of the VAT from the 400 largest enterprises not submitted to presumptive tax assessment, and will aim to increase that number by a minimum of 20 units each year. In the fisheries sector, the current system of export taxes will be replaced over a three-year period beginning September 1, 1994 by a system based on auctioned licenses in industrial fishing and by a territorial fee system for artisanal fishing. Before end-June 1994, the Government will review the tax status of SNIM and draw up an action plan for implementing the recommendations.

13. On the expenditure side, the challenge facing the Government is to enhance the efficiency of public sector outlays while lowering their overall magnitude, consistent with the aim of raising domestic savings and reducing the role of the public sector. To attain this objective the increase in the public sector wage bill will be limited to 4 percent during 1994, reflecting only salary scale progression and recruitment for social priority areas in education and health services. Military expenditures will be frozen in nominal terms at their 1993 level. Subsidies or current transfers to public

enterprises will be strictly avoided. Before the end of 1993 the Government will review with the World Bank the 1994 public investment program foreseen in the budget.

14. Beginning with the implementation of the 1994 budget, greater transparency of government expenditure will be achieved through: (i) detailed programming and comprehensive monthly monitoring of the use of counterpart funds of foreign assistance; (ii) the preparation of functional budgets for the regional health and education centers; and (iii) the preparation of monthly balances of Treasury operations within three months following the end of each month beginning September 1993. An estimate of all outlays for structural reform of public or private enterprises using government resources, including from foreign aid, will be explicitly recorded in the consolidated government accounts projected for 1994. 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.

15. The Government intends to accelerate public enterprise reform in 1994. Efforts will be intensified to liquidate or privatize nonviable public enterprises. With this in mind, the liquidation of the insurance company SMAR will be initiated with the transfer of the company's sound assets to a new entity whose share capital will be offered for sale to the private sector before the end of 1993. The Government undertakes to enter into the 1995 budget the restructuring expenditures that may be required to complete the liquidation of SMAR, while keeping these costs to a minimum and within the constraint of the overall fiscal target set for that year. The sugar monopoly of SONIMEX will be abolished before end-December 1993. In addition, an updated action plan will be prepared before the end of 1993 on the liquidation or restructuring of all public enterprises, specifying concrete steps to be taken during the first half of 1994.

Monetary Policy and Financial Sector Reform

16. Monetary policy in 1993-94 will be consistent with the objective of consolidating recent progress in lowering inflation and the need for strengthening the balance of payments. A substantial reduction in the net foreign liabilities of the banking system from their still high level is a key objective for 1994. To bring this about without generating excessive growth of the money supply, the program calls for a fall in the net domestic assets of the banking system of 17.5 percent. The Government is committed to reducing its net indebtedness to the banking system in the course of 1994 given that net inflows of foreign resources are expected to exceed its overall borrowing requirement. Credit extension to the private sector will take into account the requirement to support economic activity as well as the need for caution until banking supervision has been strengthened.

17. Following good progress achieved in 1993, commercial banks will complete their restructuring in 1994. This will include adequate recapitalization before end-March 1994, without government participation,

(other than completion of the capital increase for BALM agreed in 1993) in light of the completed bank audits. Also before end-March 1994 each bank will submit to the Central Bank an action plan for eliminating arrears vis-à-vis foreign correspondents through a combination of cash settlement, rescheduling, or write-offs. A program for buy-backs of unsecured commercial debt taken over by the Government is under preparation in close cooperation with the World Bank. It is expected that this operation will take place in the second half of 1994 and will amount to SDR 45 million. The Government is concerned about the compartmentalization among the four commercial banks and delays that have occurred in developing an active interbank market. With this in mind, the option of allowing entry to a foreign owned bank will be considered before March 1994. A medium- and long-term strategy for the financial sector will be established before the end of 1994.

18. The Government considers a strengthened loan recovery program of particular importance in order to minimize the budgetary cost of the banking reform and foster a change in mentality conducive to reducing the risk of future bank insolvencies. With this in mind, a loan recovery program was launched in September 1993. A new agency has been charged with the recovery of nonperforming loans taken over by the Government from the former UBD and other banks. This agency will focus in particular on the largest debtors in default. Quarterly and monthly targets have been established for cash recovery totaling UM 300 million in September-December 1993 and UM 1 billion during 1994.

19. A program of strengthened bank supervision was initiated in July 1993. Prudential ratios and penalties for noncompliance will be strictly enforced. The Central Bank will request a listing by end-1993 of each bank's claim on a single group of borrowers and on their directors, senior officials, and immediate relatives. By December 31, 1993 the banks will need to submit an action plan to bring outstanding claims within the legal limits at the latest by end-March 1994 by which date they should also develop a plan to restore compliance with prudential regulations in general. The balance sheets of the banks will be audited during 1994 with a view to removing nonperforming loans that have been fully provisioned. Existing prudential regulations will be re-examined in 1994 taking into account the sectoral concentration of bank lending in Mauritania and limited information available for risk evaluation. The banks will prepare a training program for their staff before March 1994 in collaboration with the Central Bank.

20. Monetary policy will be redesigned to make use of indirect controls allowing market forces to operate. Before end-March 1994, the Central Bank will prepare, with technical assistance from the IMF, a system for periodic Treasury bill auctions that will be introduced beginning June 1994. The amount of Treasury bills to be auctioned will be determined in part with a view to reducing the excess reserves of the commercial banks. Also before

end-March 1994 the Central Bank will re-examine its policy in regard to required reserves, including possible remuneration. Bank specific credit limits will be phased out gradually.

21. With the aim to encourage domestic savings and enhance the efficient utilization of domestic financial resources, the Government intends to make further progress toward the establishment of a market-based system of interest rates. Such a policy would, in particular, allow interest rates to remain positive in real terms. At the same time, it is the Central Bank's intention to ease the maximum allowable margin between lending and deposit rates of commercial banks. Taking into account the expected decline in inflation to less than 5 percent by December 1993, the minimum deposit rate on savings accounts will be lowered from 9 to 8 percent while maintaining the maximum lending rate at 18 percent. The Central Bank will monitor bank behavior in light of their lower funding cost and will review this experience before end-March 1994.

External Sector Policies

22. The objective for the 1994 balance of payments is to limit the current account deficit to SDR 90 million (excluding official transfers) equivalent to 12.4 percent of GDP compared with 19.3 percent expected in 1993. This target is predicated on a modest increase in export receipts (4 percent) owing mainly to higher export volume of iron ore. Imports are expected to fall by 10 percent following the completion of major capacity expansion by SNIM and the reduction in imports associated with tight demand management. Taking into account principal payments due, the need to eliminate all external arrears, existing commitments including from the IMF and the World Bank, and the goal of raising the level of international reserves to 2 months' worth of imports, a financing gap emerges of SDR 93 million during 1994. This shortfall is expected to be covered through a combination of highly concessional official assistance (SDR 12 million), rescheduling of maturities falling due on debt vis-à-vis non-Paris Club bilateral creditors (SDR 27 million), and the restructuring of commercial banks arrears' (SDR 54 million) including a debt buy-back operation at a discount estimated at SDR 27 million. 1/

23. Mindful of the still heavy external debt burden, the low level of international reserves, and the dependence on external aid flows, the Government has decided to adjust to the more adverse export environment and redress the external imbalances. Several policies will serve this purpose. First, consistent with the objective of maintaining external competitiveness, the Government will continue to pursue an exchange rate policy that takes account of market forces. Second, restrictive fiscal and monetary policies should reduce domestic absorption and support exchange rate policy.

1/ The Government intends to ask its creditors for additional concessions that would permit a comprehensive solution to the external debt problem.

Third, further specific measures will be taken to encourage the reflow of workers' remittances and private capital, including authorization for nonresidents to open foreign currency accounts.

24. To consolidate the liberalization of the exchange system the Government will unify the exchange system before December 1994. To facilitate the move toward a unified system, a number of intermediate steps will be taken consistent with the Central Bank's international reserve targets. Before end-March 1994, commercial banks will be allowed to hold foreign currency deposits in accounts that the Central Bank will open abroad in its name for each bank. Banks will be authorized to debit these accounts for payments of essential imports within limits and under conditions specified by the Central Bank. Before end-March 1994 exporters will be authorized to retain part of their export proceeds in foreign currency denominated accounts with banks in Mauritania for subsequent payment for imports of goods and services according to modalities that will be specified by the Central Bank. Beginning in July 1994 the Central Bank will limit the spread between the official and the commercial bank exchange rate for bank notes and traveler's checks to 4 percent. Containment of the spread will be achieved, as needed, through more frequent adjustment of the pegged primary exchange rate or through purchases or sales by the Central Bank in the secondary market which will be converted into an interbank market. The auctions of import authorizations for eligible products will be maintained. Before end-November 1993 Mauritanian nonresidents will be allowed to freely open foreign currency denominated accounts in Mauritania and banks will be authorized to open such accounts without the need for prior government approval. A timetable for moving to Article VIII status will be discussed during the mid-term review.

25. Development of the full potential of the fisheries sector ranks among the Government's top priorities. To this end, the Government will submit a comprehensive dated action plan to interested donors by end-December 1993. The guiding principles of the Government's policy include: (i) leaving production and marketing of fisheries products to the private sector; (ii) ensuring an urgent improvement of the management of fishing grounds to avert the risk of depletion through overfishing which would jeopardize medium-term prospects for economic growth and external viability; (iii) putting in place a tax system that ensures adequate Government revenue, encourages efficient producers, minimizes distortions, and is easy to enforce; and (iv) increasing value added and employment in the sector and removing unnecessary institutional and regulatory impediments. Accordingly, the Government will announce before end-November 1993 the following measures:

- a ban on imports of fishing nets with a mesh size under 70 millimeter;

- imposition of limitations on fishing gear and equipment as specified by the National Center for Oceanic Research and Fisheries (CNROP) effective end-June 1994;

- strict enforcement by the fisheries control department (DCP) of fisheries regulations including on net sizes and application of penalties;

- strengthening of control at docking stations on fish size and confiscation of all young fish;

- regulation of the activities of ship chandlers before June 1994;

- extension to the customs office of inspection of licensed trawlers before end-January 1994;

- broadening of responsibilities for monitoring compliance with fisheries regulations to include the customs office in the Fisheries Control Department (before end-1993);

- announcement of the phased-in replacement of the export tax system by a public auction-based licensing system for industrial fishing, and a system based on territorial fees for the artisanal sector from September 1994;

- reduction in the share of the Government in the equity of the SMCP to 35 percent before May 1994;

- instruction to all industrial fishing trawlers to be equipped with electronic localization devices specified by the Government effective June 1994;

- strengthening implementation of bankruptcy procedures for nonviable enterprises in the sector;

- participation by agents of the Société Générale de Surveillance in the control of exports of the fisheries sector effective before end-June 1994; and

- development of an action plan by the Government before July 1, 1994 for selling its share in joint ventures in this sector.

26. Along with an increased role of market forces, the dismantling of regulatory and legal impediments to the development of private sector activity ranks among the main objectives of Mauritania's structural adjustment program. The need to diversify the country's export base compounds the urgency of measures in this area. Before March 1994 the Government will conduct studies in the following areas: (i) the impact of the legal framework on business including the investment code, the commercial code, as well as an evaluation of the existing regulatory framework and the efficacy of the judiciary system; (ii) the adequacy of the institutional support structure for private sector development; and (iii) the feasibility of establishing a free trade zone in Nouadhibou and scope for tourism industry.

Other Structural Reform

27. In order to consolidate the gains in the area of price deregulation, the Government will continue its policy of quarterly revisions of prices of petroleum products in light of import costs. Public utility tariffs will also be set with a view to avoiding the re-emergence of subsidies.

28. Poverty alleviation ranks among the Government's principal development objectives. Sustained private sector-led growth is expected to foster employment creation, including in rural areas, and to contribute to higher living standards. At the same time, the Government will follow a policy of encouraging employment creation in particular in artisanal fisheries and the informal urban sector. An action program based on the recommendations of the study of the poverty profile will be submitted to the donors before end-January 1994. The Government will pursue its policy of increasing budgetary allocations in order to ensure an adequate functioning of regional health centers. In education, policies aimed at increasing access to primary education and developing efficient technical education consistent with the needs of the market place will be pursued further.

Program Monitoring

29. 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 December 31, 1993 the Government of Mauritania will inform the Managing Director of the IMF (by facsimile) of the completion of these actions. Benchmarks of implementation of structural policies outlined in this letter are presented in Table 2. The program's proposed quantitative benchmarks for 1994 are described 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 of 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.

30. Quantitative performance criteria have been established for March 1994 and include items (a) to (g) in the preceding paragraph and shown in Table 3. The standard provision relating to the exchange and payments system is also proposed as a performance criterion for the program. Disbursement of the second tranche available under the second annual arrangement under the ESAF is contingent upon a mid-term review to be concluded no later than July 31, 1994. The mid-term review will, in particular, examine the following issues: exchange rate policy, modifications to the exchange regime in preparation for full unification, and a timetable for accepting Article VIII status; progress in bank supervision; external arrears reduction; and consideration of any additional measures that might be needed to attain the objectives of the 1994 program.

31. Among the structural benchmarks shown in Table 2, items (2) and (12) will serve as structural performance criteria.

32. The Government of Mauritania believes that the policies and measures described in the attached memorandum are adequate to achieve the objectives of the program but will take any further measures that may prove necessary for this purpose. During the period of the arrangement, the Government will consult with the Managing Director of the IMF either at its own initiative or whenever the Managing Director requests such consultations, 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 consultation, on Mauritania's economic and financial policies. The Government of Mauritania 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 December 31, 1993:

Passage of the 1994 budget consistent with the financial program, including announcement of revenue and expenditure measures totalling UM 5.53 billion.

Submission of Value Added Tax legislation for approval by Parliament.

Appointment of liquidator for SMAR.

Abolition of sugar monopoly of SONIMEX.

Submission to Central Bank by each commercial bank of information on loan concentration and of an action plan to bring outstanding claims within legal limits.

Authorization to Mauritanian nonresidents to open foreign currency denominated accounts in Mauritania.

Import ban of fishing nets with a mesh size under 70 millimeter.

Announcement of a series of measures to be taken in the fisheries sector through end-1994.

Table 2. Mauritania--Structural Benchmarks Included in the ESAF Arrangement: December 1993-December 1994

1.	Preparation of an updated action plan on liquidation or restructuring of public enterprises.	December 31, 1993
2.	Preparation of monthly statements of Treasury accounts beginning for September 1993 with a delay not exceeding 3 months. 1/	December 31, 1993
3.	Extension to the Customs Office of inspection of licensed fishing trawlers.	January 31, 1994
4.	Submission of an action plan to the donors based on the recommendations of the study of the poverty profile.	January 31, 1994
5.	*Comprehensive monthly monitoring of the use of* counterpart funds of foreign assistance.	January 31, 1994
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
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
8.	Submission to IMF of a comprehensive action plan for reducing tax exemptions.	March 31, 1994
9.	Reduction in the share of Government in the equity of the SMCP to 35 percent.	May 31, 1994
10.	Privatization of the newly created company holding SMAR's sound assets.	May 31, 1994
11.	Participation by agents of the SGS in the control of exports of the fisheries sector.	June 30, 1994
12.	Implementation of periodic Treasury bill auctions. 2/	June 30, 1994
13.	Limiting the spread between the official and the commercial bank exchange rate of bank notes and travelers' checks to 4 percent.	June 30, 1994
14.	Introduction of a system of auctioned licenses for industrial fishing.	September 1, 1994
15.	Unification of the exchange rate.	November 30, 1994
16.	Introduction of a territorial fee for artisanal fishing.	December 31, 1994

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

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

	EBS/93/105	Revised Benchmark	Performance Criteria 2/	Indicative Benchmarks		
	Dec. 1993		March 1994	June 1994	Sept. 1994	Dec.1994
			(In millions of ouguiyas)			
Net domestic assets 3/	50,473	55,563	56,773	53,910	54,370	45,860
Net credit to the Government	10,619	10,440	11,650	8,990	9,450	7,050
Government wage bill 4/	6,441	6,441	1,880	3,540	5,100	6,700
Overall balance of consolidated Government operations 4/	−12,790	−12,790	−2,180	−3,550	−5,380	−4,110
			(In millions of SDRs)			
Arrears on external public debt	– –	– –	– –	– –	– –	– –
Arrears on external short−term private debt	– –	72.2	72.2	72.2	72.2	– –
Increase in short−term debt of commercial banks 4/ 5/	– –	– –	– –	– –	– –	– –
New nonconcessional external loans contracted or guaranteed by the Government 4/						
– less than one year 5/	– –	– –	– –	– –	– –	– –
– 1−15 years maturity	– –	– –	– –	– –	– –	– –
Net foreign liabilities of the central bank	98.7	100.5	119.1	107	99.1	75.6

Sources: Mauritanian authorities; EBS/93/105; and Fund staff estimates.

1/ The benchmarks and performance criteria will be adjusted as explained in Table 4.
2/ Except for net foreign liabilities of the Central Bank, where the ceilings constitute benchmarks,
3/ Based on accounting exchange rate of UM 171.7 per SDR except for data from EBS/93/105 which have been converted at the exchange rate of UM 144.5 per SDR.
4/ Cumulative flows since January 1 of each year.
5/ Excluding short−term import credits.

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

	March Performance Criteria 2/	June	Sept.	Dec.
		Benchmarks		
		(In billions of ouguiyas)		
Net domestic assets				
Projected debt payments: current maturities and arrears reduction 3/	6.06	9.01	11.13	18.66
Net bank credit to Government				
Loan recovery	0.05	0.10	0.15	0.20
Overall balance of consolidated government operations				
Interest due on external debt	0.66	1.23	1.94	2.49
Bank reform outlays	– –	0.25	0.25	0.25
Extra–budgetary	0.80	1.78	3.09	4.60
Program–related financing	0.33	4.66	5.16	5.79
Loan recovery	0.05	0.10	0.15	0.20
Privatization proceeds	– –	0.13	0.13	0.13
		(In millions of SDRs)		
Net foreign liabilities of the Central Bank				
Projected debt payments: current maturities and arrears reduction 4/	35.3	52.5	64.8	108.7

Sources: Mauritania authorities; and Fund staff estimates.

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

2/ Except for ceiling on net foreign liabilities of the central bank, which constitutes a benchmark.

3/ *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.

	QI	QII	QIII	QIV	Total
4/ Projected payments: (in millions of SDRs)					
Current maturities: interest	5.2	5.1	5.4	15.6	31.3
Current maturities: amortization	30.1	12.1	6.9	10.2	59.3
Arrears reduction	– –	– –	– –	18.1	18.1
Total	35.3	17.2	12.3	43.9	108.7

Mauritania: Status of Implementation of Structural Reforms, October 1992-September 1993

Policy Measures	Programmed Timetable	Status
External sector policies		
1. Assumption by the Central Bank of all the short-term foreign liabilities of the commercial banks for which it has received local currency.	October 1, 1992	Implemented
2. Adoption of transitional measures to ensure access to foreign exchange by priority sectors.	October 15, 1992	Implemented
3. Easing of exchange control procedures.	October 15, 1992	Implemented
4. Creation of a limited foreign exchange market at the level of commercial banks.	November 1, 1992	Implemented
5. Elimination of prior authorization for exports.	November 20, 1992	Implemented
6. Liberalization of payments for invisibles in the free market.	January 1, 1993	Implemented (March 31, 1993)
7. Implementation of a new system for allocation of import authorizations (auction).	January 1, 1993	Implemented (March 1993)
8. Elimination of preferential exchange rate for workers' remittances.	January 1, 1993	Implemented
9. Elimination of limits imposed by the Central Bank on acquisition and transfers of foreign exchange by residents through the free market for transactions on invisibles.	January-March, 1993	Implemented
Fiscal policies		
1. Revenue		
1.1 Submission to the Fund of draft outline on the reforms of the taxation system for the fisheries sector.	December 31, 1992	Implemented (in 1993)
1.2 Increasing the statistical tax rate to 3 percent.	January 1, 1993	Implemented
1.3 Replacing the earmarked veterinary tax with equivalent budgetary transfers to the Livestock Directorate.	January 1, 1993	Implemented
1.4 Increasing by 5 percentage points the customs duty imposed on textile imports.	January 1, 1993	Implemented
1.5 Elimination of tariff exonerations granted to the import of pneumatic tires.	January 1, 1993	Implemented
1.6 Submission of a draft study to the Fund on the introduction of VAT.	March 1993	Implemented
1.7 Submission to the Fund of a study on taxation of the agricultural and livestock sectors, and the mining industry.	June 30, 1993	Remains to be implemented
2. Expenditure control		
2.1 Expansion of budget coverage to all expenditures.	1993	Implemented

Mauritania: Status of Implementation of Structural Reforms, October 1992-September 1993 (continued)

Policy Measures	Programmed Timetable	Status
2.2 Limiting the Government's annual wage bill to a level consistent with the inflation and overall fiscal targets.	1992-95	Implemented
2.3 Preparation of a rolling three-year expenditure program, including a core social and infrastructure maintenance program and reallocation of public expenditure, according to established objectives and priorities.	1992-95	Implemented
Public sector management		
1. Completion of computerized civil service management system.	October 30, 1992	Implemented
2. Approval and implementation of revised procurement law.	October 30, 1992	Implemented
3. Participation of the tax and customs directorates in the procurements awarding committee.	November 1, 1992	Implemented
4. Implementation of competitive examination for transparent recruitment policy.	December 31, 1992	Implemented
5. Lowering of retirement age for certain categories to 60 years and preparation of a voluntary departure program:		
(a) Enactment of law (on lowering of retirement age).	December 31, 1992	Implemented
(b) Implementation of law (on lowering of retirement age) for at least 234 auxiliaries in 1992.	January 1, 1993	Implemented
(c) Preparation of voluntary departure program.	1993	Remains to be implemented
6. Adoption of guidelines for project appraisal.	March 1993	Implemented
7. Improvement of inter- and intra-sectoral allocation of investments.	1992-95	Implemented
8. Freezing new recruitment except in the health and education sectors.	1992-95	Implemented
Banking system restructuring		
1. Exclusion of the largest delinquent borrowers from participation in government public works contracts.	October 1, 1992	Implemented
2. Elimination of the preferential rediscount rate.	October 15, 1992	Implemented
3. Revision of data base on nonperforming loans assumed by the Government, and determination of annual collection targets per bank.	October 1992	Implemented
4. Interdiction by the Central Bank to commercial banks to grant new loans to such borrowers on the basis of periodically updated list.	November 1, 1992	Implemented

Mauritania: Status of Implementation of Structural Reforms, October 1992-September 1993 (continued)

Policy Measures	Programmed Timetable	Status
5. Submission to the World Bank and Fund of the findings of an independent audit of the portfolio of all commercial and development banks (BNM, BAMIS, BMCI, and UBD) as of the end of 1991, and implementation of conclusions of UBD audit in consultation with both institutions.	November 15, 1992	Implemented (in 1993)
6. Establishment, based on audits, of a list of recoverable loans and a monthly timetable for their recovery.	November 20, 1992	Implemented (in 1993)
7. Implementation of decision not to issue importer/exporter cards for operators having delinquent accounts with the commercial banks.	December 1, 1992	Implemented
8. Preparation of an action plan for the restructuring, privatization, or liquidation of any bank found to be insolvent or nonviable.	December 15, 1992	Implemented (in 1993)
9. Lowering of judiciary fees borne by banks in the recovery process and strengthening of regulatory and legal procedures to improve banks' ability to recover nonperforming loans.	December 1992	Implemented (February 1993)
10. No renewal of importer/exporter cards for operators having delinquent accounts with the commercial banks as of December 31, 1992.	March 31, 1993	Implemented
11. Elimination of the special rediscount facility after the restructuring of the BNM.	1992-93	Implemented
12. Sale of government shares in BAMIS, BMCI, and BNM to the private sector and exclusion of the Government from any capital increase of these banks.	1992-95	Implemented (in 1993)
13. Strengthening of bank supervision including the imposition of more stringent reporting requirements for banks and financial penalties for noncompliance with current bank regulations.	1992-95	Implemented (partial)
Monetary and credit policy		
1. Effective application of requirement of banks to back up new credits with collateral or guarantees.	October 1, 1992	Implemented
2. Strengthening of primary banks' capital.	December 31, 1992	Implemented (in 1993)
3. Complete liberalization of interest rates with safeguards for small savers and against usurious lending rates.	January 1, 1993	Implemented
4. Integration of BAMIS into a compensation system.	January 1, 1993	Implemented
5. Application of an interest rate equal to the rediscount rate on outstanding advances granted by the Central Bank to the Treasury.	January 1, 1993	Implemented
6. Implementation by Central Bank of debtor ranking and daily liquidity follow up.	March 1, 1993	Implemented
7. Elimination of prior authorizations for bank credit.	March 1993	Implemented

Mauritania: Status of Implementation of Structural Reforms, October 1992-September 1993 (continued)

Policy Measures	Programmed Timetable	Status
8. Elimination of quantitative controls on credit.	1992-94	Implemented (1992-93)
9. Liberalization of interest rates	1993	Remains to be implemented
Public enterprises		
1. Completion and signing of performance contract with Air Mauritania.	October 15, 1992	Implemented
2. Abolition of SONIMEX monopoly on tea.	October 30, 1992	Implemented
3. Making satisfactory progress in the financial performance of at least half of the nonstrategic public enterprises, and based on the results, agreement on a liquidation plan of nonviable enterprises.	October 30, 1992	Implemented (partial)
4. Implementation of recommendations for improvement of SONIMEX operations, following demonopolization.	October 30, 1992	Implemented
5. Demonstration of satisfactory progress toward covering severance pay obligations and other assistance to redundant labor.	October 1992	Implemented
6. Implementation of results of study on refinery (SOMIR).	October 1992	Implemented
7. Full settlement of all cross-debts.	November 15, 1992	Implemented (except for SMCPP)
8. Enactment of new insurance law and abolition of SMAR reinsurance monopoly.	November 30, 1992	Implemented
9. Completion of performance contract with PANPA.	December 31, 1992	Implemented
10. Proposing personnel reduction at OPT and SONIMEX.	1992	Implemented (for SONIMEX only)
11. Elimination of tax exemptions for all public enterprises and, if needed, their replacement by budgeted subsidies.	January 1, 1993	Implemented (partial)
12. Privatization or liquidation of SMAR.	March 31, 1993	Remains to be implemented
13. Phasing out nonviable mixed companies (50 percent in 1992, 50 percent in 1993).	1992-93	Implemented (partial)
14. Implementation of tariff adjustment each semester at levels necessary to ensure SONELEC's financial viability.	1992-93	Implemented
Pricing and domestic trade policies		
1. Elimination of the price controls imposed in October 1992 on nine products, as follows:		
- locally produced goods (meat and fish);	November 15, 1992	Implemented
- three of the seven imported products;	November 15, 1992	Implemented
- the remaining four imported products.	December 31, 1992	Implemented

Mauritania: Status of Implementation of Structural Reforms, October 1992-September 1993 (concluded)

Policy Measures	Programmed Timetable	Status
2. Setting realistic prices for the remaining products for which SONIMEX still has a monopoly, taking into account import costs.	1992-93	Implemented
3. Revision of tariffs for public services to reflect production costs.	1992-95	Implemented
4. Revision of retail prices of petroleum products in light of import costs and budget constraints.	1992-95	Implemented
Agriculture policy		
1. Submission to the World Bank of the budgetary results of the CSA for 1990, 1991, and 1992 (prel.).	October 31, 1992	Implemented
2. Formal establishment of the rural credit structure.	November 30, 1992	Implemented
3. Increase in wholesale and reduction in retail food sales by CSA in accordance with AGSECAL agreements.	1992-95	Implemented
Fishing sector policy		
1. Preparation of a clear strategy and action plan to promote sustainable development of the sector over the medium and long term.	October 30, 1992	Implemented (in 1993)
2. Establishment of a special revolving line of credit to support the recovery of the fishing sector.	December 31, 1992	Implemented (established with one foreign bank; efforts underway for more)
3. Limitation of Government participation in SMCP to: - 50 percent - 25 percent	 December 31, 1992 June 30, 1993	Remains to be implemented
Human resources and social programs		
1. Finalization of poverty profile survey.	1992	Implemented
2. Restriction of teaching bonuses to only those teachers with classroom duties.	January 1, 1993	Implemented
3. Admission of a minimum of 450 trainees to ENI.	1992-93	Implemented
4. Increasing the share of health expenditures in the total recurrent expenditures.	1992-95	Implemented

Sensitivity Analysis and Capacity to Repay the Fund

Mauritania's medium-term balance of payments outlook is highly sensitive to changes in some of the underlying assumptions (Attachment IV, Table 1). The baseline scenario assumes moderate growth in volume and prices of exports of iron ore and fish products, in line with expansion in importing countries and consistent with the need to avoid overexploitation of the fishing grounds. Dependence on imported oil and concentration on only two major export items, fish products and iron ore, make the country vulnerable to terms of trade shocks. The projections in alternative Scenario A assume that from 1994 onward, the unit export price of fish (in U.S. dollar terms) will be 10 percent lower than in the baseline scenario. The projections in Scenario B, besides incorporating the same decline in fish product prices as in Scenario A, assume also that from 1994 onward the unit export price of iron ore (in U.S. dollar terms) will be 5 percent lower than in the baseline scenario. The projections in Scenario C, while maintaining the baseline export forecasts, take into account the most recent WEO projections for oil import prices, which are on average about 15 percent lower than in the baseline scenario.

Under Scenario A, the current account deficit in 1994 would be SDR 14 million (1.9 percent of GDP) higher, and the cumulative current account deficit (excluding official transfers) during 1995-98 would amount to SDR 287 million, against SDR 219 million in the baseline scenario. In Scenario B the current account deficit in 1994 would be SDR 27 million (3.7 percent of GDP) higher than in the baseline scenario, and the cumulative current account deficit (excluding official transfers) during 1995-98 would amount to SDR 352 million. Debt service payments before debt relief in 1998 would be 31 percent of exports of goods and services in Scenario A and 33 percent in Scenario B, compared with 29 percent in the baseline scenario. In Scenario C, the current account deficit (excluding transfers) would amount to SDR 87 million (11.9 percent of GDP against 12.4 percent in the baseline scenario) in 1994 and would decline to 5.1 percent of GDP in 1998, as opposed to 5.5 percent in the baseline scenario. Under this more favorable scenario, the cumulative current account deficit (excluding official transfers) during 1995-98 would be SDR 203 million.

To assess Mauritania's long-term capacity to repay the Fund, the scenarios have been extended through 2004. Under the baseline scenario, Mauritania's external position is expected to continue to improve, with the current account deficit (excluding official transfers) declining further in terms of GDP, the overall balance of payments becoming positive in 1999, and the financing gap disappearing in 2002. Assuming full disbursement of the proposed ESAF loan, Mauritania's outstanding obligations to the Fund would peak at 124 percent of quota in 1994, before declining steadily to 5 percent in 2003 (Attachment IV, Table 2). Debt service to the Fund as a percentage of exports of goods and services would grow from 1.7 percent in 1993 to 2.1 percent in 1996 and would gradually decline thereafter. In absolute terms, payment obligations to the Fund would peak at SDR 8.1 million in 2000. In relation to gross official reserves, debt service payments to

the Fund would decline from 10.4 percent in 1993 to 5.8 percent in 1998 and further to 1.5 percent in 2004 (Attachment IV, Table 3). Under the more pessimistic assumptions in Scenario B, debt service to the Fund would peak in 1996 at 9.9 percent of gross official reserves and 2.3 percent of exports of goods and services.

Table 1. Mauritania: Medium-Term Balance of Payments Scenarios, 1991-2004

(In percent, and in millions of SDRs)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
							Projections							
							Baseline Scenario							
Current account deficit, excluding grants (SDR millions)	-119	-140	-133	-90	-68	-50	-51	-50	-50	-54	-55	-57	-57	-58
Current account as percent of GDP	-14.4	-16.6	-19.3	-12.4	-8.8	-6.2	-5.9	-5.5	-5.3	-5.3	-5.2	-5.0	-4.8	-4.6
Overall balance (SDR millions)	-87	-61	-2	-3	-36	-15	-15	-14	6	8	11	15	20	26
Debt service ratio (before debt relief) 1/	34.7	41.8	41.4	30.5	33.6	32.1	30.4	28.9	23.7	23.0	22.0	21.2	19.9	18.7
							Scenario A							
Current account deficit, excluding grants (SDR millions)	-119	-140	-133	-104	-83	-67	-68	-69	-71	-75	-78	-80	-82	-84
Current account as percent of GDP	-14.4	-16.6	-19.3	-14.3	-10.7	-8.2	-7.9	-7.6	-7.4	-7.4	-7.3	-7.1	-6.9	-6.7
Overall balance (SDR millions)	-87	-61	-2	-17	-51	-31	-33	-33	-14	-14	-11	-8	-4	-1
Debt service ratio (before debt relief) 1/	34.7	41.8	41.4	32.3	35.6	34.2	32.5	31.0	25.7	25.0	24.0	23.1	21.8	20.6
							Scenario B							
Current account deficit, excluding grants (SDR millions)	-119	-140	-133	-117	-98	-82	-85	-87	-90	-95	-99	-103	-107	-110
Current account as percent of GDP	-14.4	-16.6	-19.3	-16.1	-12.6	-10.0	-9.9	-9.6	-9.4	-9.4	-9.3	-9.2	-9.0	-8.8
Overall balance (SDR millions)	-87	-61	-2	-31	-66	-46	-50	-51	-33	-34	-33	-32	-29	-27
Debt service ratio (before debt relief) 1/	34.7	41.8	41.4	33.7	37.3	35.9	34.3	32.9	27.4	26.7	25.8	25.0	23.8	22.5
							Scenario C							
Current account deficit, excluding grants (SDR millions)	-119	-140	-133	-87	-64	-46	-47	-46	-46	-49	-50	-51	-51	-51
Current account as percent of GDP	-14.4	-16.6	-19.3	-11.9	-8.3	-5.7	-5.5	-5.1	-4.8	-4.8	-4.7	-4.5	-4.3	-4.1
Overall balance (SDR millions)	-87	-61	-2	--	-32	-11	-12	-10	11	12	16	21	26	32
Debt service ratio (before debt relief) 1/	34.7	41.8	41.4	30.5	33.6	32.1	30.3	28.8	23.6	22.9	21.8	21.0	19.7	18.5

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

1/ As a percentage of exports of goods and services, including the Fund.

ATTACHMENT IV

Table 2. Mauritania: Indicators of Fund Credit, 1993-2004

(In percent)

	1993	1994	1995	1996	1997	Projections 1998	1999	2000	2001	2002	2003	2004
Outstanding Fund credit/Quota 1/	97.0	123.8	111.3	97.0	85.6	74.9	60.6	44.6	30.3	16.0	5.4	--
Outstanding Fund credit/GDP 1/	6.7	8.1	6.8	5.7	4.7	3.9	3.0	2.1	1.3	0.7	0.2	--
Outstanding Fund credit/Exports of goods and services 1/	14.2	17.4	14.9	12.5	10.6	8.8	6.8	4.8	3.1	1.6	0.5	--
Debt service to the Fund/Exports of goods and services												
Baseline scenario	1.7	1.6	2.0	2.1	1.7	1.5	1.8	1.9	1.6	1.6	1.0	0.6
Scenario A	1.7	1.7	2.1	2.2	1.8	1.6	1.9	2.0	1.7	1.7	1.1	0.6
Scenario B	1.7	1.7	2.2	2.3	1.9	1.7	2.0	2.1	1.8	1.7	1.1	0.6
Scenario C	1.7	1.6	2.0	2.1	1.7	1.5	1.8	1.9	1.6	1.6	1.0	0.6
Debt service to the Fund/ Total debt service 2/												
Baseline scenario	4.2	5.7	6.0	6.8	5.7	5.4	7.7	8.3	7.5	7.4	5.2	3.0
Scenario A	4.2	5.7	6.0	6.7	5.6	5.3	7.5	8.0	7.2	7.1	5.0	2.8
Scenario B	4.2	5.7	6.0	6.6	5.5	5.2	7.4	7.8	7.0	6.9	4.8	2.7
Scenario C	4.2	5.7	6.1	6.8	5.7	5.4	7.8	8.3	7.5	7.5	5.3	3.0
Debt service to the Fund/ Gross official reserves												
Baseline scenario	10.4	8.1	9.7	9.8	7.1	5.8	6.4	6.5	5.5	5.1	3.1	1.5
Scenario A	10.4	8.2	9.8	9.9	7.1	5.8	6.5	6.5	5.5	5.2	3.4	1.8
Scenario B	10.4	8.2	9.8	9.9	7.1	5.8	6.4	6.5	5.5	5.1	3.3	1.7
Scenario C	10.4	8.2	9.8	9.9	7.1	5.8	6.5	6.6	5.4	4.8	2.9	1.4

Sources: IMF, Treasurer's Department (Attachment IV, Table 3); and staff projections.

1/ Baseline scenario.

Table 3. Mauritania: Projected Payments to the Fund as at October 31, 1993

(In millions of SDRs)

	Overdue	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Beyond	Total
A. Obligations from existing drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	--	--	--	--	--	--	--	--
b. ESAF/SAF repayments	--	1.0	4.2	5.9	6.8	5.4	5.1	5.9	4.2	3.4	3.4	1.7	47.1
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.2	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.4	0.4	--	4.8
Total obligations 2/	--	1.2	4.9	6.5	7.3	6.0	5.6	6.4	4.7	3.8	3.8	1.7	52.0
(Percent of quota)	--	2.6	10.2	13.7	15.4	12.5	11.7	13.4	9.8	8.0	8.0	3.5	109.3
B. Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	--	--	--	--	--	--	--	--
b. ESAF/SAF repayments	--	--	--	--	--	--	--	0.8	3.4	3.4	3.4	5.9	17.0
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	--	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	--	--	0.7
Total obligations	--	--	0.1	0.1	0.1	0.1	0.1	0.9	3.5	3.4	3.4	6.0	17.6
(Percent of quota)	--	--	0.1	0.1	0.1	0.1	0.1	1.9	7.2	7.2	7.2	12.5	37.0
C. Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	--	--	--	--	--	--	--	--	--	--	--	--
b. ESAF/SAF repayments	--	1.0	4.2	5.9	6.8	5.4	5.1	6.8	7.6	6.8	6.8	7.6	64.1
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.2	0.7	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	--	5.5
Total obligations 2/	--	1.2	4.9	6.6	7.4	6.0	5.7	7.3	8.1	7.3	7.2	7.7	69.6
(Percent of quota)	--	2.6	10.3	13.9	15.6	12.7	11.9	15.4	17.1	15.2	15.2	16.1	146.4

Source: Treasurer's Department, IMF.

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, ESAF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

2/ Overdue obligations (if applicable) will be settled in full at close of business November 1, 1993.

I. Exchange and Trade System

This attachment documents the exchange and payments system in Mauritania at the time of the 1993 Article IV consultation discussions. A summary is also provided of changes to the system since December 31, 1992. Information on earlier developments is available from the documentation for the 1992 Article IV consultation discussions. 1/

1. Exchange arrangement

The currency of Mauritania is the Mauritanian ouguiya. Since October 18, 1992 a two-tier exchange system has been operating. The official exchange rate for the ouguiya is determined by the Central Bank of Mauritania (BCM) on the basis of a basket of currencies comprising the Belgian franc, the deutsche mark, the French franc, the Italian lira, the Spanish peseta, and the U.S. dollar. The weights assigned to these currencies are based on their relative importance in Mauritania's total exchange transactions and are revised from time to time. The pegged exchange rate is kept under review, taking into account a broad range of indicators and is adjusted as necessary. On November 30, 1993, the mid-point exchange rate of the U.S. dollar was UM 125.15 per US$1.

Since October 1992, a limited market for foreign currency notes and traveler's checks has been operating at the level of the commercial banks, where buying and selling rates are freely determined. Purchases of foreign exchange in the free market are on a "no questions asked" basis and sales are made without limits for bona fide payments for invisible transactions (e.g., travel, medical, and educational expenses). The BCM sells foreign currency notes and traveler's checks only for official travel and for other purposes judged exceptional. The average commercial bank rate is applied to remittances of Mauritanian workers residing abroad. There are no taxes or subsidies on purchases of foreign exchange.

2. Nonresident and foreign currency accounts

Nonresidents, with the prior approval of the BCM, may open interest-bearing convertible ouguiya and convertible foreign currency accounts with authorized banks. Convertible ouguiya accounts may be credited only with (1) transfers from other convertible ouguiya accounts, (2) 15 percent of the repatriated proceeds from fish exports through the Mauritanian fish marketing company (SMCP), and (3) 25 percent of the repatriated proceeds from exports by qualifying enterprises. These accounts may be debited in foreign currency only for expenses relating to exporters' production activities. Convertible foreign currency accounts may be debited for any

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1/ See "Mauritania--Recent Economic Developments," SM/92/208 (12/2/92) and "Exchange Arrangements and Exchange Restrictions--Annual Report 1993," pp. 327-329.

payment, except in the form of banknotes, without approval from the BCM. Residents are not allowed to hold foreign exchange accounts with domestic banks.

3. Trade and invisibles

a. Import and import payments

Imports of a few goods are prohibited for reasons of health or public policy. Only holders of importer-exporter cards or holders of special authorization from the Ministry of Commerce are permitted to engage in import transactions. Importer-exporter cards are issued by the Ministry of Commerce and must be renewed every year; debtors in arrears with the banking system cannot have their importer-exporter cards renewed. Import transactions must be effected through an authorized bank, except for imports directly financed from abroad.

Import permits are auctioned monthly by the BCM. Only holders of importer-exporter cards, public enterprises, and other special enterprises can participate in the auctions. Permits are valid for one month. After buying the permit at an auction, the importer is entitled to purchase foreign exchange from the BCM at the official exchange rate; the purchase may take place only either within ten days before shipment if a documentary credit is opened, or if the goods have already arrived, less than eight days before payment is due. Earlier advance payments require the prior approval of the BCM. All imports must be insured with the Mauritanian state insurance and reinsurance company.

There is a general customs duty rate of 15 percent, and a reduced rate of 5 percent applies to selected goods; some capital and consumer goods are exempt. Imports from the West African Economic Community (WAEC) and some imports from Algeria, Morocco, Tunisia, and the EU are also exempt. In addition to the customs duty, import taxes are levied at rates ranging from 5 percent to 166 percent (with various exemptions). A turnover tax on imports (TCA) is levied at a minimum rate of 10 percent and at a maximum rate of 20 percent (with various exemptions). A regional cooperation tax applies to some industrial products imported from WAEC countries in lieu of the import duties. A tax of 3 percent is levied on international trade to finance the collection of statistics.

b. Payments for invisibles

There are no limits on the acquisition and transfer of foreign exchange through the free market in banknotes and traveler's checks for travel, medical treatment, and study abroad. However, requests beyond UM 15,000 per day of stay abroad must be submitted to the BCM. Other payments for invisibles must be approved by the BCM.

Foreign workers in Mauritania may transfer savings from their salaries up to varying percentages, according to marital status. At the end of their stay in Mauritania, they may transfer all their assets abroad. Interest, profits, and dividends earned by nonresidents can be freely transferred abroad. The exportation of domestic bank notes is forbidden.

c. Export and export proceeds

Only holders of importer-exporter cards and holders of special authorization from the Ministry of Commerce are permitted to engage in export transactions. Export transactions to all countries in excess of UM 20,000 must be effected through an authorized bank. Exporters, through their bank, must send to the BCM Certificates of Export on which they specify quantity, value, and destination of the goods. Foreign exchange proceeds must be repatriated and surrendered to the BCM at the official exchange rate no later than the due date of receipts. Certain enterprises are allowed to retain 15 percent of export proceeds on foreign exchange accounts with domestic banks.

Exports of iron ore are the monopoly of the national industrial and mining company (SNIM), and a special exemption applies to the repatriation of its export proceeds. Exports of demersal fish are the monopoly of the SMCP. A tax is levied on exports of fish and crustaceans, at rates ranging from 5 percent to 20 percent.

d. Proceeds from invisibles

Proceeds from transactions on invisibles must be surrendered. All amounts due from nonresidents for services and all income earned abroad from foreign assets must be collected and surrendered within four months of the due date of payment.

Authorized banks may buy foreign currency notes and traveler's checks on a no-questions-asked basis. Among residents, only authorized banks may hold foreign exchange notes and traveler's checks. Residents and nonresident Mauritanians can freely import foreign exchange notes and traveler's checks, but they must exchange them at an authorized bank within 15 days of arrival. Nonresident non-Mauritanians must declare imported foreign currency notes and traveler's checks in excess of US$2,000; they can re-export the declared amount, diminished by the equivalent of UM 10,000 per day of stay.

4. Capital

Capital movements between Mauritania and foreign countries are subject to exchange control. Outward capital movements require exchange control approval from the BCM and are restricted. Issuing, advertising, or offering for sale foreign securities require prior authorization from the BCM. The liquidation of foreign investments in Mauritania must be reported to the BCM within 20 days of each operation.

Capital receipts are normally permitted freely, although subsequent investment of the funds in Mauritania may require approval. Borrowing by residents from abroad requires prior authorization from the BCM. Full or partial liquidation of Mauritanian investments abroad must also be declared.

5. Gold

Residents are free to hold, acquire, and dispose of gold in any form in Mauritania. Imports and exports of gold require prior authorization from the BCM.

II. Changes in the Exchange and Trade System January-November 1993

1. Exchange arrangement

January 1: Elimination of the preferential exchange rate for the remittances of Mauritanian workers abroad.

2. Nonresident and foreign currency accounts

August 8: Nonresident Mauritanians were allowed to open convertible ouguiya accounts with authorized banks without prior BCM authorization.

September 29: Rules on importation of foreign exchange notes and traveler's checks were simplified and liberalized.

November 30: Nonresident Mauritanians were allowed to open foreign currency accounts with authorized banks without prior BCM authorization.

3. Trade and invisibles

February 21: Specific case-by-case import authorizations were replaced by an auction system.

March 30: Limits imposed by the BCM on allocations of foreign exchange notes and traveler's checks for travel, medical treatment, and study abroad were eliminated.

April 13: Issuance and renewal procedures for the importer-exporter card were simplified.

Mauritania: Fund Relations

(As of November 30, 1993)

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	0.01	0.1

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
SAF arrangements	12.20	25.7
ESAF arrangements	33.90	71.4

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	16.95
ESAF	5/24/89	12/08/92	50.87	20.36
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				
	11/30/93	1993	1994	1995	1996	1997
Principal	--	--	4.2	5.9	6.8	5.4
Charges/interest	--	0.1	0.6	0.6	0.6	0.6
Total	--	0.1	4.8	6.5	7.4	6.0

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 is 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 November 30, 1993, US$1 was equivalent to UM 125.15 in the primary market.

VIII. Last Article IV Consultation

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

The staff completed discussions with the authorities on the 1992 Article IV consultation, together with negotiations on a two-year arrangement (1992-94) under the enhanced structural adjustment facility (ESAF) and the first annual arrangement (1992-93) thereunder, during the Annual Meetings in late September 1992.

The staff report (EBS/92/180) and the report on recent economic developments (SM/92/208) were considered by the Executive Board on December 9, 1992. The decision concluding the Article IV consultation was as follows:

Mauritania - 1992 Article IV Consultation

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1992 Article XIV consultation with Mauritania, in the light of the 1992 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/92/180, Mauritania maintains restrictions on payments and transfers for current international transactions in accordance with the transitional arrangements under Article XIV, Section 2. Mauritania also maintains exchange restrictions evidenced by external payments arrears that are subject to Article VIII, Section 2(a); and engages in multiple currency practices arising from the existence of (i) a preferential exchange rate for workers' remittances, (ii) an official rate pegged to a basket of currencies, and (iii) an exchange rate in the free market. The Fund notes the intention of Mauritania to remove the preferential rate before January 1, 1993; to unify the remaining rates not later than the expiration of the period of the two-year ESAF arrangement (EBS/92/180); and to eliminate the exchange restrictions evidenced by external payments arrears through debt relief by end-1993. In the meantime, the Fund urges Mauritania to eliminate the restrictions maintained in accordance with the transitional arrangements under Article XIV, Section 2 as soon as possible; and grants approval for the retention of the above exchange restrictions and multiple currency practices that are subject to Article VIII, Sections 2(a) and 3 until December 31, 1993 or the date of completion of the 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.

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

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 - Basic Data

Area, population and GDP per capita

Area	1.0 million square kilometers
Population: Total (1992)	2.1 million
Growth rate	2.8 percent
GDP per capita (1992)	SDR 406

Economic and Financial Indicators

	1988	1989	1990	1991	1992
GDP (at 1985 market prices)					
Total (in millions of UM)	57,707	60,464	59,393	60,944	61,982
Annual rate of growth	1.7	4.8	-1.8	2.6	1.7
			(In percent of GDP)		
Agriculture and livestock	20.0	19.9	19.0	19.3	19.1
Fishing (including industrial fishing)	8.2	6.8	6.2	6.6	7.5
Mining	10.3	14.7	13.5	12.2	9.6
Manufacturing	3.9	3.9	3.8	3.8	3.9
Construction and public works	7.5	6.0	6.3	6.4	7.0
Government	17.6	16.9	17.5	17.6	17.3
Gross capital formation	27.8	18.6	19.9	17.9	22.5
Gross national savings	0.9	4.1	-1.6	3.2	6.0
			(Percent change)		
Prices					
GDP deflator	5.4	8.0	2.6	9.8	10.0
Consumer price index	1.7	13.0	6.4	5.6	10.1
			(In billions of ouguiyas)		
Central government finance					
Total revenue (excluding grants)	18.0	18.8	20.3	20.6	20.1
Total expenditure and net lending	24.6	27.5	26.6	26.8	25.7
Current expenditure	17.1	16.7	17.9	20.8	19.5
Fixed capital formation	4.9	4.5	5.1	4.8	4.7
Other (including net lending)	2.6	6.3	3.6	1.2	1.5
Overall deficit (-)	-6.6	-8.7	-6.3	-6.2	-5.6
Foreign financing, excluding exceptional financing (net)	3.7	-0.2	2.5	--	0.5
Of which: grants	4.6	2.1	1.8	1.5	2.7
Domestic borrowing excluding exceptional financing (net)	1.8	3.9	0.6	0.8	-0.9
Of which: from banking system	0.9	3.4	0.3	0.4	-0.6
Exceptional financing	3.4	5.0	3.2	5.4	6.0
Domestic	0.7	0.4	0.9	0.1	-0.4
External	2.7	4.6	2.3	5.3	6.4

MAURITANIA - Basic Data (continued)

	1988	1989	1990	1991	1992
	(Annual changes in percent of initial broad money)				
Money and credit					
Net domestic assets	9.6	28.4	25.5	26.3	6.1
Domestic credit	22.6	28.1	19.2	18.8	0.9
Government	5.3	26.1	1.5	1.9	-2.4
Private sector	17.4	2.1	17.7	16.9	3.3
Money and quasi-money	2.8	12.2	11.5	9.3	7.2
	(In millions of SDRs)				
Balance of payments					
Exports, f.o.b.	327.8	349.2	311.1	320.1	294.2
Imports, c.i.f.	-297.5	-300.2	-327.4	-306.8	-324.6
Trade balance	30.3	49.0	-16.3	13.3	-30.4
Services (net)	-167.9	-141.6	-134.9	-123.6	-128.9
Transfers	90.9	204.5	54.7	49.5	85.1
Current account balance					
Including official transfers	-46.7	111.9	-96.5	-60.8	-74.2
Excluding official transfers	-158.6	-111.1	-161.5	-121.5	-14.0
Capital account (net)	-10.6	-156.9	7.1	-39.6	13.5
Medium- and long-term official loans	-53.8	-163.6	-2.6	-18.5	8.3
Other	43.2	6.7	9.7	-21.1	5.2
Overall balance	-57.3	-45.0	-89.4	-100.4	-60.6
Financing	57.3	45.0	89.4	100.4	60.6
Change in net foreign assets	10.7	-13.4	17.0	-10.9	-4.6
Accumulation of arrears	17.3	-19.0	54.3	107.7	61.6
Other financing	29.3	77.4	18.1	3.6	3.6
External public debt					
Debt outstanding	1,223.1	1,151.3	1,265.2	1,294.1	1,368.0
in percent of GDP	170.3	150.4	168.4	156.7	161.8
Debt service (in percent of exports of goods and services)	39.8	37.2	35.4	34.7	41.8
Of which: to the Fund	1.7	2.8	4.1	3.2	2.2

MAURITANIA - Basic Data (concluded)

Social indicators

	Mid-1960s	Mid-1970s	Most Recent Estimate
	(In percent unless otherwise specified)		
Total population (thousands)	1,096	1,371	2,083
Urban population	9	20	48
Population growth rate	2.0	2.4	2.8
Life expectancy at birth (year)	37	41	47
Infant mortality rate (per thousand)	178	153	119
Labor force			
Total labor force (thousands)	392	472	701
Female	22	21	22
Agriculture	89	77	...
Industry	3	7	...
Education			
Enrollment (percent of school age population)			
Primary: Total	13	19	51
Male	19	24	60
Female	6	13	42
Secondary: Total	1	4	16
Female	0	1	10
Pupil-teacher ratio			
Primary	20	35	49
Secondary	22	25	20
Population per physician (thousands)	37	18	9
Population per hospital bed (thousands)	...	3	...

Mauritania - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The national accounts data and the weighting of the CPI are in need of improvement. The authorities have indicated to the staff that the current methodology has been thoroughly examined and that revisions to data measurement and collection procedures will be introduced in the course of 1994.

b. Government finance

The reporting of government finance statistics to STA has ceased completely. Starting in December 1993, the authorities will submit to the Fund monthly statements of Treasury accounts beginning for September 1993 with a delay not exceeding three months. Foreign financed operations will gradually be integrated into the reported data, thereby providing the basis for future publication by STA.

c. Balance of payments

The latest period for which the Statistics Department has received comprehensive balance of payments data is 1989. The most serious weakness of the balance of payments methodology of Mauritania is the estimation of imports of goods which is partly based on the Central Bank's foreign exchange record. Considerable improvements have been introduced to customs data with a view to using them as an alternative source of information. The Central Bank and the Customs Office are currently preparing a pilot exercise for 1994. The authorities have requested Fund technical assistance in balance of payments methodology.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Mauritania in the December issue of IFS. The data are based on reports sent to the Fund's Statistics Department by the Banque Centrale de Mauritanie which, during the past year, have been provided on an irregular basis.

Status of IFS Data

Sector	Series	Latest Data in December 1993 IFS
Real Sector	- National Accounts	1991
	- Prices: WPI	n.a.
	CPI	April 1993
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary accounts	- Monetary authorities	September 1993
	- Deposit money banks	September 1993
Interest rates	- Discount rate	December 1992
	- Bank deposit rate	December 1992
	- Bank lending rate	December 1992
External Sector	- Merchandise Trade:	
	- Values:	
	Exports	Q1 1991
	Imports	Q1 1991
	- Volumes: Exports	n.a.
	- Prices: Exports	n.a.
	- Balance of payments	1989
	- International reserves	September 1993
	- Exchange rates	September 1993

3. Technical assistance missions in statistics (1990-present)

Subject	Staff Member	Date
Monetary Statistics	Mr. Raymond Mr. Iradian	October 1991

Mauritania - Financial Relations with the World Bank Group

(As of October 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.