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0418

BUFF/ED/92/79

December 8, 1992

Statement by Mr. Santos on Mauritania
Executive Board Meeting 92/147
December 9, 1992

On behalf of my Mauritanian authorities, I would like to convey my appreciation to Management and staff for the continued support during the long negotiations that have led to the present request for arrangements under the ESAF. They broadly share the staff's assessment that the progress made by Mauritania since the mid-1980s was dealt a serious setback in part because of the lack of financial assistance and the impact of various exogenous factors between 1989 and 1992. As the key structural reforms, mainly in the fishing and banking sectors, could not be sustained, Mauritania experienced a deceleration in real output, a sharp decline in export receipts and its external position became precarious. The country's creditworthiness was also seriously eroded.

Despite these setbacks, my authorities have attempted to safeguard the thrust of their initial adjustment policies in line with their medium-term program objectives. It is in this context that they have prepared an economic and financial program aimed at restoring the momentum of their macroeconomic stabilization and structural reform efforts. As a first step, they have taken significant prior actions to correct exchange rate and other price distortions as well as address a wide range of structural rigidities in the economy. The main economic and financial objectives over the period 1992-1994 are well detailed in the updated PFP and in the memorandum of economic and financial policies annexed to the staff report.

I will highlight some of the key elements of my authorities' program covering fiscal, monetary and external sectors as well as the measures envisaged to mitigate the adverse impact of the adjustment on the population.

In the fiscal sector, the objectives are to realize a major turnaround of the Treasury operations from a small deficit in 1991 and in 1992 to a surplus equivalent to about 6 percent of GDP in 1993, and achieve a reduction of the overall fiscal deficit on a commitment basis and excluding grants from 6.7 percent of GDP in 1991 to a surplus of 0.4 percent of GDP by 1995. In order to achieve these objectives, understanding has been reached with the staff on a medium-term fiscal package. The package of measures to be introduced in the framework of the 1993 budget has now been approved by the National Assembly. It includes discretionary upward adjustments in customs duties and in the statistical tax as well as the elimination of major tax exemptions for the state monopoly for Water and Electricity. Together with those already in place in 1992, as well as the impact of the exchange rate adjustment, they should help to increase revenue by 25 percent

in 1993. From a longer-term perspective, structural fiscal reforms notably in the agricultural, livestock and mining sectors are envisaged so as to improve budgetary contributions from these sectors. The Mauritanian authorities continue to emphasize their willingness to consider appropriate means for raising additional budgetary revenues from the fishing sector. The study on the fiscal regime for this sector will provide the basis for further actions.

With regard to expenditure, my authorities intend to strengthen expenditure control procedures with major emphasis on the wage bill. The measures envisaged include a combination of early retirement, voluntary departure programs, restrictive recruitment policy and improved control procedures for civil service personnel. The expenditure program will, nevertheless, provide room to accommodate much needed resources for priority social expenditures, the rehabilitation of public enterprises and for a one-time assumption of Central Bank exchange losses.

In the monetary sector, growth of domestic credit and liquidity will be kept in line with the inflation and the external current account objectives. Further progress is to be achieved in the restructuring of the financial system, in the streamlining of the rediscount facilities and in enhancing the supervisory role of the Central Bank. The improved economic prospects should help accelerate the collection of certain categories of delinquent loans. Nevertheless, the legal provisions aimed at improving the process of loan recovery will be strengthened. Further reforms in the financial sector are also envisaged with technical assistance from multilateral sources.

In the external sector, the exchange rate adjustment made in early October will be accompanied by a program of liberalization of the exchange and trade systems. The scope of commercial banks' foreign exchange transactions will be expanded and facilitated by the gradual elimination of the Central Bank's discretionary role in exchange rate determination and by the introduction of a monthly auction system for imports. As an initial step, commercial banks are now authorized to engage in limited foreign exchange buying at freely determined rates. To maximize the impact of these various reforms, a detailed foreign exchange budget will be prepared on a regular basis, and appropriate arrangements will be put in place to ensure that foreign exchange will be made available to the operations of the fishing and mining sectors. The authorities are fully aware that these comprehensive exchange and trade liberalization measures will be sustainable on a long term basis only if supportive policies to restructure the fishing sector, address the problem of the aging fishing fleet and restructure the financial system are put in place in a timely manner. In this regard, every effort will be made to facilitate the conclusion of the private sector initiative program to be prepared in collaboration with the World Bank.

While the medium-term external outlook will continue to be difficult, my authorities remain confident that the vigorous pursuit of demand management policies as well as structural reforms, should help in the restoration of a sustainable and viable external payments position. They

remain, however, concerned that the heavy debt burden could threaten the prospects for medium-term viability. In this regard, they intend to request debt relief from Paris Club and other bilateral creditors at a level commensurate with the present financial situation and in line with the need to achieve a lasting solution for Mauritania's external debt problem.

The recent social disturbances that occurred in Mauritania are indicative of the increasing hardship experienced by a growing segment of the population, as the economy started its downward slump. This situation is likely to be exacerbated by the large displacement of workers that is anticipated in the context of the reforms of public enterprises, the financial sector and the civil service. In this regard, my authorities are formulating a national action plan with the objective of ensuring that adequate safety nets will be provided to the most vulnerable segment of the population. In the meantime, they are intensifying their efforts at mobilizing assistance to meet the needs of this group for food, health, education and shelter. From a long term perspective, my authorities expect that improvement in employment opportunities in the private sector will help to alleviate poverty in Mauritania.

In conclusion, my authorities are well aware that their room for maneuver has been substantially reduced by the long period of uncertainties and lack of confidence of economic operators. While they are determined to pursue their program of adjustment, they consider that without a reversal of the downward trend in foreign assistance as well as a rapid conclusion of negotiations on key reforms in the banking and fishing sectors, this process could again be upset. They hope that the Fund's catalytic role will indeed succeed to attract the necessary support to achieve the program's objectives.

