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November 13, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Staff Report for the 1992 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 1992 Article IV consultation with Mauritania and its request for arrangements under the enhanced structural adjustment facility. Draft decisions appear on pages 18 and 19.

It is understood that the Executive Director for Mauritania will be requesting the Board for a waiver of the circulation period, to enable this subject, together with the policy framework paper for Mauritania (EBD/92/274, 11/13/92), to be brought to the agenda for discussion on Friday, December 4, 1992.

Mr. Diogo (ext. 36521) or Ms. Valdivieso (ext. 38516) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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MAURITANIA

Staff Report for the 1992 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Prepared by the African Department and the Policy Development and Review Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Statistics, and Treasurer's Departments)

Approved by Evangelos A. Calamitsis and Michael Edo

November 13, 1992

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Appendices

I. Introduction

The 1992 Article IV consultation discussions with Mauritania were initiated in Nouakchott during the period September 5-19 and completed in Washington in during the Annual Meetings in late September, 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. 1/

The negotiations on a program extended over more than two years. In the wake of the Middle East crisis, financial assistance from Mauritania's traditional donors came to a halt, with the result that Mauritania's projected balance of payments gap for the program (1990-91) which was to be supported by the second annual arrangement under the original three-year ESAF arrangement, which expired on May 24, 1992, could not be covered. At the same time, the competitiveness of major sectors of the economy, notably the fish export sector, weakened significantly, and the authorities failed to adapt macroeconomic policies to the new circumstances.

Furthermore, Mauritania undertook a democratization process involving multiparty presidential and legislative elections that were completed during the first half of 1992. The new Government devalued the ouguiya by 27 percent in foreign currency terms on October 4, 1992, and introduced a comprehensive package of macroeconomic and structural adjustment policies for the period 1992-93. In support of this package, and consistent with Executive Board Decision No. 0089-(92/94) of July 23, 1992, in the attached letter dated October 5, 1992, the Government requests a two-year arrangement under the ESAF, in an amount equivalent to SDR 33.9 million (100 percent of quota), 2/ and the first annual arrangement thereunder, in an amount equivalent to SDR 16.95 million. The total amount requested under the two-year arrangement represents the undrawn balance under the expired three-year ESAF arrangement. This request is in support of the program outlined in the policy framework paper (PFP) for 1992-95 (EBD/92/--), which was prepared in collaboration with the staffs of the Fund and the World Bank, and further detailed in the memorandum on economic and financial policies for 1992-93 (Appendix III, Annex). The PFP, which was transmitted to the Managing Director of the Fund and the President of the World Bank on October 5, 1992, is scheduled to be considered by the Bank's Committee of the Whole on a lapse-of-time basis by November 23, 1992.

1/ The representatives of Mauritania included the Governor of the Central Bank, the Ministers of Finance and Planning, and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Diogo (head), Ms. Valdivieso, Mrs. Devaux, Mr. Abdoun, Mr. Meyers, and Ms. Orraca-Tetteh (administrative assistant), all AFR.

2/ Throughout the report, use of Fund credit is expressed as percentages of Eighth Review quotas.

As of October 31, 1992, Mauritania's outstanding use of Fund resources amounted to SDR 33.79 million, equivalent to 99.7 percent of quota. Following disbursement of the loans under the new two-year ESAF arrangement, Mauritania's obligations to the Fund at end-1994 would amount to 173.5 percent of quota (Appendix II, Table I). Mauritania has consented to the increase in its quota under the Ninth General Review, and has accepted the Third Amendment of the Fund's Articles of Agreement.

Mauritania's program of financial and structural reform will also be supported by the World Bank and bilateral donors. The World Bank is expected to resume disbursements under the Agricultural Sector and Public Enterprise Sector loans (AGSECAL and PESECAL), which had been suspended pending agreement on a PFP, and to prepare a private sector initiative program during fiscal year 1994. In this context, the Bank has expressed interest in assisting Mauritania to restructure the ailing banking sector.

The last Article IV consultation with Mauritania was concluded on August 28, 1991. During the discussions, Executive Directors stressed that Mauritania needed to strengthen policies, which could include an exchange rate adjustment to be supported by far-reaching structural reforms and a tightening of macroeconomic policies, in order to reduce the fragility of the external sector and improve prospects for growth.

Summaries of Mauritania's relations with the Fund and the World Bank Group are provided in Appendices IV and V, respectively. Statistical issues are discussed in Appendix VI. Basic economic data and selected social and demographic indicators are presented in Appendix VII.

II. Background and Recent Economic Developments

During the period 1985-88, Mauritania made significant progress in reducing the financial imbalances that had plagued the economy for many years. Reforms were stepped up under the first annual ESAF-supported program in 1989 and included the liberalization of the pricing system and trade regime, a tax reform, and the restructuring of commercial banks. In response, real GDP grew by nearly 5 percent in 1989 (Appendix II, Table II). However, inflation rose to 13 percent, largely because of the disruption of traditional trade channels, following the closure of the border with Senegal. This development also affected fiscal performance. The Treasury surplus was about one half the anticipated level; as foreign-financed outlays fell, however, the consolidated deficit of the Government 1/ was about 1 percentage point of GDP lower than projected.

1/ Throughout the report, the Government's consolidated deficit is on a commitment basis and excludes grants and restructuring operations, unless otherwise indicated.

Although the external current account deficit in 1989 exceeded the program target, gross official reserves rose by SDR 23 million, boosted by exceptional financing. The net foreign liabilities of the Central Bank at end-1989 were below the program benchmark. Quarterly credit ceilings (adjusted for debt relief and program loans) were not observed and broad money expanded at a faster pace than projected, but the rate of expansion remained below that of nominal GDP.

The authorities implemented most of the structural measures envisaged in the program, but the recovery of nonperforming bank loans continued to lag behind plans, and the banks also experienced difficulties in selling seized properties (Appendix II, Table III).

The Government, seeking to build on the progress made in 1989, prepared an updated PFP for 1990-93, together with an adjustment program for 1990-91 that could be supported by the second annual arrangement under the original three-year ESAF arrangement. Although negotiations were completed by September 1990, it was not possible to proceed further without the necessary financial assistance. The authorities nonetheless attempted to use the negotiated macroeconomic framework for 1990-91 as a guide for their policies, albeit without any adaptation to take account of the changed external environment or the decline in competitiveness 1/ caused by the lack of investment and high costs in key sectors. In mining, the financial situation of the Société des industries minières (SNIM) had become so fragile, in part because of design flaws and overstaffing, that it stopped all tax payments to the Treasury. In the agricultural sector, local rice production remained possible only because of the protection afforded by the use of a standard import value that maintained domestic retail prices far above international prices. Profitability in the fishing sector had plummeted, and many fishing trawlers were no longer seaworthy because of lack of funds for maintenance and spare parts. As a result, the share of Mauritania's cephalopod species in the Japanese market fell by about one half between 1989 and 1991, at a time when that market was growing by 19 percent. Real GDP fell by about 2 percent in 1990, and inflation remained high.

Over the 1990-91 period, fiscal and monetary policies were expansionary, contributing to a significant weakening of the external position. The Government's overall consolidated deficit widened from 3 percent of GDP in 1989 to more than 5 percent in 1991 (Appendix II, Table IV). As a ratio to GDP, government revenue averaged 23 percent, while government expenditure and net lending averaged some 30 percent. The deficit was financed by net recourse to the Central Bank and the accumulation of domestic and external payments arrears. Net domestic assets of the banking system rose sharply

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1/ There is no reliable overall measurement of competitiveness in Mauritania due to the poor quality of the official consumer price index. Microeconomic indicators include the profitability of major export sectors notably the fishing and mining sectors.

(by 42 percent in 1990 and 26 percent in 1991), reflecting to a large extent increases in credit to agricultural and fishing entities that proved unable to repay their loans because of financial difficulties (Appendix II, Table V). Nonperforming loans represented about 50 percent of total credit to the private sector throughout the period 1989-91.

The external current account deficit reached the equivalent of some 22 percent of GDP in 1990, as fish exports fell by 24 percent and consumer goods and oil imports rose. The overall balance of payments deficit doubled, to SDR 89 million, leading to a sharp drawdown of official reserves, and a large accumulation of arrears on the external public debt. Arrears on short-term import credits by commercial banks also emerged because import authorizations were being granted without regard to foreign exchange availability. In 1991 the external current account deficit fell by more than 7 percentage points of GDP, reflecting in part some increase in fish exports but more importantly, a compression of imports brought about by foreign banks' reluctance to maintain import credit lines. The overall balance of payments deficit remained large, and further arrears were accumulated.

During the first six months of 1992, the external payments position continued to deteriorate. Rapidly rising imports--stemming from both the stockpiling of consumer and intermediate goods, in anticipation of an adjustment of the exchange rate, and a one-time surge in imports of heavy equipment required for a new mine--outpaced export growth despite a rebound in fish exports. A favorable production cycle for cephalopods, together with the expectation of an adjustment of the exchange rate, appears to have led to an increase in the size of the fleet, as shipowners were enticed to repair some of the unseaworthy boats. The balance of payments deficit was financed by a further accumulation of payments arrears and an increase in the net foreign liabilities of the banking system. At end-June 1992, payments arrears had reached SDR 257 million, while gross official reserves had fallen to SDR 36 million.

III. Report on the Discussions and Adjustment Strategy for 1992-95

1. The medium-term objectives and policies

As indicated in their PFP for the period 1992-95, the authorities intend to reduce financial imbalances by strengthening macroeconomic policies and to promote growth through an increased liberalization of the economy. The main macroeconomic objectives for the period are to: (a) achieve an annual average GDP growth of 3.5 percent; (b) bring the annual inflation rate down to 3.5 percent by 1995; and (c) reduce the external current account deficit (excluding official transfers) to 7.5 percent by 1995, a level that could be financed without recourse to exceptional financing. Building on the exchange rate adjustment of early October, policies to achieve these objectives will focus on: (i) increasing fish production and exports by about 7 percent annually (up from 1 percent during

1989-92), thereby restoring the sector as the main source of growth in the economy; (ii) encouraging the growth of the private sector by downsizing the public sector, liberalizing the exchange and trade system, and improving financial intermediation through the rehabilitation of the banking system; and (iii) implementing strict financial policies with the objective of raising domestic savings from about 8 percent of GDP in 1991 to some 13 percent in 1995.

2. The program for 1992-93

Consistent with the medium-term strategy, the following objectives have been set for the first-year program (October 1992-September 1993), which straddles the two fiscal years 1992 and 1993: (a) real GDP increases of 2.4 percent and 3.5 percent in 1992 and 1993, respectively, predicated on a recovery of value added in the fishing sector that should more than offset a modest decline in mining output; (b) containing inflation 1/ at less than 9 percent and less than 14 percent in 1992 and 1993, respectively, including the impact of the exchange rate adjustment; and (c) reducing the external current account deficit (excluding official transfers) from an estimated 18 percent of GDP in 1992 to about 11 percent in 1993.

On current assumptions for capital inflows, the overall balance of payments deficit should shrink from SDR 87 million in 1992 to SDR 39 million in 1993. With the exceptional assistance that the authorities expect to mobilize during these two years, gross official reserves would be equivalent to 1.1 months, and rise to 1.7 months, of imports at the end of 1992 and 1993, respectively. The sections below discuss the principal features of the Government's first annual program, which is described in more detail in the authorities' memorandum on economic and financial policies for 1992-93 (Appendix III, Annex). The table on performance criteria and benchmarks is attachment to the memorandum.

a. Fiscal policy

On the basis of developments in the first eight months of the year, the exchange rate adjustment of early October and the policies described below should permit a reduction in the overall consolidated deficit of the Government by about 1 percentage point of GDP, to 4.6 percent in 1992. Once outlays related to restructuring operations, amortization obligations on external debt, and repayment of domestic and external arrears are taken into account, the gross financing needs of the Government would be slightly in excess of UM 25 billion this year. External grants and loans, together with debt relief now being requested by the authorities on arrears and current

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1/ As the consumer price index has become unreliable again following the short-lived reform implemented in 1989, the program's inflation targets are measured by changes in the GDP deflator.

obligations as well as on previously rescheduled debt due to Paris Club and other bilateral creditors, are expected to cover most of the gap, with the remainder (UM 2 billion) to be financed from the Central Bank.

Budgetary revenue is expected to rise by about 8 percent, to close to 21 percent of GDP, mainly because of the impact of the devaluation on receipts from taxes on international trade, and also as a result of an increase in the rate of the statistical tax. Total expenditure and net lending, in contrast, should be reduced by 3 percentage points of GDP, despite an increase of one third in interest payments (reflecting the exchange rate change and prospective moratorium interest payments). Current outlays are expected to be reduced by about 2 percent. The wage bill increase will not exceed the 10 percent originally budgeted for 1992, and therefore will not entail any post-devaluation wage adjustment. 1/ Other current outlays, including those on defense, are to decline in real terms. Capital expenditures are budgeted to rise somewhat in real terms but restructuring expenditures (UM 1.0 billion) are expected to remain near the 1991 level, far less than in 1989-90.

For 1993, the program aims at turning the balance of treasury operations into a surplus of UM 5.9 billion, equivalent to almost 5 percent of GDP. The surplus is to allow the Government to meet debt service obligations that cannot be rescheduled, reduce its liabilities to banks, and cover the exchange losses suffered by the Central Bank on account of overdue short-term foreign liabilities of the commercial banks that had not been settled by the Central Bank because of foreign exchange constraints. When restructuring operations and foreign-financed investment are included, a projected consolidated overall deficit of about 2.5 percent of GDP (3 percentage points of GDP less than in 1992) will emerge. The gross financing needs of the Government, after scheduled amortization on external and domestic debt, however, would still exceed 7 percent of GDP. It is expected to be covered by external assistance already secured and a request for debt relief from bilateral creditors, which would also allow the Government to eliminate outstanding advances from the Central Bank, and to make a small initial repayment on treasury bonds.

Achievement of these fiscal targets is predicated to a large extent on a 25 percent increase in budgetary revenue in 1993, reflecting the full-year impact of the devaluation on proceeds from taxes on international trade, and a number of revenue-enhancing measures, including a trebling of the rate of the statistical tax, a reduction in exemptions from customs duty on imports of tires, a 5 percentage point increase in the customs duty rate on imports of textiles, and the elimination of the tax-exempt status previously granted to the water and electricity state monopoly (SONELEC) (Appendix II, Table VII).

1/ The wage bill increase includes a general salary increase of 5 percent granted in early 1992.

The growth in total expenditure and net lending 1/ will be held to 10 percent in nominal terms in 1993, implying a reduction in terms of GDP of more than 1.5 percentage points relative to 1992. Despite the accommodation of some needed recruitment in health, education, and infrastructure, the increase in the wage bill is not to exceed 8 percent (a 5 percent reduction in real terms), and that in military outlays will be even less. Appropriations for goods and services, however, should rise in line with prices to prevent further disruption in government services and/or accumulation of arrears. 2/ The budget also provides for the losses of the Central Bank on account of foreign exchange transfers that should have been made prior to the devaluation. Investment outlays would also remain unchanged in real terms and consistent with the public investment program (PIP) agreed with the World Bank. The resumption of disbursements of program lending by the World Bank and other donors, however, should lead to a more than fourfold increase in restructuring operations.

Structural policies will focus on reform of the tax regimes for the fishing, mining, agricultural, and livestock sectors. In addition, with technical assistance from the Fund, the Government will prepare a plan for replacing the current turnover tax by a value-added tax (VAT). To enable the authorities to control expenditure and the wage bill in particular, all recruitment will be effected through competitive examinations starting in 1993, and the retirement age of certain categories of personnel will be lowered.

b. Monetary and credit policies

The program calls for broad money expansion of no more than 11 percent in 1992 and less than 14 percent in 1993; the annual average rate of growth of money supply would thus be significantly below the projected increase in nominal GDP. Given the Government's target for the balance of payments and the need to contain price increases in the wake of the devaluation, the increase in net domestic assets of the banking system will be held to less than 16 percent 3/ in terms of beginning of period money stock in 1992. In 1993, however, the improvement in government savings and the increase in expected external assistance should allow the Government to reduce its net liabilities to the banking system. Even with credit to the private sector expanding by 8.5 percent 4/ of initial broad money (which will require that commercial banks collect a small fraction of their nonperforming loans), the net domestic assets of the banking system should fall by about 10 percent. The authorities are committed to ensuring that key lending and deposit rates will remain positive in real terms during the program period.

1/ Excluding restructuring operations and the exceptional outlays to cover the Central Bank's losses described above.

2/ This takes into account the expected increases in the electricity tariffs (16 percent on October 6, 1992 and 16 percent by end-1992).

3/ Excluding the impact of the exchange rate adjustment.

4/ Based on performing loans.

To increase the effectiveness of monetary policies, the Central Bank has eliminated the preferential rediscount rate. Starting January 1, 1993, central bank advances to the Treasury will be charged the normal rediscount rate (currently 10 percent). The payment of interest on such advances is likely to encourage the Government to recover tax revenue, amounting to UM 1.9 billion, which had been paid by checks, but which commercial banks had failed to credit to the treasury account because of lack of liquidity. During 1993, commercial banks will freely determine their lending and deposit rates, consistent with the rediscount rate of the Central Bank.

The restructuring of the banking sector in the context of the private sector initiative program under preparation with World Bank assistance will strengthen financial intermediation and support the promotion of private sector investment. The restructuring will emphasize recapitalization of some of the banks, as well as the privatization of the banks in which the Government retains a significant share of the capital. The banks that cannot be rehabilitated will be closed. The restructuring will also include steps aimed at strengthening bank supervision and compliance with prudential regulations. Pending this restructuring of the banking sector, appropriate steps will be taken to enable commercial banks to recover a significant portion of nonperforming loans. Delinquent borrowers will not be granted further loans, and changes will be made to judicial procedures to reduce the prohibitive costs faced by commercial banks in collecting nonperforming loans. Furthermore, delinquent borrowers will no longer qualify for bidding on public works projects or for obtaining importer/exporter permits. On this particular point, starting December 1, 1992, no new permits will be granted to operators with a delinquent account with any bank; and effective January 1, 1993 no permits will be renewed for such operators until the overdue loans have been repaid.

c. <u>External sector policies</u>

(i) <u>The exchange and trade system</u>

The cornerstone of the program to return Mauritania to a sustainable balance of payments position has been the devaluation of the ouguiya in early October 1992. This action is to be accompanied during the remainder of the year and in early 1993 by the implementation of the first phase of a reform of the exchange and trade system, with Fund technical assistance.

During this first phase, priority will be given to regularizing relations between commercial banks and their foreign correspondents in order to restore access to lines of credit (which have now reached critically low levels). To this end, the Central Bank will first assume, and then clear the external liabilities (including late interest payments) of the commercial banks for which it had received the ouguiya counterpart (about SDR 51 million) but which it had been unable to settle when due owing to foreign exchange scarcity. As to the unpaid balance--some SDR 66 million--the Central Bank will assist the banks in restructuring such liabilities in the context of a structural adjustment operation to be prepared with assistance from the World Bank and other donors. The actual stock of arrears of the commercial banks, and the portion of those unpaid obligations insured on the creditors' side, will be established definitely after completion of both the audits of the banks (November 15, 1992) and data reconciliation with the export insurance agencies of Mauritania's main creditor countries. In the meantime, the Central Bank and/or commercial banks have approached creditors to initiate the process of arrears settlement.

Mauritania maintains controls on the sale of foreign exchange for imports and for invisible transactions. In 1991 the annual limit on the foreign exchange allocation for travel was raised from UM 10,000 to UM 20,000; for business travel, the limits range from UM 100,000 to UM 800,000 based on the applicant's turnover, and bona fide requests for higher amounts for travel may be granted on a case-by-case basis. These restrictions are maintained by Mauritania under the transitional arrangements of Article XIV of the Fund's Articles of Agreement. At the same time, the Government has accumulated arrears on external debt payments.

In addition, a multiple currency practice subject to approval under Article VIII, Section 3 arises from the existence of a preferential exchange rate for transfers from Mauritanian workers residing overseas. The authorities have decided to replace this preferential exchange rate by the free foreign exchange market rate as of January 1, 1993, and to direct future reforms of the exchange system toward the unification of the official pegged rate and the free market rate. Meanwhile, the two-tier exchange system also involves a multiple currency practice.

In order to move toward a market-based exchange rate, a limited market for foreign currency notes and travelers' checks was introduced in late October at the level of the commercial banks, where the rate is freely determined. Purchases of foreign exchange in the free market would be on a "no questions asked" basis and, beginning on March 31, 1993, sales will be made without limits for bona fide payments for invisible transactions (e.g., travel, medical, and educational expenses). A pegged exchange rate will be maintained for the time being for transfer of foreign exchange through the banking system for all other transactions; it will be kept under review, taking into account a broad range of indicators (including movements in the free market rate, developments in the import authorization auctioning system and the external sector), and adjusted as necessary.

To facilitate the proper management of foreign exchange resources, the Central Bank will prepare monthly foreign exchange cash-flow statements beginning on January 1, 1993, and conduct a monthly auction of import authorizations. Authorizations are to cover gradually all imports and give automatic access to foreign exchange, once the authorization has been obtained through the auction. Also, in order to ensure that foreign exchange is available to support the recovery of the fishing sector, the Central Bank, in conjunction with the commercial banks, will establish before the end of 1992 a revolving letter of credit facility with a correspondent bank. Finally, prior export authorizations will be eliminated, except for security, health, or cultural reasons.

(ii) Balance of payments

With the adjustment of the exchange rate and the tightening of financial policies, the external current account deficit (excluding official transfers and the largely self-financed imports of equipment required to develop the new iron mine) is expected to narrow, to somewhat over 12 percent of GDP in 1992 and to some 7.5 percent in 1993 (18 percent of GDP in 1992 and over 11 percent in 1993, including imports related to the SNIM mining project).

Iron ore exports are expected to fall by almost one fifth in 1992 because of the softening of world demand and prices, but this decline is expected to be more than offset by a rebound of fish exports in response to the devaluation, and by the coming on stream of a new gold mine. The effect of the exchange rate adjustment on import demand, on the other hand, is expected to be negligible this year, because of speculative stockpiling of consumer goods and intermediate products in the first three quarters of the year and increased imports of equipment related to the public investment program and the SNIM project. Net transfers are expected to jump by one half, reflecting, inter alia, a steady inflow of workers' remittances in response to the above-mentioned exchange rate differential for those transactions. Even with a turnaround in net capital inflows, traceable largely to higher loan disbursements for SNIM, the overall balance of payments deficit is expected to remain unchanged, at the equivalent of SDR 87 million in 1992.

In contrast, the exchange rate correction and strengthening of macroeconomic and structural policies would have a strong impact on the balance of payments in 1993. Export growth is projected at more than 13 percent, as the fishing sector would respond to the exchange rate action and pelagic fleet operations are normalized. Weak world demand would prevent any significant recovery in the value of iron ore shipments, but gold exports are expected to more than double. At the same time, an abrupt fall in consumer goods imports and in imports for public investment (as most of the projects envisaged in the 1989-91 public investment program approach completion) should cause total imports to decline by 7 percent, despite a modest prospective recovery in energy and intermediate goods imports as GDP growth gains momentum. Payments for services should level off on account of lower interest payments, but transfers are expected to fall slightly as the preferential exchange rate is eliminated. Net capital flows are expected to turn negative again on account of lower disbursements for SNIM and the fall in public investment outlays.

Given the need to eliminate external payments arrears and the objective of raising gross official reserves to about 1.7 months of imports, the gross financing gaps would approach SDR 180 million in 1992 and SDR 185 million in

1993 before external debt relief, use of Fund resources, and program-related assistance from the World Bank and other donors. These gaps take into account the settlement in cash in 1993 of the portion of commercial banks' arrears on short-term debt that are insured on the creditors' side (some SDR 32 million on August 31, 1992). The remaining balance (about SDR 85 million) is expected to be restructured within the context of the sectoral adjustment operation prepared with World Bank and other donor assistance. The Government is requesting rescheduling on enhanced concessional terms of arrears and current maturities falling due on pre-cutoff-date medium- and long-term debt, as well as on previously rescheduled debt, from Paris Club and other bilateral creditors. Given the expected debt relief as well as program-related loans from the World Bank (including cofinancing) and other donors, the financing gaps for 1992-93 would be fully covered.

The authorities intend to pursue a prudent debt management policy by strictly limiting the amount of nonconcessional borrowing contracted or guaranteed by the Government in the 1- to 15-year maturity range, excluding debts contracted in the context of rescheduling agreements. The stock of short-term borrowing by the commercial banks, other than normal import-related credits, will also be strictly limited. Both of these variables will constitute benchmarks for the entire period of the first annual arrangement, except those for end-March 1993 which will constitute performance criteria.

d. Structural policies

To strengthen the response of the economy to the correction of the exchange rate and facilitate the diversification of the productive base, a number of structural reforms in key sectors are to be implemented during the program period with assistance from the World Bank. The private sector initiative program, which will be prepared in collaboration with the World Bank, will address the restructuring of the fishing sector and the banking system, where existing structural weaknesses have constrained private sector investment as well as output growth. These reforms, which are detailed in the PFP, include also a land tenure reform, the adoption of appropriate development technologies for the management of natural resources, the establishment of a viable rural credit system, and the implementation of an emergency water supply program to meet the needs of agriculture. In the fishing sector, the Government will promote small industrial enterprises, while ensuring that the catch remains compatible with the preservation of the resource base. Artisanal fishing will be promoted through appropriate tax and credit policies. In the public enterprise sector, the monopolies of the Mauritanian insurance and reinsurance company (SMAR) and of the tea imports of the import/export company (SONIMEX) will be abolished. The Government will also sell 50 percent of the capital of the fish marketing agency (SMCP) to the private sector by December 31, 1992.

In the regulatory area, the Government intends to maintain a liberal regime. However, controls have had to be reimposed temporarily over the prices of seven imported commodities, as well on two locally produced goods, in an effort to counter speculative price movements and diffuse social unrest in Nouakchott in the wake of the October devaluation. Measures have been taken to break monopolistic practices by importers, and to increase access to import trade by simplifying the conditions for qualifying as an importer. In addition, the commercial banks have been instructed to limit to two months the maturity of new loans to the private sector for financing stocks of imported goods. The price control measures, however, are meant to be temporary. The prices of the locally produced goods and of two of the seven controlled imported goods were freed on November 15, 1992, and those of the remaining five imported goods will be decontrolled by December 31, 1992. As for other administered prices, tariffs for water and electricity will be adjusted in two steps, starting with an increase of 16 percent effective November 1, 1992, followed by a second hike of the same magnitude by the end of the year. The retail prices of petroleum products were increased effective October 6, 1992 to levels comparable to those in the region.

3. Social dimensions of the adjustment program

Mauritania's adjustment strategy aims both at raising the standard of living of the population and at reducing poverty. With the sustained implementation of the reforms envisaged in the program, the recovery in private sector activity is expected to enhance employment opportunities and raise real incomes over the medium term. In the short run, however, the accelerated divestiture of public enterprises, the restrictions on new employment in the civil service, and the prospective restructuring of the banking system will all result in some hardship for various groups in the population. To address these transitional costs, the authorities have prepared a number of measures, 1/ to be coordinated by a "special impact unit" at the Ministry of Planning. In addition, a food-for-work program has been established with assistance from the United Nations Development Program (UNDP).

A poverty profile will be finalized by end-1992. Additional survey work is also under way to assess the socioeconomic impact of adjustment, notably on retrenched civil servants and nomadic populations, and help in formulating policies and programs to protect the most vulnerable groups, increase their productivity, and restore their income-earning capacity. The Government is also planning to create new jobs through a public works project to be carried out through small- and medium-sized enterprises. In addition, with effect from 1993, the Government intends to increase gradually budgetary allocations for primary health care and education. Initiatives will also be taken to facilitate the re-entry into gainful private

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1/ The timetable for the implementation of these policies is provided in the matrix attached to the PFP.

employment of retrenched public sector workers and unemployed university graduates, within the context of the private sector development program that is being prepared with assistance from the World Bank and other donors.

4. Medium-term balance of payments outlook

Notwithstanding Mauritania's vulnerability to external shocks, the effective implementation of the program should make a substantial contribution to the authorities' objective of achieving balance of payments viability over the medium term. As indicated in their letter of request, they also stand ready to adopt any additional measures that may be needed to achieve the objectives of the program. The baseline scenario 1/ suggests that export earnings might rise at an average annual rate of about 8 percent through 1996 (Appendix II, Table VIII). Export volume growth is predicated mostly on the response of the fishing sector to the exchange rate adjustment and to accompanying structural reform measures, but is constrained by the need to preserve the fishing stock. Mining exports, because of physical and technological constraints and because of Mauritania's position as a price taker in the world market, are not price sensitive, and export volume therefore is expected to grow only at a moderate rate. Import value (excluding SNIM's imports) is projected to rise by some 8 percent a year on average (2.5 percent in volume terms) as the economy recovers--but by far less if SNIM's imports are included, as the new iron ore mine project is being completed. The trade balance is thus expected to yield steadily rising surpluses.

The deficit in the services account should widen only marginally, as interest payments due decline and receipts rise in tandem with gross official reserves. Hence, the current account deficit before grants is expected in the baseline scenario to narrow from a projected 11 percent of GDP in 1993 to barely over 6 percent in 1996.

With projected net official transfers and capital inflows averaging SDR 62 million a year, the overall balance of payments is expected to record declining deficits through 1995, before switching into a surplus in 1996. Taking into account the use of Fund resources under the requested two-year ESAF arrangement, the projected program-related loans from the World Bank and other donors, the need to eliminate fully external payments arrears on public and private debt, and the Government's objective to build up gross official reserves gradually to a level equivalent to 1.9 months of imports by 1995, financing gaps would remain through 1994, albeit at declining rates. The expectation is that these gaps would be filled through debt relief and modest additional financial assistance from the international donor community. From 1995 onward, Mauritania would not be expected to require debt relief, while maintaining a level of imports sufficient to sustain the economy's growth objective. The stock of external debt as a

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1/ Consistent with the World Economic Outlook projections for external variables.

ratio to GDP would fall from 158 percent in 1992 to 135 percent in 1996, while in the same period the debt service ratio would decline from the equivalent of 38 percent to 20 percent (Appendix II, Table IX).

These prospects as well as the sensitivity analysis shown in Appendix I point to the need for the authorities to implement the adjustment program with the utmost determination. In addition, they should stand ready to adapt their macroeconomic policies rapidly to meet the impact of adverse external shocks. Under these circumstances, and given the projected improvements in the current account, the overall balance of payments, and the debt profile, as well as Mauritania's good record of servicing its obligations to the Fund, Mauritania can be expected to continue to discharge its future obligations to the Fund in a timely manner, even in the face of unfavorable external developments.

IV. Staff Appraisal

After registering significant economic gains in the late 1980s, as policies improved in the early stages of the original ESAF-supported program, Mauritania's economic and financial situation has deteriorated considerably since 1990. Adjustment efforts were relaxed at a time of reduced availability of external financial assistance, competitiveness declined in most major economic sectors, bank portfolios weakened, and payments imbalances intensified, leading to a large accumulation of arrears.

The new Government has recognized the urgent need for regaining control over the process of adjustment and restoring normal relations with the international community. The updated medium-term structural adjustment strategy and policies recently adopted aim at bringing the economy back to a path that could allow sustained growth and balance of payments viability by the middle of the decade.

Central to the authorities' strategy has been a substantial, up-front adjustment in the external value of the ouguiya. This adjustment is designed to restore the competitiveness of the export sector, strengthen the financial position of mining, diversify and improve the performance of agriculture, and reduce domestic absorption.

In recognition of the need to ensure that the devaluation brings about a lasting improvement in the relative price structure, broad-based supportive action has been taken to tighten demand management and strengthen the supply response of the economy.

The revenue-raising and expenditure-reducing measures embodied in the program should be instrumental in raising government saving, and in shifting the fiscal balance from a deficit of over 5 percent of GDP in 1991 to a surplus in excess of 1 percent of GDP in 1993. With further consolidation, treasury operations, narrowly defined, should yield a surplus sufficient to permit the servicing of Mauritania's external debt and a reduction in the

Government's net debtor position vis-à-vis the banking system without recourse to exceptional external financing beyond 1994. The tax reforms currently in preparation, including notably the introduction of a value-added tax and the strengthening of tax administration, should go a long way toward realizing the objectives of expanding the tax base and reducing fraud, while lowering tax-induced distortions and improving the elasticity of the tax system. The authorities should also focus their attention toward ensuring that longer term fiscal reforms will be implemented with a view to consolidating the progress that is expected to be achieved during 1993.

At the same time, the restructuring of public expenditure and down-sizing of the relative shares of the wage bill and military expenditure in total outlays should make room for the needed recovery of spending on maintenance, investment, and social priority sectors.

If the fiscal program is carried out successfully, adequate credit would be ensured for the private sector without endangering the objective of rebuilding progressively the net foreign asset position of the banking system. It will be important, however, that monetary policy be conducted without resort to distorting mechanisms and, in particular, that both lending and deposit rates be kept positive in real terms and at levels that would induce arbitrage toward the ouguiya; this would help prevent pressures on the exchange rate.

The devaluation of the ouguiya should pave the way for an extensive liberalization of the exchange and trade system, and the eventual move by Mauritania to current account convertibility. Progress toward this goal, in turn, would contribute to eliminating distortions, strengthening confidence, and maintaining financial discipline. It must be supported, however, by an easing of the external financial constraint, as well as by the complete rehabilitation of the banking system.

The staff is of the view that, for the economy to respond to the measures that have been taken, early emphasis will need to be placed on supporting structural adjustment measures. The liberalization of prices, and the effective elimination of monopolies, will be central to diffusing undistorted price signals throughout the economy. It is essential, therefore, that the authorities move swiftly to lift the controls reintroduced on the prices of selected commodities to counter speculation in the wake of the exchange rate adjustment, and take appropriate measures to ensure unfettered market competition.

Equally crucial to reviving growth in the private economy will be an early resolution of the problem of nonperforming assets in the banking system, which has become worrisome in the last two years. The restructuring of the banking system that is to be prepared with the assistance of the World Bank should therefore be given the highest priority. Also important will be an early resolution, through negotiations with foreign creditors, of the issue of unpaid lines of credit, which is imposing a major burden on banks and the monetary authorities.

The World Bank and other donors have expressed a readiness to assist Mauritania in addressing imbedded structural problems in the agricultural, fishing, and public enterprise sectors. Progress in those areas is a sine qua non for the diversification of the economy and the eventual achievement of sustainable growth. The authorities should be encouraged to move decisively on these various fronts.

Even with determined efforts to carry out the program, large financing gaps will remain at least until 1994 because of the magnitude of the initial imbalances and of the need to clear a high level of external payments arrears. Mauritania therefore will need concessional assistance from traditional donors, as well as comprehensive debt rescheduling of arrears and current maturities on highly concessional terms from Paris Club and other bilateral creditors. At the same time, external debt management will have to remain prudent, and recourse to new nonconcessional financing forgone altogether.

To justify the required type and level of external financial support, the authorities will have to demonstrate an unwavering commitment to carrying out their policy intentions. The severity of the imbalances that built up during the period 1990-92, the scale of present structural weaknesses, and the vulnerability of Mauritania's economy to external shocks leave little room for delays in implementing policy actions, let alone for slippages.

The staff considers Mauritania's program a difficult one that faces many risks, but one that is feasible if forcefully implemented. The authorities' stated readiness to strengthen policies should developments deviate from the program path, or adverse external shocks significantly modify the policy setting, is thus welcome. Only on this condition will prospects for resumed growth in a context of relative internal and external stability materialize.

In Mauritania there is a large spread between the preferential exchange rate applicable to workers' remittances, the free market rate determined at the level of the commercial banks, and the official rate pegged to a basket of currencies which give rise to multiple currency practices. The authorities have decided that, by January 1, 1993, the preferential exchange rate will be eliminated and the free market rate will be used for workers' remittances. The authorities intend to unify the free market rate and the official rate as soon as possible, but not later than the expiration of the period of the requested two-year ESAF arrangement. Moreover, the authorities intend to eliminate, before end-1993, the exchange restrictions evidenced by the remaining external payments arrears including through debt relief.

Mauritania has demonstrated during 1990-92 a strong commitment to remaining current on its financial obligations to the Fund, even in the face of severe foreign exchange constraints. In light of Mauritania's medium- and long-term prospects and the consistently good record of payments to the

Fund, 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 a two-year ESAF arrangement.

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

V. Proposed Decisions

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

A. Mauritania - 1992 Consultation

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Section 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 (a) a preferential exchange rate for workers' remittances, (b) an official rate pegged to a basket of currencies, and (c) 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 1993 Article IV consultation with Mauritania, whichever is earlier.

B. Mauritania - Request for ESAF Arrangements

1. The Government of Mauritania has requested a two-year arrangement under the enhanced structural adjustment facility and the first annual arrangement thereunder.

2. The Fund notes Mauritania's policy framework paper for 1992-95 (EBD/92/274).

3. The Fund approves the arrangement set forth in EBS/92/180.

Sensitivity Analysis and Capacity to Repay the Fund

Mauritania's medium-term balance of payments outlook is highly sensitive to changes in the underlying assumptions (Appendix II, Table VIII). Projections under Scenario A, which assumes a 10 percent drop in the unit export price of fish (in U.S. dollar terms) from 1993 onward, point to an increase in the current account deficit of SDR 18 million, or 2.1 percent of GDP, in 1993 and to a subsequent slower improvement in the external sector position, relative to the baseline scenario. Under these circumstances, Mauritania would be unable to achieve balance of payments sustainability over the medium term, unless further adjustment measures were undertaken supported by highly concessional financing.

The possibility of a combined 10 percent decline in the export price of fish and a 5 percent decline in the volume of iron ore shipments, which is explored under Scenario B, would worsen the current account deficit by SDR 24 million, or 3 percent of GDP, compared with the baseline scenario, while the overall balance of payments would record a cumulative deficit of SDR 190 million during 1993-96, as against SDR 75 million in the baseline scenario. The attendant larger financing gaps would require the adoption of further adjustment measures and the mobilization of additional exceptional financing. Furthermore, the debt service ratio would be on average 2 percentage points higher than in the baseline scenario (Appendix II, Table IX).

To assess Mauritania's long-term capacity to repay the Fund, the baseline scenario has been extended through 2004 (Appendix II, Table X). Mauritania's external position is expected to continue to improve, with the external current account deficit (excluding official transfers) declining further in terms of GDP and the overall balance of payments recording rising surpluses. Assuming full disbursement of the proposed loans under the ESAF, Mauritania's outstanding obligations to the Fund would increase from the equivalent of 124 percent of quota in 1992 to 173 percent in 1994, before declining steadily to 5 percent in 2003 (Appendix II, Tables XI and XII). Debt service to the Fund as a percentage of exports of goods and services would decline from 2.1 percent in 1992 to 1.6 percent in 1996, when the payments obligations to the Fund peak in absolute terms, and fall further, to 0.2 percent in 2004. In relation to gross official reserves, debt service payments due to the Fund would decline from 15.6 percent in 1992 to 7.8 percent in 1996 and to 0.4 percent in 2004.

Even under Scenario B, the ratio of debt service payments to the Fund to exports of goods and services would remain low at 1.7 percent in 1996. Although the ratios of such payments to gross reserves would be higher, it should be noted that, during the past two years, Mauritania has consistently met large repayment obligations to the Fund (SDR 14.2 million in 1990 and SDR 11.7 million in 1991, representing 38 percent and 25 percent of gross official reserves, respectively) as they were falling due, despite severe constraints on foreign exchange availability.

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

	Outstanding as of Oct. 31, 1992	1992 Nov.-Dec.	1993 Jan.-March	1993 April-June	1993 July-Sept.	1993 Oct.-Dec.	1994 Jan.-March	1994 April-June	1994 July-Sept.	1994 Oct.-Dec.
				(In millions of SDRs)						
Net use of Fund credit		8.23	-1.18	-1.52	7.80	7.46	-0.68	-1.02	7.80	-1.86
Transactions under tranche policies (net)		-0.25	-0.50	-0.50	--	--	--	--	--	--
Repurchases		-0.25	-0.50	-0.50	--	--	--	--	--	--
Ordinary resources		-0.25	-0.50	-0.50	--	--	--	--	--	--
Borrowed resources		--	--	--	--	--	--	--	--	--
Structural adjustment facility loans		--	-0.68	-1.02	-0.68	-1.02	-0.68	-1.02	-0.68	-1.36
Enhanced structural adjustment facility loans		8.48	--	--	8.48	8.48	--	--	8.48	-0.51
Drawings		8.48	--	--	8.48	8.48	--	--	8.48	--
Repayments		--	--	--	--	--	--	--	--	-0.51
Total Fund credit outstanding (end of period)	33.79	42.02	40.84	39.32	47.12	54.58	53.90	52.88	60.68	58.81
Under tranche policies	1.25	1.00	0.50	--	--	--	--	--	--	--
Under special facilities	--	--	--	--	--	--	--	--	--	--
Under structural adjustment facility	15.59	15.59	14.91	13.90	13.22	12.20	11.52	10.51	9.83	8.47
Under enhanced structural adjustment facility	16.95	25.43	25.43	25.43	33.90	42.38	42.38	42.38	50.85	50.34
Total Fund credit outstanding (end of period) 2/	99.7	123.9	120.5	116.0	139.0	161.0	159.0	156.0	179.0	173.5
Under tranche policies	3.7	2.9	1.5	--	--	--	--	--	--	--
Special facilities	--	--	--	--	--	--	--	--	--	--
Under structural adjustment facility	46.0	46.0	44.0	41.0	39.0	36.0	34.0	31.0	29.0	25.0
Under enhanced structural adjustment facility	50.0	75.0	75.0	75.0	100.0	125.0	125.0	125.0	150.0	148.5

Source: IMF, Treasurer's Department.

1/ Based on Mauritania's Eighth Review quota.
2/ This total includes loans from ESAF Trust which are not Fund resources.

Table II. Mauritania: Selected Economic and Financial Indicators, 1989-96

	1989		1990	1991	1992	1993	1994	1995	1996
	Prog. 1/	Act.	Act.	Est.	Program		Projections		
				(Annual percentage changes, unless otherwise noted)					
National income and prices									
GDP at constant prices	3.5	4.8	-1.8	2.6	2.4	3.5	3.5	3.5	3.5
GDP deflator	5.2	8.0	2.6	9.8	8.9	13.7	3.0	3.5	3.6
Consumer price index	8.2	13.1	6.5	5.6	8.1	13.9	3.6	3.3	3.5
External sector									
Exports, f.o.b. (in SDRs)	12.1	6.5	-10.9	2.9	-2.7	13.5	8.6	7.0	7.3
Imports, f.o.b. (in SDRs)	1.6	2.9	8.4	-5.8	13.1	-5.9	7.3	1.5	4.8
Export volume	10.7	-0.5	-6.3	-4.0	-6.8	11.9	7.9	2.3	2.5
Import volume	-8.4	-3.8	6.3	-5.0	14.6	-7.3	2.2	-3.2	-0.3
Terms of trade	-8.7	0.1	-6.8	8.1	5.7	-0.1	-4.1	-0.2	-0.3
Nominal effective exchange rate (depreciation -) 2/	...	6.1	20.7	12.0	-24.5	...	...	...	...
Real effective exchange rate (depreciation -) 2/	...	-1.0	0.1	-0.9	-17.1	...	...	...	...
Consolidated government operations 3/									
Total revenue and grants	4.2	-6.0	4.9	0.6	-1.0	44.2	-1.1	7.0	6.7
Of which: budgetary revenue	(12.1)	(6.8)	(7.4)	(2.9)	(8.2)	(24.6)	(5.3)	(7.3)	(6.9)
Total expenditure and net lending	15.6	11.1	-3.8	-0.3	-0.3	23.4	2.3	-8.3	3.0
Money and credit 4/									
Net domestic assets	1.6	28.4	42.0	25.9	15.9	-10.3	-3.5	12.3	0.6
Domestic credit	20.2	28.1	19.2	18.8	9.8	-10.3	-3.5	12.3	0.6
Credit to the Government	54.1	18.9	1.5	6.6	8.0	-11.7	-1.4	-1.3	-8.2
Excluding banking system restructuring operations	-27.8	26.1	1.5	1.9	8.0	-11.7	-1.4	-1.3	-8.2
Credit to the economy 5/	11.3	2.1	17.7	16.9	1.8	1.4	-2.2	13.6	8.7
Money and quasi-money (M2)	8.5	12.2	11.5	9.3	10.9	13.9	6.6	7.1	7.3
Velocity (GDP relative to M2)	4.3	3.9	3.5	3.6	3.6	3.8	3.8	3.8	3.8
Interest rate 6/	9.5	9.5	9.5	9.5	9.5	...	...	...	...
				(In percent of GDP)					
Investment and savings									
Gross capital formation	13.5	18.6	19.9	16.1	22.7	19.4	19.4	17.3	16.2
Gross domestic savings	9.8	12.6	5.5	8.2	9.4	12.8	13.3	13.5	13.4
Gross national savings	...	4.1	-1.6	1.7	4.8	8.1	9.0	9.7	10.0
Consolidated government operations (commitments)									
Treasury surplus or deficit (-) 7/	3.3	1.7	1.6	-0.9	-0.6	4.8	3.3	3.9	4.7
Overall surplus or deficit (-) 7/	0.4	-0.4	-0.9	-3.8	-3.0	3.0	1.5	2.1	2.8
Overall surplus or deficit (-) 8/	-4.2	-3.0	-3.1	-5.5	-4.6	1.3	-0.2	0.4	1.1
Primary deficit/surplus 9/	1.0	0.2	-0.5	-2.8	0.8	2.3	2.1	2.5	2.8
Revenue and grants	28.6	25.7	26.7	23.9	21.2	26.0	24.1	24.1	23.9
Total expenditure and net lending	35.4	33.7	32.2	28.5	25.5	26.7	25.7	22.0	21.1
External sector									
Current account balance									
Excluding official transfers	-13.1	-14.5	-21.5	-14.4	-17.9	-11.3	-10.4	-7.6	-6.2
Including official transfers	13.2	14.6	-12.8	-7.2	-10.7	-3.9	-2.9	-0.5	1.0
Debt outstanding	185.3	150.4	169.6	156.6	157.5	165.2	159.7	146.1	134.6
Debt service ratio before debt relief 10/	46.0	37.2	35.4	33.9	38.5	29.6	25.9	24.0	19.9
Of which: on Fund resources	(2.4)	(2.8)	(4.0)	(3.2)	(2.1)	(1.3)	(1.2)	(1 5)	(1.6)
Debt service ratio after debt relief 10/	27.8	21.3	30.2	32.9	21.4	14.5	11.4	24.0	19.9
				(In millions of SDRs, unless otherwise specified)					
Overall balance of payments									
Before debt relief	-41.3	-45.0	-89.4	-87.1	-86.5	-38.8	-40.3	-13.5	17.2
After debt relief 11/	36.1	32.4	-71.3	-83.5	71.9	21.3	22.4	-13.5	17.2
Gross official reserves	60.0	67.3	37.4	47.7	46.2	71.0	102.8	85.5	97.0
(In months of imports of goods and services)	1.6	1.7	0.9	1.2	1.1	1.7	2.3	1.9	2.1
Change in external payments arrears 12/	-19.0	-19.0	54.3	94.4	-90.8	-117.5	--	--	--
Memorandum item:									
Nominal GDP (in billions of ouguiyas)	82.1	81.5	82.2	92.6	103.2	121.6	129.6	138.8	148.9

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

1/ Based on the midterm review as shown in EBS/90/1.
2/ Based on the Information Notice System (INS). Data for 1992 are based on an INS modified calculation, which retains Mauritania's major trading partners.
3/ Includes Treasury's operations plus investment expenditures financed through external grants and external loans; excludes grants in the form of debt cancellation, amounting to 16 percent of GDP in 1989: also includes restructuring operations, on a commitment basis.
4/ In percent of broad money at the beginning of the period.
5/ Includes nonperforming loans.
6/ Interest rates on savings deposits kept for more than one year.
7/ Includes grants but excludes restructuring operations.
8/ Excludes grants and restructuring operations.
9/ Revenue minus expenditure excluding interest obligations on external debt and restructuring operations (commitment basis).
10/ As a percentage of exports of goods and services; excludes debt cancellation.
11/ Including the impact of possible debt rescheduling during the program period.
12/ For 1992, including SDR 85 million representing arrears on short-term debt that will be rescheduled and/or restructured.

Table III. Mauritania: Structural Reforms Implemented During 1989-September 1992 1/

Policy Measures	Programmed Timetable	Status
External sector policies		
1. Elimination of import licenses and easing of the requirements for an import/export card.	April 30, 1989	Implemented
2. Foreign exchange liberalization. Exporters retaining 15 percent of their export earnings.	1989	Implemented
Fiscal policies		
1. Revenue		
1.1 Introduction of new customs tariffs and streamlining of exemptions.	June 30, 1989	Implemented
1.2 Completion of the study of the integration of the minimum lump-sum into the turnover tax and harmonization of the turnover tax rates on domestic products and imports.	June 30, 1989	Implemented in 1990
1.3 Improvement in tax administration and collection.	1989	Implemented
1.4 Recovery of arrears on wage taxes owed by SNIM for 1987 and 1988.	December 1989	Implemented
2. Expenditure control		
Strengthening overall expenditure monitoring procedures.	1989-91	Implemented
3. Consolidated government budget		
Further improvement in the preparation and monitoring of annual consolidated budget.	December 1989	Implemented
Public sector management		
1. Preparation of a three-year rolling investment program.	July 1989	Implemented
2. Civil service census.	1990	Completed in 1991
3. Elimination of the 159 "irregular" employees from the payroll and implementation of retirement policy for the 141 employees of statutory age in 1992.	April 1992	Implemented in September 1992
4. Communication to the World Bank of the conclusions of the second phase of the civil service study.	July 1992	Implemented in September 1992
5. Establish coherence between the civil service payroll and civil service register.	September 30, 1992	Implemented
6. Measures to improve the coordination and management of the external debt.	June 30, 1989	Implemented
7. Institution of prior clearance requirements by Ministry of Finance and Central Bank on all external financing agreements.	April 1992	Implemented in September 1992
8. Implementation of the new government accounting system.	January 1, 1992	Implemented
Banking system restructuring		
1. Restructuring of the banking system, including enactment of a new banking law, strengthening of supervision and control, and privatization and consolidation of the financial structure.	1989-90	Implemented in 1989-90
2. Creation of a money market.	1990	Implemented
3. Formulation, by each primary bank, of a detailed list of all outstanding loans as of March 30, 1992 and a list of the largest debtors.	April 1992	Implemented in September 1992
Monetary and credit policy		
1. First step toward the liberalization of interest rates.	January 1990	Implemented
2. Setting of reserve requirements on deposits.	1990	Implemented

Table III (concluded). Mauritania: Structural Reforms Implemented During 1989-September 1992 1/

Policy Measures	Programmed Timetable	Status
Public enterprises		
1. Restructuring of the water and electricity company, SONELEC.	1988-89	Implemented
2. Liberalization of the petroleum, drug, and transportation sectors.	1989	Implemented
3. Abolition of the insurance monopoly of SMAR.	1989	Implemented
4. Abolition of the rice monopoly of SONIMEX.	1990	Implemented in 1991
5. Participation of the private sector in marketing activities of the fishing agency (SMCP).	1991	Implemented
6. Audit, restructuring, privatization, and liquidation of a number of targeted public enterprises.	1989-92	Implemented
7. Financial rehabilitation of the iron company, SNIM.	1989-92	Implemented
8. Liquidation of six public enterprises (fisheries, manufacturing, and agro-business).	1989-90	Implemented
9. Submission of an action plan to reduce outlays in services by SONELEC and the telecommunications company (OPT) to the amount included in the 1993 budget.	1992	Implemented
10. Full settlement of outstanding arrears of the public administration to SONELEC. 1/	April 1992	Implemented in September 1992
Agriculture policy		
1. Reform of the pricing and marketing systems.	1989	Implemented
2. Further reduction of the role of the food security agency (CSA) in cereal marketing, and reorganization of the agricultural development agency, SONADER, and reform of the irrigation policy.	1989-92	Implemented
Pricing and domestic trade policies		
Abolition of the fixed margin system and prix homologués, and reduction of the number of products subject to price controls.	1989-91	Implemented
Environmental policy		
Presentation to donors' meeting of plan for the fight against desertification.	May 1992	Implemented
Fishing sector policy		
Preparation of a development policy letter for the fisheries sector.	April 30, 1992	Implemented in May 1992

1/ The structural reforms implemented during 1986-89 are contained in the policy matrix of the PFP for 1989-91 (EBD/89/116, 4/24/89).

Table IV. Mauritania: Consolidated Government Financial Operations, 1989-1996 1/

	1989 Prog.	1989 Act	1990 Act.	1991 Est.	1992 Program	1993 Program	1994 Projections	1995 Projections	1996 Projections
	(In billions of ouguiyas)								
Total revenue and grants	21.18	20.96	21.98	22.10	21.89	31.55	31.20	33.40	35.64
Budgetary revenue	18.70	17.84	19.16	19.72	21.34	26.58	27.98	30.02	32.09
(as percent of GDP)	(22.8)	(21.9)	(23.3)	(21.3)	(20.7)	(21.9)	(21.6)	(21.6)	(21.5)
Of which: tax receipts	(...)	(14.30)	(15.05)	(15.33)	(17.18)	(21.27)	(22.15)	(23.82)	(25.56)
nontax receipts	(...)	(2.98)	(3.66)	(3.99)	(3.92)	(5.10)	(5.62)	(5.96)	(6.28)
Grants	1.45	2.10	1.75	1.54	1.42	2.07	2.20	2.36	2.53
Budgetary	0.50	0.38	0.15	0.43	0.43	--	--	--	--
Extrabudgetary	0.95	1.73	1.60	1.11	0.99	2.07	2.20	2.36	2.53
Of which: projects	(0.95)	(1.73)	(1.56)	(1.11)	(0.99)	(2.07)	(2.20)	(2.36)	(2.53)
Special accounts	1.03	1.01	1.07	0.90	1.02	1.02	1.02	1.02	1.02
Adjustment for uncashed checks	--	--	--	-0.06	-1.89	1.89	...	...	...
Primary expenditure 2/	24.81	24.83	24.31	23.97	23.16	29.50	30.30	27.61	28.88
(as percent of GDP)	(30.2)	(30.5)	(29.6)	(25.9)	(22.4)	(24.3)	(23.4)	(19.9)	(19.4)
Wages and salaries	4.92	4.92	5.17	5.42	5.96	6.44	6.67	6.89	7.13
Goods and services	2.85	3.27	3.97	4.65	4.90	5.57	6.06	6.49	6.80
Transfers and subsidies	1.87	1.79	2.26	2.13	1.86	2.13	2.28	2.35	2.44
Military expenditure	3.24	3.23	3.24	3.23	3.43	3.64	3.77	3.90	4.04
Other unclassified expenditure	--	--	--	1.89	--	--	--	--	...
Capital expenditure	5.13	4.54	5.14	4.75	5.25	5.94	6.34	6.80	7.30
Budgetary	0.90	1.05	1.22	1.42	1.51	1.70	1.82	1.95	2.10
Extrabudgetary	3.51	3.50	3.89	3.33	3.74	4.24	4.52	4.84	5.20
Special accounts	0.72	0.85	0.88	0.65	0.59	1.02	1.02	1.02	1.02
Net lending	6.08	6.23	3.66	1.25	1.18	4.75	4.15	0.16	0.17
Of which: restructuring 3/	(5.88)	(6.18)	(3.48)	(1.18)	(1.05)	(4.60)	(4.00)	(--)	(--)
Adjustment for balance of other government operations	--	--	0.21	-0.41	0.28	...	...	...	...
Primary balance 2/									
Excluding grants	-5.08	-5.98	-3.87	-3.76	-0.52	-1.91	-1.30	3.42	4.22
(as percent of GDP)	(-6.2)	(-7.3)	(-4.7)	(-4.1)	(-0.5)	(-1.6)	(-1.0)	(2.5)	(2.8)
Excluding grants and restructuring operations	0.80	0.20	-0.39	-2.58	0.52	2.70	2.70	3.42	4.22
(as percent of GDP)	(1.0)	(0.2)	(-0.5)	(-2.8)	(0.5)	(2.2)	(2.1)	(2.5)	(2.8)
Interest due on public debt	1.94	2.65	2.13	2.40	3.14	2.97	2.92	2.82	2.46
Overall deficit/surplus (-) (commitment basis)									
Including grants	-5.57	-6.53	-4.26	-4.69	-4.14	-0.92	-2.02	2.96	4.29
Excluding restructuring operations	0.32	-0.35	-0.78	-3.51	-3.09	3.69	1.98	2.96	4.29
Excluding grants	-7.02	-8.63	-6.01	-6.22	-5.56	-2.98	-4.22	0.60	1.76
Excluding restructuring operations	-1.14	-2.45	-2.52	-5.05	-4.51	1.62	-0.22	0.60	1.76
Change in payments arrears (decrease -)	-0.20	0.22	1.17	1.15	-3.86	--	--	--	--
External	-0.20	-0.20	0.30	1.07	-3.50	--	--	--	--
Domestic	--	0.42	0 87	0.08	-0.36	--	--	--	--
Overall surplus deficit (-) (cash basis)									
Including grants	-5.77	-6.31	-3.09	-3.54	-8.00	-0.92	-2.02	2.96	4.29
Financing	5.77	6.31	3.09	3.54	-11.10	-4.70	-4.26	-2.96	-4.29
Foreign (net)	-2.98	-3.80	2.52	2.75	-13.15	-1.39	-3.76	-2.44	-1.21
Drawings	4.13	3.31	4.77	3.65	2.75	4.51	2.32	2.48	2.67
Budgetary 4/	1.57	1.54	2.45	1.43	--	2.34	--	--	--
Projects	2.56	1.77	2.32	2.22	2.75	2.17	2.32	2.48	2.67
Amortization due	-5.56	-5.56	-4.10	-5.13	-5.98	-5.90	-6.08	-4.93	-3.88
Change in principal payments arrears	-1.55	-1.55	1.85	4.23	-9.92	--	--	--	--
Domestic (net)	3.02	3.75	0.47	0.79	2.05	-3.31	-0.50	-0.52	-3.08
Banking system	3.02	3.35	0.32	0.44	2.05	-3.31	-0.50	-0.52	-3.08
Treasury bonds	...	4.19	1.05	0.65	--	-1.30	-0.50	-0.52	-3.08
Treasury advances	...	-1.14	-0.33	0.72	1.29	-2.01	--	--	--
Other bank financing	...	0.30	-0.40	-0.93	0.77	--	--	--	--
Other	--	0.40	0.15	0.35	--	--	--	--	--
External debt relief and other exceptional assistance	5.73	6.36	0.09	--	--	--	--	--	--
Of which: rescheduling	(3.17)	(3.46)	(0.09)	(--)	(--)	(--)	(--)	(--)	(--)
Financing gap	--	--	--	--	19.10	5.62	6.28	--	--
	(In percent of GDP)								
Memorandum items:									
Total revenue and grants	25.8	25.7	26.7	23.9	21.2	26.0	24.1	24.1	23.9
Total expenditure and net lending	32.6	33.7	32.2	28.5	25.5	26.7	25.6	21.9	21.0
Overall deficit/surplus (-) (commitment basis)									
Excluding grants	-8.5	-10.6	-7.3	-6.7	-5.4	-2.5	-3.3	0.4	1.2
Excluding restructuring operations	-1.4	-3.0	-3.1	-5.5	-4.6	1.3	-0.2	0.4	1.2
Overall deficit/surplus (-) (cash basis)									
Including grants	-7.0	-7.7	-3.8	-3.8	-7.7	-0.8	-1.6	2.1	2.9
Excluding grants and restructuring operation	0.1	-2.7	-1.6	-4.2	-8.4	1.3	-0.2	0.4	1.2
Financing gap	--	--	--	--	18.5	4.6	4.9	--	--
Treasury surplus (in billions of ouguiyas) 5/	2.9	1.4	1.3	-0.9	-0.6	5 9	4.3	5.4	7.0

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

1/ Including operations financed directly from abroad and not recorded in treasury accounts, operations related to the restructuring of banks and public enterprises; excluding grants received in the form of cancellation on future amortization payments, amounting to the equivalent of 5.8 percent of GDP in 1988 and 16.0 percent in 1989.

2/ On a commitment basis.

3/ Includes, in 1993, an amount of UM 2.3 billion to cover the exchange loss of the Central Bank

4/ Includes program loans.

5/ On a commitment basis; excludes restructuring operations.

Table V. Mauritania: Monetary Survey, 1989-93

	1989	1990	1991	1992					1993			
	December			Mar.	June	September		Dec.	Mar.	June	Sept.	Dec.
				Actual		Est. SDR 1 = UM 105.5	Est. SDR 1 = UM 144.5	Prog.	Program SDR 1 = UM 144.5			
	(In billions of ouguiyas; end of period)											
Net foreign assets	-12,589.4	-18,988.5	-22,874.2	-24,244.6	-25,013.2	-23,537.4	-32,243.0	-32,856.9	-30,458.7	-30,704.3	-27,034.7	-25,994.5
Assets	9,889.3	6,367.5	6,409.0	5,635.9	5,427.9	6,264.5	8,582.0	8,480.4	9,607.3	8,249.2	11,673.2	12,031.0
Central Bank	7,385.9	4,136.7	5,308.7	3,678.9	4,038.9	4,946.2	6,776.0	6,674.5	7,801.4	6,443.4	9,867.3	10,225.1
Commercial banks	2,503.4	2,230.9	1,100.3	1,957.0	1,389.0	1,318.3	1,806.0	1,805.9	1,805.9	1,805.9	1,805.9	1,805.9
Liabilities	-22,478.6	-25,356.0	-29,283.2	-29,880.5	-30,441.1	-29,801.9	40,825.0	-41,337.2	-40,065.9	-38,953.5	-38,707.9	-38,025.5
Central Bank	-13,083.7	-16,409.0	-15,989.0	-16,005.5	-15,424.1	-19,888.4	27,244.0	-27,468.1	-25,763.4	-24,362.0	-23,683.0	-23,578.5
Of which: AMF	(--)	(-3,876.0)	(-4,213.5)	(-4,244.1)	(-4,202.1)	(-3,991.9)	(5,468.0)	(-4,637.5)	(-4,290.8)	(-4,290.8)	(-3,669.5)	(-3,669.5)
blocked transfers	(--)	(--)	(--)	(--)	(--)	(-5,424.0)	(7,430.0)	(-7,430.1)	(-6,245.5)	(-5,060.8)	(-3,876.2)	(-2,691.5)
Commercial banks	-9,395.0	-8,947.0	-13,294.2	-13,875.0	-15,017.0	-9,913.5	13,580.0	-13,869.1	-14,302.5	-14,591.5	-15,024.9	-14,447.0
Of which: correspondents	(-7,522.6)	(-8,385.1)	(-12,357.9)	(-12,968.0)	(-14,079.0)	(-9,122.6)	(12,497.0)	(-12,785.6)	(-13,219.0)	(-13,507.9)	(-13,941.4)	(-13,363.5)
Net domestic assets	33,565.1	42,379.2	48,431.2	51,452.6	52,824.2	52,109.2	60,814.8	61,207.7	61,034.7	61,413.7	58,595.8	58,294.3
Domestic credit	40,959.5	44,986.3	49,388.6	51,828.7	52,218.0	51,503.0	51,503.0	51,895.9	51,722.3	51,101.9	49,284.0	48,982.5
Net claims on the Government	8,805.5	9,126.9	9,566.6	11,536.7	11,571.0	10,856.0	10,856.0	11,620.0	11,107.0	10,490.0	8,539.0	8,308.0
Of which: net claims on the Treasury	(7,887.0)	(8,417.0)	(9,510.0)	(10,524.0)	(10,733.0)	(10,103.0)	(10,103)	(10,796.0)	(10,283.0)	(9,666.0)	(7,715.0)	(7,484.0)
Central Bank (net)	9,133.1	9,706.3	10,229.1	12,122.7	12,286.0	11,724.0	11,724.0	11,664.0	11,151.0	10.534.0	8,583.0	8,352.0
Commercial banks	-327.7	-579.4	-662.5	-586.0	-715.0	-868.0	-868.0	-868.0	-868.0	-868.0	-868.0	-868.0
Credit to the economy	32,154.0	35,859.4	39,822.0	40,292.0	40,647.0	40,647.0	40,647.0	40,276.8	40,616.3	40,612.9	40,746.0	40,675.5
Of which: agriculture 1/	(656.0)	(791.0)	(822.0)	(850.0)	(801.0)	(750.0)	(750.0)	(...)	(...)	(...)	(...)	(...)
fishing 1/	(9,272.0)	(11,888.0)	(14,251.0)	(14,534.0)	(14,056.0)	(14,056.0)	(14,056.0)	(...)	(...)	(...)	(...)	(...)
commerce 1/	(10,261.0)	(10,550.0)	(10,770.0)	(11,658.0)	(11,415.0)	(11,415.0)	(11,415.0)	(...)	(...)	(...)	(...)	(...)
Of which: nonperforming credit 1/	(--)	(--)	(16,416.0)	(16,553.8)	(16,672.8)	(16,672.8)	(16,672.8)	(16,290.0)	(15,790.0)	(15,290.0)	(14,790.0)	(14,290.0)
performing credit 1/	(--)	(--)	(23,406.0)	(23,738.2)	(23,974.2)	(23,974.2)	(23,974.2)	(23,987.0)	(24,826.5)	(25,323.1)	(25,956.2)	(26,385.7)
Other items (net)	-7,394.4	-2,607.1	-957.4	-376.1	606.2	606.2	9,311.8	9,311.8	9,311.8	9,311.8	9,311.8	9,311.8
Money and quasi-money (M2)	20,975.7	23,390.7	25,557.0	27,208.0	27,811.0	28,571.8	28,571.8	28,350.8	30,575.5	29,709.4	31,561.1	32,299.8
Currency	6,039.9	6,139.0	7,334.7	8,722.0	8,629.0	8,974.2	8,974.0	8,400.0	...	...	...	...
Demand deposits	10,988,4	11,482,4	12,041.4	12,377.0	12,129.0	12,544.6	12,280.0	12,950.8	...	...	...	...
Time deposits	3,947.3	5,769.3	6,180.9	6,109.0	7,053.0	7,053.0	7,053.0	7,000.0	...	...	...	...
	(Change in percentage) 2/											
Memorandum items:												
Net domestic assets 3/	28.4	42.0	25.9	11.8	17.2	14.4	48.5	50.0	-0.6	-2.8	-9.2	-10.3
Domestic credit	28.1	19.2	18.8	9.5	11.1	8.3	8.3	9.8	-0.6	-2.8	-9.2	-10.3
Net claims on the Government	26.1	1.5	1.9	7.7	7.8	5.0	5.0	8.0	-1.8	-4.0	-10.9	-11.7
Credit to nongovernment sector	2.1	17.7	16.9	1.8	3.2	3.2	3.2	1.8	1.2	1.2	1.7	1.4
Of which: performing credit	(...)	(...)	(...)	(1.3)	(2.2)	(2.2)	(2.2)	(2.3)	(3.0)	(4.7)	(6.9)	(8.5)
Money and quasi-money	12.2	11.5	9.3	6.5	8.8	11.8	11.8	10.9	7.8	4.8	11.3	13.9
Currency	...	0.5	5.1	5.4	5.1	6.4	6.4	4.2	...	...	...	...
Demand deposits	...	2.4	2.4	1.3	0.3	2.0	2.0	3.6	...	...	...	...
Time deposits	...	8.7	1.8	-0.3	3.4	3.4	3.4	3.2	...	...	...	...
Velocity	3.9	3.5	3.6	...	...	...	...	3.6	...	...	...	3.8
Nominal GDP (in millions of ouguiyas)	81,517.0	82,189.0	92,619.0	...	...	...	...	103,228.0	...	...	...	121,552.0

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

1/ As reported by the "Centrale des Risques."
2/ In percent of broad money at the beginning of period.
3/ For end-1992, it includes valuation changes. In 1992 the change in domestic assets in percent of broad money at the beginning of period and excluding the valuation changes falls to 15.9 percent.

Table VI. Mauritania: Balance of Payments, 1989-96

	1989		1990	1991	1992	1993	1994	1995	1996
	Prog. 1/	Act.	Act.	Est.	Program		Projections		
	(In millions of SDRs)								
Trade balance	98.8	73.7	12.5	38.8	-6.8	53.9	62.5	84.4	98.8
Exports	369.9	349.2	311.1	320.1	311.4	353.4	383.7	410.5	440.5
Of which: iron ore	(53.6)	(141.2)	(153.4)	(155.3)	(127.1)	(131.0)	(140.5)	(151.3)	(165.4)
fish	(210.4)	(200.5)	(152.0)	(162.1)	(176.0)	(207.4)	(227.9)	(242.4)	(257.9)
Imports	-271.1	-275.5	-298.6	-281.2	-318.2	-299.4	-321.3	-326.1	-341.7
Services (net)	-177.4	-166.2	-163.7	-146.3	-158.6	-154.4	-160.7	-162.3	-167.7
Nonfactor services	-125.6	-119.2	-120.2	-104.4	-108.0	-109.9	-117.4	-120.0	-127.0
Factor services	-51.8	-47.1	-43.5	-41.9	-50.6	-44.6	-43.3	-42.4	-40.7
Of which: interest payments due	(-52.3)	(-51.1)	(-45.9)	(-43.3)	(-50.6)	(-46.5)	(-44.4)	(-44.6)	(-42.0)
Unrequited transfers (net)	177.6	204.5	54.7	48.2	72.9	67.8	71.8	73.3	79.3
Private	-19.8	-18.5	-10.3	-11.3	-10.9	5.1	5.1	5.1	5.1
Official 2/	197.5	223.0	65.0	59.4	62.0	62.6	66.8	68.3	74.2
Current account									
Including official transfers	99.1	111.9	-96.5	-59.3	-92.5	-32.7	-26.5	-4.6	10.4
Excluding official transfers	-98.4	-111.1	-161.5	-118.7	-154.5	-95.4	-93.3	-72.9	-63.8
Nonmonetary capital (net)	-140.4	-156.9	7.1	-27.8	6.0	-6.1	-13.8	-8.9	6.7
Direct investment	1.5	2.7	6.0	3.6	3.3	5.1	5.5	6.9	8.1
Official medium- and long-term loans	-135.3	-166.3	-2.6	-18.5	5.5	-8.0	-20.9	-17.8	-8.5
Disbursements	92.9	62.6	64.7	53.4	79.9	52.5	41.1	36.4	34.8
Principal due 2/	-228.2	-228.9	-67.3	-71.9	-74.4	-60.5	-62.0	-54.2	-43.3
Other capital 3/	-6.4	6.7	3.7	-12.9	-2.7	-3.2	1.6	2.0	7.1
Overall balance	-41.3	-45.0	-89.4	-87.1	-86.5	-38.8	-40.3	-13.5	17.1
Financing 4/	41.3	45.0	89.4	87.1	-68.2	-17.8	-19.3	13.4	-17.2
Changes in net foreign assets of the banking system (increase -)	-17.1	-13.4	17.0	-10.9	2.2	-14.6	-23.6	12.7	-17.3
Monetary authorities (net)	-15.5	-27.1	24.3	-21.1	48.6	-18.6	-29.6	4.7	-25.3
Change in gross reserves	-11.7	-23.0	29.9	-10.2	1.5	-24.8	-31.9	17.4	-11.6
Change in liabilities	-3.9	-4.1	-5.6	-10.9	47.1	-2.6	-6.0	-12.7	-13.6
Fund transactions	1.6	1.0	-2.7	-9.6	2.5	-4.1	-4.2	-5.9	-6.8
Purchases	8.5	8.5	8.5	--	8.5	17.0	8.5	--	--
Repurchases	-6.8	-7.4	-11.2	-9.6	-5.9	-4.4	-4.2	-5.9	-6.8
Others	-5.5	-5.2	-2.9	-1.3	44.6 5/	-6.7	-1.8	-6.8	-6.8
Deposit money banks	-1.5	13.7	-7.3	10.2	-46.4 5/	4.0	6.0	8.0	8.0
Accumulation of arrears (increase +)	-19.0	-19.0	54.3	94.4	-90.8	-117.5	--	--	--
External debt relief and other exceptional assistance	77.4	77.4	18.1	3.6	20.4	114.3	4.3	0.7	--
Rescheduling already received	50.2	50.2	14.8	3.6	3.7	3.4	3.6	--	--
Interest	10.1	10.1	2.4	--	--	--	--	--	--
Principal	25.2	25.2	12.4	3.6	3.7	3.4	3.6	--	--
Arrears	14.9	14.9	--	--	--	--	--	--	--
Other exceptional assistance identified	--	--	--	--	16.7	26.1	0.7	0.7	--
Of which: World Bank resources 6/	(--)	(--)	(--)	(--)	(16.2)	(16.2)	(0.7)	(0.7)	(--)
Debt cancellation already received	27.2	27.2	3.3	--	--	--	--	--	--
Possible rescheduling of public external debt and restructuring of commercial banks' arrears	--	--	--	--	154.7	141.5	59.2	--	--
	(In percent of GDP, unless otherwise specified)								
Current account deficit									
Including official transfers	13.2	14.6	-12.8	-7.2	-10.7	-3.9	-2.9	-0.5	1.0
Excluding official transfers	-13.1	-14.5	-21.5	-14.4	-17.9	-11.3	-10.4	-7.6	-6.2
Overall balance	-41.3	-5.9	-11.9	-10.5	-10.0	-4.6	-4.5	-1.4	1.7
Gross official reserves									
In millions of SDRs	60.0	67.3	37.4	47.7	46.2	71.0	102.8	85.5	97.0
In months of imports	1.6	1.7	0.8	1.2	1.1	1.7	2.3	1.9	2.1
Debt service ratio 7/	46.0	37.2	35.4	33.9	38.5	29.6	25.9	24.0	19.9
Debt outstanding	185.3	150.3	169.6	156.6	157.5	165.2	159.7	146.1	134.6
Possible rescheduling of public external debt and restructuring of commercial banks' arrears (in millions of SDRs)	--	--	--	--	154.7	141.5	59.2	--	--
Possible additional assistance from donors	--	--	--	--	...	...	...	...	...

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

1/ Based on the midterm review, as shown in EBS/90/1.
2/ Includes cancellation of loans maturing in future years amounting to SDR 141.4 million in 1989.
3/ Includes private short-term capital, commercial credits, and errors and omissions.
4/ Totals may not add up because of rounding.
5/ Represents the assumption by the Central Bank of the external liabilities (including late interest payments) of the commercial banks (estimated at SDR 51.4 million) which could not be settled when they fell due owing to foreign exchange constraints.
6/ Including cofinancing operations.
7/ In percent of exports of goods and services, including the IMF.

Table VII. Mauritania: Increase in Budgetary Revenue in 1993

(In millions of ouguiyas)

Total increase	5,242
Impact of the exchange rate change	2,188
Change in import tax base	(1,076)
Change in fish export tax base	(834)
Increase in fish royalties	(278)
Impact of discretionary measures	1,312
Elimination of SONELEC special status	(300)
Increase in statistical tax	(918)
Reduction in exemptions related to imports of tires	(52)
Increase in tax rate on imports of fabrics	(42)
Improvement in import tax collection	102
Estimated change resulting from economic growth	1,640

Table VIII. Mauritania: Assumptions Underlying the Medium-Term Balance of Payments Projections, 1989-96

	1989	1990	1991	1992	1993	1994	1995	1996
		Preliminary		With measures		Projections		
	(Annual percentage changes)							
Total exports, f.o.b.								
Value (in SDRs)	6.5	-10.9	2.9	-2.7	13.5	8.6	7.0	7.3
Volume	-0.5	-6.3	-4.0	-6.8	11.9	7.8	2.3	2.5
Unit value (in SDRs)	7.1	-4.9	7.1	4.3	1.4	0.7	4.6	4.7
Of which:								
Iron ore								
Value (in SDRs)	(34.7)	(8.7)	(1.2)	(-18.7)	(3.0)	(7.3)	(7.6)	(9.3)
Volume	(11.4)	(2.0)	(-6.5)	(-10.6)	(1.5)	(2.3)	(2.5)	(2.8)
Unit value (in SDRs)	(21.0)	(6.5)	(8.3)	(-8.5)	(1.5)	(4.9)	(5.0)	(6.4)
Fish								
Value (in SDRs)	(-7.3)	(-24.2)	(6.7)	(8.6)	(17.8)	(9.9)	(6.3)	(6.4)
Volume	(-8.5)	(-11.9)	(-2.2)	(-4.2)	(18.9)	(11.5)	(2.1)	(2.2)
Unit value (in SDRs)	(1.4)	(-13.9)	(9.1)	(13.4)	(-0.9)	(-1.5)	(4.1)	(3.0)
Total imports, f.o.b. (exc. SNIM's total imports)								
Value (in SDRs)	-10.1	8.8	-8.5	8.2	-3.5	11.2	9.0	4.9
Volume 1/	-6.0	6.7	-7.7	9.6	-4.9	5.9	4.0	-0.2
Unit value (in SDRs)	7.0	2.0	-0.9	-1.3	1.5	5.0	4.8	5.1
Total imports, f.o.b.								
Value (in SDRs)	2.9	8.4	-5.8	13.2	-5.9	7.3	1.5	4.8
Volume	-3.8	6.3	-5.0	14.6	-7.3	2.2	-3.2	-0.3
Unit value (in SDRs)	7.0	2.0	-0.9	-1.3	1.5	5.0	4.8	5.1
Of which:								
Foodstuffs (inc. food aid)								
Value (in SDRs)	(-0.3)	(2.4)	(-6.1)	(7.8)	(-3.2)	(6.5)	(5.8)	(5.9)
Volume	(-6.8)	(20.0)	(2.3)	(6.3)	(-0.7)	(1.6)	(1.1)	(0.2)
Unit value (in SDRs)	(7.0)	(-14.6)	(-8.2)	(1.4)	(-2.5)	(4.8)	(4.6)	(5.7)
Other consumer goods								
Value (in SDRs)	(-14.2)	(31.0)	(-8.3)	(12.2)	(-10.0)	(7.2)	(7.1)	(7.1)
Volume	(-18.0)	(23.8)	(-11.1)	(14.2)	(-12.1)	(2.0)	(2.1)	(2.0)
Unit value (in SDRs)	(4.7)	(5.8)	(3.2)	(-1.8)	(2.3)	(5.1)	(4.9)	(5.0)
Petroleum products								
Value (in SDRs)	(43.4)	(16.0)	(-5.3)	(-6.9)	(1.3)	(7.6)	(7.6)	(7.3)
Volume	(-12.1)	(-7.5)	(6.6)	(-5.8)	(-2.2)	(2.5)	(2.5)	(2.8)
Unit value (in SDRs)	(63.2)	(25.5)	(-11.2)	(-1.1)	(3.6)	(5.0)	(4.9)	(4.4)
Intermediate goods								
Value (in SDRs)	(2.8)	(16.7)	(-15.4)	(4.5)	(4.3)	(9.6)	(8.5)	(8.4)
Volume	(-1.9)	(10.3)	(-18.0)	(6.4)	(1.9)	(4.3)	(3.5)	(3.2)
Unit value (in SDRs)	(4.7)	(5.8)	(3.2)	(-1.8)	(2.3)	(5.1)	(4.9)	(5.0)
Investment-related imports (including SNIM)								
Value (in SDRs)	(-17.4)	(0.3)	(6.1)	(111.5)	(-23.9)	(-39.5)	(-27.8)	(7.6)
Volume	(-21.1)	(-5.2)	(2.7)	(115.5)	(-25.6)	(-42.4)	(-31.1)	(2.6)
Unit value (in SDRs)	(4.7)	(5.8)	(3.2)	(-1.8)	(2.3)	(5.1)	(4.9)	(5.0)
Of which:								
Investment-related imports (excluding SNIM)								
Value (in SDRs)	(-27.0)	(15.2)	(5.7)	(11.3)	(-2.7)	(12.1)	(10.3)	(7.6)
Volume	(-30.0)	(8.9)	(6.6)	(12.8)	(-4.1)	(6.8)	(5.2)	(2.3)
Unit value (in SDRs)	(4.7)	(5.8)	(-0.9)	(-1.3)	(1.5)	(5.0)	(4.8)	(5.1)
Terms of trade	0.1	-6.8	8.1	5.7	-0.1	-4.1	-0.2	-0.3

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

1/ When only the imports needed to develop the new mine are excluded, the annual change in import volumes is as follows: an increase of 2.6 percent in 1992, a decrease of 2.7 percent in 1993, increases of 7.8 percnt and 3.3 percent in 1994 and 1995 respectively; and a decrease of 0.3 percent in 1996.

Table IX. Mauritania: Medium-Term External Debt Projections, 1989-96

	1989	1990	1991 Est.	1992	1993	1994	1995	1996
				Projections				
	(In billions of SDRs)							
Total debt service due (including IMF)	146.2	124.4	124.8	135.8	118.0	112.4	111.5	98.8
Principal due	87.6	67.3	71.9	79.3	67.2	63.8	61.0	50.1
On contracted loans 1/	87.6	67.3	71.9	79.3	67.2	63.8	61.0	50.1
On new loans	--	--	--	--	--	--	--	--
On financing of the gap	--	--	--	--	--	--	--	--
Interest due (excluding the IMF)	47.6	42.9	41.2	49.3	45.6	43.6	43.8	41.2
On scheduled debt service 1/	40.6	35.6	33.1	34.2	28.3	27.3	24.3	21.8
On new loans	--	--	--	1.8	2.8	3.6	3.5	4.3
On financing of the gap	--	--	--	1.7	6.3	9.1	10.3	9.9
On short-term credit	7.0	7.3	8.1	7.1	8.2	3.5	5.7	5.2
On arrears	...	...	...	4.5	...	...	...	...
Repurchases due to the Fund	7.4	11.2	9.6	5.9	4.4	4.2	5.9	6.8
Charges due to the Fund	3.5	3.0	2.1	1.3	0.8	0.8	0.8	0.8
Disbursements of medium- and long-term loans	62.7	64.7	53.5	96.1	68.7	41.8	37.1	34.8
Project loans	41.7	42.3	40.7	79.9	52.5	41.1	36.4	34.8
Program loans	21.0	22.4	12.8	16.2	16.2	0.7	0.7	--
Debt outstanding at end of year	1,151.3	1,274.5	1,289.9	1,358.2	1,393.1	1,436.1	1,408.3	1,393.3
Medium- and long-term loans	960.0	1,039.9	1,006.0	1,022.8	1,024.3	1,002.3	978.4	963.2
Loans contracted 1/	960.0	1,039.9	965.3	886.0	818.8	755.0	694.0	643.9
New loans	--	--	40.7	136.8	205.5	247.3	284.4	319.3
Fund resources	51.8	49.1	39.5	42.0	54.6	58.9	53.0	46.2
Short-term credit 2/	132.4	138.9	133.4	138.7	102.8	104.3	106.3	113.4
Arrears	7.1	46.6	111.0	--	--	--	--	--
Rescheduling	--	--	--	154.7	211.4	270.6	270.6	270.6
	(In percent of exports of goods and services)							
Total debt service due	37.2	35.4	33.9	38.5	29.6	25.9	24.0	19.9
Interest and charges	13.0	13.1	11.8	14.3	11.7	10.3	9.7	8.5
Of which: Fund charges	(0.9)	(0.9)	(0.6)	(0.4)	(0.2)	(0.2)	(0.2)	(0.2)
Principal and repurchases	24.2	22.3	22.1	24.2	18.1	15.8	14.5	11.6
Of which: Fund repurchases	(1.9)	(3.2)	(2.6)	(1.7)	(1.1)	(1.0)	(1.3)	(1.4)
Debt service after debt relief	21.3	30.2	32.9	21.4	14.5	11.4	24.0	19.9
Debt service paid 3/	22.3	16.9	17.0	26.7	22.7	11.4	24.0	19.9
	(In percent of GDP, unless otherwise specified)							
Total debt outstanding (disbursed)	150.4	169.6	156.6	157.5	165.2	159.7	146.1	134.6
Of which: Fund credit	(6.8)	(6.5)	(4.8)	(4.9)	(6.5)	(6.5)	(5.5)	(4.5)
Debt service	19.1	16.6	15.1	15.7	14.0	12.5	11.6	9.5
Fund credit as percent of quota	152.0	144.9	116.5	123.9	161.0	173.5	156.0	136.0
	(In percent, unless otherwise specified)							
Memorandum items:								
Average interest rates								
On disbursed debt under commitments after end-1985	1.3	1.7	1.9	1.9	1.9	1.9	1.9	1.9
On rescheduled debt and financing of the gap	3.5	3.5	3.5	3.5	4.0	4.1	4.6	4.5
Stock of debt canceled (in millions of SDRs) 4/	141.3	--	--	--	--	--	--	--

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

1/ All loans contracted before end of 1991, including the Arab Monetary Fund; excludes debt cancellation shown as a memorandum item.
2/ Including at end-1992, overdue external liabilities of the commercial banks amounting to SDR 84.8 million, of which SDR 51.4 million was assumed by the Central Bank.
3/ Excludes debt cancellation shown as a memorandum item.
4/ Includes cancellation of debt maturing in future years; these amounts are shown in the balance of payments under amortization payments with a counter-entry under official transfers.

Table X. Mauritania: Medium-Term Balance of Payments Scenarios, 1989-2004

(In percent, and in millions of SDRs)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
		Preliminary		Projections												
Baseline scenario																
Current account deficit,																
excluding grants (SDR millions)	-111.1	-161.5	-118.7	-154.5	-95.4	-93.3	-72.9	-63.8	-63.1	-68.3	-70.9	-75.7	-82.1	-87.1	-90.5	-97.8
Current account as percent of GDP	-14.5	-21.5	-14.4	-17.9	-11.3	-10.4	-7.6	-6.2	-5.7	-5.8	-5.6	-5.6	-5.7	-5.7	-5.5	-5.6
Overall balance (SDR millions) 1/	-45.0	-89.4	-87.1	-86.5	-38.8	-40.3	-13.5	17.2	20.3	23.9	31.0	37.9	48.1	50.0	57.7	63.2
Scenario A: 10 percent decline in the U.S. dollar price of fish in 1992																
Current account deficit,																
excluding grants (SDR millions)	-111.1	-161.5	-118.7	-154.5	-112.9	-112.6	-95.1	-86.8	-84.6	-91.3	-95.2	-101.6	-109.9	-116.9	-122.4	-132.3
Current account as percent of GDP	-14.5	-21.5	-14.4	-17.9	-13.4	-12.3	-9.9	-8.4	-7.7	-7.8	-7.6	-7.6	-7.7	-7.6	-7.5	-7.6
Overall balance (SDR millions) 1/	-45.0	-89.4	-87.1	-86.5	-56.3	-59.7	-35.8	-5.8	-1.2	0.9	6.7	12.0	20.3	20.2	25.8	28.7
Scenario B: 10 percent decline in the U.S. dollar price of fish and 5 percent decline in volume of iron ore exports in 1993																
Current account deficit,																
excluding grants (SDR millions)	-111.1	-161.5	-118.7	-154.5	-119.6	-119.9	-103.2	-95.8	-94.6	-102.0	-106.6	-113.7	-122.9	-131.0	-137.4	-148.6
Current account as percent of GDP	-14.5	-21.5	-14.4	-17.9	-14.2	-13.3	-10.7	-9.3	-8.6	-8.7	-8.5	-8.5	-8.6	-8.6	-8.4	-8.5
Overall balance (SDR millions) 1/	-45.0	-89.4	-87.1	-86.5	-63.0	-67.0	-43.8	-14.8	-11.2	-9.8	-4.6	-0.1	7.3	6.2	10.7	12.4

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

1/ Before debt rescheduling, but after debt cancellation.

Table XI. Mauritania: Indicators of Fund Credit, 1992-2004

(In percent)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
							Projections						
Outstanding Fund credit/Quota 1/	123.9	161.0	173.5	156.0	136.0	120.0	105.0	82.5	60.0	40.0	20.0	5.0	--
Outstanding Fund credit/GDP 1/	4.9	6.5	6.5	5.5	4.5	3.7	3.0	2.2	1.5	0.9	0.4	0.1	--
Outstanding Fund credit/Exports of goods and services 1/	11.9	13.7	13.6	11.4	9.3	7.8	6.4	4.8	3.3	2.1	1.0	0.2	--
Debt service to the Fund/Exports of goods and services 2/													
Baseline scenario	2.1	1.3	1.2	1.5	1.5	1.2	1.1	1.4	1.4	1.2	1.1	0.7	0.2
Scenario A	2.1	1.4	1.2	1.5	1.6	1.3	1.1	1.5	1.4	1.2	1.1	0.8	0.2
Scenario B	2.1	1.4	1.3	1.6	1.7	1.3	1.1	1.5	1.5	1.2	1.1	0.8	0.2
Debt service to the Fund/Total debt service 2/													
Baseline scenario	5.3	4.4	4.5	6.1	7.7	5.7	5.6	8.0	8.2	8.1	7.6	5.8	2.0
Scenario A	5.3	4.4	4.5	6.0	7.6	5.6	5.6	7.8	8.1	7.9	7.4	5.3	1.8
Scenario B	5.3	4.4	4.5	6.0	7.6	5.6	5.5	7.8	8.0	7.8	7.3	5.2	1.7
Debt service to the Fund/Gross official reserves 2/													
Baseline scenario	15.6	7.3	4.9	7.9	7.8	5.6	4.3	5.2	4.3	3.1	2.4	1.5	0.4
Scenario A	15.6	8.3	6.7	9.6	10.7	7.5	5.6	7.0	6.1	4.6	3.7	2.5	0.7
Scenario B	15.6	8.3	6.7	9.6	10.7	7.5	5.6	7.0	6.3	4.9	4.0	2.8	0.8

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

1/ Baseline scenario.
2/ Debt service to the Fund includes IMF Trust Fund repayments and IMF Trust Fund interest.

Table XII. Mauritania - Projected Payments to the Fund as of October 31, 1992

(In millions of SDRs)

	Overdue	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchases	--	0.3	1.0	--	--	--	--	--	--	--	--	--	1.3
b. ESAF/SAF repayments	--	--	3.4	4.2	5.9	6.8	5.4	3.4	2.5	0.8	--	--	32.5
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.3	0.7	0.7	0.6	0.6	0.6	0.5	0.5	0.5	0.5	--	5.5
Total obligations 2/	--	0.5	5.1	4.9	6.6	7.4	6.0	3.9	3.1	1.4	0.5	--	39.3
(percent of quota)	--	1.5	15.0	14.4	19.3	21.7	17.6	11.6	9.0	4.0	1.5	--	116.0
Obligations from prospective drawings													
1. Principal													
a. Repurchases	--	--	--	--	--	--	--	--	--	--	--	--	--
b. ESAF/SAF repayments	--	--	--	--	--	--	--	1.7	5.1	6.8	6.8	13.6	33.9
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	--	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	1.3
Total obligations	--	--	0.1	0.1	0.2	0.2	0.2	1.9	5.2	6.9	6.9	13.6	35.2
(percent of quota)	--	--	0.1	0.4	0.5	0.4	0.5	5.4	15.4	20.3	20.2	40.2	103.8
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	--	0.3	1.0	--	--	--	--	--	--	--	--	--	1.3
b. ESAF/SAF repayments	--	--	3.4	4.2	5.9	6.8	5.4	5.1	7.6	7.6	6.8	13.6	66.4
c. Trust Fund obligations	--	--	--	--	--	--	--	--	--	--	--	--	--
2. Charges and interest 1/	--	0.3	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.6	0.6	0.1	6.8
Total obligations 2/	--	0.5	5.1	5.0	6.7	7.5	6.2	5.8	8.3	8.3	7.4	13.6	74.5
(percent of quota)	--	1.5	15.1	14.8	19.8	22.2	18.1	17.1	24.5	24.3	21.7	40.2	219.8

Source: Treasurer's Department of the International Monetary Fund.

1/ Projections are based on current rates of charge, including burden-sharing 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, 1992.

Mauritania - Enhanced Structural Adjustment Facility:
Two-Year and First Annual Arrangements

Attached hereto is a letter with an annexed Memorandum on Economic and Financial Policies dated October 5, 1992 from the Governor of the Central Bank of Mauritania requesting from the International Monetary Fund a two-year arrangement under the enhanced structural adjustment facility and the first annual arrangement thereunder, and setting forth:

(i) the objectives and policies of the program to be supported by the two-year arrangement; and

(ii) the objectives and policies of the program to be supported by the first annual arrangement.

To support these objectives and policies, the Fund grants the requested arrangements 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. (a) For a period of two years from ----------, 1992, Mauritania will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 33.9 million. Of this amount, the equivalent of SDR 3.41 million shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 30.45 million shall be provided from the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

(b) The amount of the annual arrangements will be the equivalent of SDR 16.95 million for the first annual arrangement and the equivalent of SDR 16.95 million for the second annual arrangement.

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 8.475 million, will be available on December 15, 1992, at the request of Mauritania; and

(ii) the second loan, in an amount equivalent to SDR 8.475 million, will be available on July 31, 1993, at the request of Mauritania subject to paragraph 2 below.

2. Mauritania will not request disbursement of the second loan specified in paragraph 1(c)(ii) above

(a) if the Managing Director finds that the data at the end of March 1993 indicate that:

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

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

(iii) the limit on the treasury deficit (on a commitment basis excluding grants and restructuring operations), or

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

(v) the amount of checks issued for tax payments to be encashed by the Treasury, or

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

(vii) 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

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

(ix) the renewal of importer/exporter cards for operators having delinquent accounts with the commercial banks as of December 31, 1992, or

(x) the extension of the auctioning of import authorizations to all imports, or

(xi) the elimination of limits on foreign exchange purchase in the free market for transactions on invisibles, or

(xii) the outline of the study on taxation of the agricultural, livestock, and mining sectors,

referred to in paragraphs 22, 23 and 24, and specified in Tables 2 and 3 of the annexed memorandum is not observed, or

(b) if Mauritania

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

(ii) introduced or modified multiple currency practices, other than those described in EBS/92/--, or

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

(iv) imposed or intensified import restrictions for balance of payments reasons, or

(c) until the Fund has determined that the midterm review of Mauritania's program referred to in paragraph 23 of the annexed memorandum 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(c)(ii) 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. Before approving the second annual arrangement, the Fund will appraise the progress of Mauritania in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators described in paragraph 22 and specified in Table 2 of the annexed memorandum;

(b) imposition or intensification of restrictions on payments and transfers for current international transactions;

(c) introduction or modification of multiple currency practices;

(d) conclusion of bilateral payments agreements which are inconsistent with Article VIII;

(e) imposition or intensification of import restrictions for balance of payments reasons.

4. In accordance with paragraph 4 of the attached letter, 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 these arrangements.

5. In accordance with paragraph 5 of the attached letter, during the period of the first 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 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 or of representatives of Mauritania to the Fund.

Nouakchott, October 5, 1992

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

Dear Mr. Camdessus:

1. On behalf of the Government of Mauritania, I have the honor to transmit to you the attached memorandum on economic and financial policies. This memorandum is based on the policy framework paper for the period 1992-95, which has been prepared with the assistance of the International Monetary Fund and World Bank staffs, and which I am forwarding to you today under separate cover.

2. The policy framework paper describes the main economic problems facing Mauritania, the general macroeconomic framework, and the objectives of the program for 1992-95. It also identifies the policies adopted by the Government and the structural reforms that it has decided to implement during the program period as well as the projected external financing requirements, together with the external resources that have been identified.

3. The memorandum on economic and financial policies sets out the program that the Government of Mauritania intends to pursue during the period 1992-95, and, more specifically, the objectives, policies, and measures for the period October 1, 1992 to September 30, 1993. In support of this program, the Government of Mauritania hereby requests a two-year arrangement under the enhanced structural adjustment facility in an amount equivalent to SDR 33.9 million and the first annual arrangement thereunder in an amount equivalent to SDR 16.95 million.

4. 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.

5 The Government 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 of Mauritania

will consult with the Managing Director of the Fund 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 Fund arising from loans under that arrangement, the Government will consult with the Fund from time to time, at Mauritania's initiative or whenever the Managing Director requests such consultation, on Mauritania's economic and financial policies.

6. In addition, the Fund will conduct a midterm review of Mauritania's program supported by the first annual arrangement. This review, which shall be completed not later than July 31, 1993, will assess the implementation of the program during the first six months and determine the most appropriate measures to achieve the program's objectives, including the establishment of appropriate benchmarks for the remaining period under the program.

Sincerely yours,

/s/

Moustapha Abeiderrahmane
Governor of the Central Bank

Attachment

MAURITANIA

Memorandum on Economic and Financial Policies for 1992-93

October 5, 1992

1. The Government of Mauritania continued to pursue in 1989 the economic and financial adjustment effort begun in 1986, with the support of the International Monetary Fund. The Government's three-year program (1989-91), supported by the enhanced structural adjustment facility (ESAF), aimed at a moderate increase in real per capita income within a framework of price stability, restoration of a viable balance of payments over the medium term, and protection of the most vulnerable social groups. Under the program, progress has been made in implementing structural reforms, particularly with regard to deregulation of the economy, public investment programming, rehabilitation of the public enterprise sector, and public debt management. However, after an initial perceptible improvement, Mauritania's economic and financial situation deteriorated as a result of less strict financial policies and exogenous shocks, including the adverse effects of weather conditions on agricultural output, and the reduced availability of external assistance in the wake of the Middle East crisis.

2. In 1989 real GDP grew by 4.8 percent, i.e., more than 1 percentage point above the program target, mainly because of the recovery in the mining and livestock sectors. Developments in these two sectors offset the poor performance of the fisheries sector, and contributed to a reduction in the external current account deficit and to a substantial increase in official reserves. However, inflation as measured by changes in the GDP deflator reached 8 percent, compared with the 5.2 percent increase initially envisaged. Although the treasury surplus was about one half lower than programmed, there was a reduction in the consolidated deficit of government operations owing to lower-than-anticipated foreign-financed outlays. At the same time, broad money increased more rapidly than targeted, reflecting a larger-than-anticipated growth of credit to the economy in response to mounting financial difficulties in the fishing and agricultural sectors.

3. During 1990-91, Mauritania's economic and financial situation deteriorated. Real GDP growth averaged only 0.4 percent over the two-year period, owing to poor weather conditions, disruptions of mining production, and a deteriorating performance in the fisheries sector. The Government's consolidated deficit (on a commitment basis and excluding grants) rose from 3 percent of GDP in 1989 to nearly 6 percent in 1991, leading to an accumulation of arrears and a net recourse to central bank financing. The deterioration in the Government's net position vis-à-vis the banking system and the rapid expansion of credit, particularly to the ailing fisheries and

agricultural sectors, led to a sharp increase in the net domestic assets of the banking system and of money supply. The increase in demand pressures, combined with a slowdown in external assistance, also resulted in a pronounced weakening of the external position. The external current account deficit (excluding official transfers) rose from 14.5 percent of GDP in 1989 to an average of 18 percent in 1990-91, while the overall balance of payments deficit widened from SDR 45 million to an average of SDR 88 million, and gross official reserves declined from the equivalent of 1.7 months to 1.2 months of imports. In addition, the arrears on external public debt reached SDR 111 million by the end of 1991. Meanwhile, commercial banks were unable to meet their short-term foreign liabilities, and overdue obligations estimated at SDR 97 million were accumulated as of end-1991.

4. Available data for the first six months of 1992 underlines the seriousness of the economic and financial situation, which is characterized by a rapid growth of money and prices and a weakening of the overall financial position, as evidenced by an increasing recourse by the Government to central bank financing, an accumulation of payments arrears on external public debt, and a loss of international reserves.

5. In view of the difficulties confronting Mauritania, particularly in the fisheries, agricultural, and banking sectors, and in light of the medium-term prospects for commodity prices and external assistance, the Government has decided to take measures to strengthen its adjustment effort and intensify its structural reforms. The broad outlines of the Government's medium-term program are described in its policy framework paper (PFP). Consistent with the medium-term framework, the Government has launched a macroeconomic and structural adjustment program for 1992-93 (October 1992-September 1993) aimed at: (a) raising the real GDP growth to about 3.5 percent in 1993, as against 2.4 percent in 1992; (b) limiting inflation (measured by the GDP deflator) to an average annual rate of 8.9 percent in 1992 and 13.7 percent in 1993; and (c) reducing the external current account deficit (excluding official transfers) to SDR 155 million (18 percent of GDP) in 1992 and SDR 95 million (11 percent of GDP) in 1993, compared with SDR 119 million in 1991 (14.4 percent of GDP). On the basis of projected amortization payments due (averaging SDR 68 million annually), net official transfers (averaging SDR 63 million a year), nonmonetary capital inflows not linked to the existence of a financial program (SDR 66 million a year), and other capital inflows, the overall balance of payments deficit is expected to stabilize at about SDR 87 million in 1992, before narrowing to SDR 39 million in 1993.

6. To achieve the 1993 objectives, the Government depreciated the exchange rate of the ouguiya by 27 percent in terms of U.S. dollars on October 4, 1992. This measure, which will be supported by restrictive fiscal and monetary policies, is expected to strengthen the competitiveness of fish exports while contributing to an improvement in the financial situation of the iron ore mining company; it should also help the diversification of exports and enhance prospects for attaining a sustainable external position over the medium term. The adjustment of the exchange rate will be

accompanied by the first phase of the liberalization of the exchange and trade systems, which will ultimately lead to the establishment of a free foreign exchange market, with IMF assistance. The most significant exchange and trade liberalization measures envisaged for 1992 and 1993 are described in Section 7.

I. Financial Policies

A. Fiscal policy

7. The Government's fiscal objective for 1992/93 is to reduce the consolidated financial operations deficit (on a commitment basis and excluding grants and restructuring operations) by nearly 7 percentage points of GDP. This will require that the Treasury achieve in 1993 a surplus equivalent to 5 percent of GDP, 1/ and that the budget generate sufficient resources to cover, inter alia, the exchange losses (estimated at UM 2.3 billion) assumed by the Central Bank on the commercial banks' transfers that could not be effected because of insufficient foreign exchange reserves. To this end, budgetary revenue is to be raised by about 8 percent in 1992 and 25 percent in 1993, while current expenditure (excluding interest obligations on public debt) is to be reduced by 7 percent in 1992 and its growth limited to 10 percent in 1993. Current outlays will strictly reflect the Government's priorities and, in particular, due regard will be paid to the understandings reached with the World Bank regarding the relative shares of current expenditure to be allocated to social outlays and to wages and salaries. The exchange rate adjustment implemented by the Government will raise the c.i.f. value of imports, with the result that customs revenue will increase by close to 39 percent during 1992-93. Furthermore, the following measures will be implemented starting on January 1, 1993: (a) the rate of the statistical tax levied on all imports will be raised to 3 percent; 2/ (b) the customs duty applicable to imports of textiles will be increased by 5 percentage points; and (c) the customs duty exemptions granted to imports of tires will be abolished. These measures, together with the elimination of the special exemption granted to the state monopoly for water and electricity distribution (SONELEC), would yield an increase in revenue amounting to UM 1.3 billion.

8. On the structural side, the tax reform that is under way will be pursued with technical assistance from the Fund. Specifically, the tax authorities will prepare an outline for the value-added tax (VAT), and will also undertake a study on tax reform in the fisheries sector, as well as on

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1/ This objective takes into account the encashment of UM 1.9 billion, representing revenue paid with checks that commercial banks have been unable to honor so far in 1992.

2/ The tax rate had already been raised from 0.1 percent to 1 percent on April 7, 1992 and the proceeds had been included in the budget, together with a subsidy to the National Statistical Office equal to the revenue previously allocated to the agency.

the taxation of mining, agricultural, and livestock sector activities. The general outlines of reforms in these areas will be communicated to the IMF for discussions by December 31, 1992 on the fisheries sector taxation; by March 31, 1993, on the VAT; and by June 30, 1993, on the taxation of the agricultural, livestock, and mining industries. Finally, tax collection is to be strengthened, particularly through the computerization that is under way at the Ministry of Finance.

9. Measures to control expenditure will aim at limiting the rise in the wage bill to 8 percent in 1993. To attain this objective, the Government has decided to lower the retirement age for certain categories of personnel from 65 years currently to 60 years, and to strictly limit recruitment into the civil service; the Government will also prepare a voluntary departure program in consultation with the World Bank. In addition, savings of about UM 200 million and UM 100 million, respectively, will be realized in the categories of materials and supplies and of subsidies and transfers for public enterprises.

10. In addition, the reform of the civil service will be accelerated and its management improved, particularly by the following measures: (a) the institution of a competitive examination for the recruitment of civil servants. The modalities of this examination will be determined before October 30, 1992, and the new system will be implemented for the recruitment of all new personnel to be hired under the 1993 budget; (b) by October 30, 1992, the payroll and civil service files will be made completely consistent and the ongoing computerization of the management system of the civil service will be completed. The new salary scale for civil servants will be approved by the Government by December 1992, so as to ensure that it will be implemented--after appropriate consultation with the World Bank and the IMF--with the 1994 budget. For the purpose of monitoring these reforms, beginning on October 1, 1992, data related to civil service payroll and allowances by ministry will be communicated monthly to the IMF.

11. The authorities intend to follow a prudent external debt management policy and to rely strictly on concessional financing. To strengthen the management of the public debt and ensure that it is monitored more effectively, beginning on October 1, 1992, all agreements relating to external financial assistance to the public sector will require the prior clearance of the Ministry of Finance and the Central Bank. Also, the technical departments of the Ministry of Finance and of the Central Bank will be systematically notified of any external borrowing transactions and of service payments on the external public debt. Furthermore, the procedures for awarding public works contracts will be improved by the implementation, also with effect from October 1, of new legislation and modifications to the composition of the public works commission, to include the Tax and Customs Directorates of the Ministry of Finance. Finally, implementation of the new government accounting system introduced on January 1, 1992 will make it possible to monitor treasury operations more

strictly, on the basis of regular, up-to-date statements. Starting with the 1992 statement of operations, the end-year execution will be communicated to the IMF before March 30 of the following year.

B. Monetary policy

12. Monetary policy in 1992-93 will be consistent with the objectives of keeping inflation to the levels set in the program and ensuring a decline in the net foreign liabilities of the banking system, while ensuring the provision of adequate credit to the private sector to support economic activity. Accordingly, the increase in the net domestic assets of the banking system will be limited in 1992 to 15.9 percent of the broad money stock at end-1991; 1/ in 1993 the net domestic assets will be reduced by 10 percent with respect to the broad money stock at end-1992. To satisfy private sector credit needs without inducing excessive monetary expansion, net bank claims on the Government will increase by no more than UM 2.0 billion in 1992 and will be reduced by UM 3.3 billion in 1993, despite moderate variations during the year to accommodate seasonal needs. Moreover, to encourage savings and enhance the efficient utilization of domestic financial resources, the Government has decided to liberalize interest rates following consultation with Fund staff at the time of the midterm review of the program. At that time, the Central Bank's normal discount rate will be set at a positive rate in real terms taking into account price developments during the first half of 1993, and commercial banks will be free to determine their deposit and lending rates accordingly. However, the Central Bank will retain the option of setting an interest rate floor for small savers and use moral suasion to prevent banks from charging usurious lending rates, as defined in the policy framework paper.

C. External sector prospects

13. Balance of payments prospects for 1992-93 are largely influenced by investment in the new iron ore mine and the attendant large increase in requirements for imported equipment. The objectives for 1992 and 1993, respectively, are to reduce the current account deficit (excluding official transfers and imports needed to develop the new mine) to 12.3 percent and 7.4 percent of GDP (18 percent and 11 percent of GDP, including SNIM imports), as against 12.5 percent of GDP in 1991 (or 14.4 percent, including SNIM imports). For 1992, the objective is based on a projected 2.7 percent reduction in export earnings in SDR terms, reflecting a volume decrease of 7 percent and a 4 percent rise in average prices, and an increase in the volume of imports of 2.6 percent, excluding those of SNIM (an increase of 14.6 percent including SNIM), and a 1 percent reduction in prices. For 1993, export earnings are projected to rise by 13.5 percent (12 percent in volume), while the value of imports is projected to fall by 6 percent (7 percent in volume), reflecting both a reduction in consumer goods imports, for which stocks have sharply risen during 1992, and a decline in

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1/ Adjusted for valuation changes in net foreign assets.

SNIM imports (which peaked during 1992). In view of the need to eliminate external arrears and raise gross official reserves to a level equivalent to 1.7 months of imports in 1993, there is a projected financing gap of SDR 180 million in 1992 and SDR 185 million in 1993, before use of Fund and World Bank resources, program-related assistance from bilateral and other donors, and any debt rescheduling. The financing gaps take into account the settlement in cash of part of the commercial banks' arrears on short-term debt as of August 31, 1992. The remaining balance is expected to be settled as indicated in paragraph 14 (a), through negotiations with correspondent banks and possibly in the context of a sectoral adjustment operation to be prepared with assistance from the World Bank and other donors. Taking into account World Bank and IMF financing and possible debt relief, the financing gaps for 1992 and 1993 would be fully covered. 1/

II. Structural Policies

A. External sector policies

14. The Government has decided to revamp the exchange and trade system in order to strengthen foreign exchange management, ensure that priority sectors have access to the foreign exchange that they need to operate, and allow the commercial banks to engage in some foreign exchange transactions. The sequencing of measures, which constitute the first phase of the reform, will be as follows:

(a) Beginning October 15, 1992, in order to restore normal financial relations with foreign correspondents, the Banque Centrale de Mauritanie (BCM) will assume the external liabilities (including late interest payments) that could not be settled when they fell due, owing to pressure on the country's foreign exchange reserves; and the accounting entries in the books of the commercial banks and the Central Bank will be regularized. The commercial banks have already deposited the ouguiya counterpart of these liabilities at the Central Bank. The Central Bank and commercial banks shall initiate the steps required to rationalize arrears on other short-term commercial credits for which the commercial banks lack counterpart funds.

1/ The Government will request a comprehensive rescheduling, on enhanced concessional terms, of arrears and current maturities falling due, on pre-cutoff-date medium- and long-term debt as well as on previously rescheduled debt from Paris Club and other bilateral creditors. As regards the amounts of short-term debt in arrears, the arrears that are insured on the (Paris Club) creditors' side (estimated at about SDR 32 million) will be paid in cash in 1993. The remainder (estimated at about SDR 85 million) is expected to be rescheduled and/or restructured in the context of the above-mentioned operation.

(b) On October 15, 1992 the BCM will announce (1) the removal of prior authorization for exports; (2) the establishment of a free market in foreign currency notes and travelers' checks beginning November 1, 1992; (3) its commitment to liberalize during January-March 1993, the purchase of foreign exchange through the free market to meet bona fide travel as well as medical and school expenses; and (4) the introduction, beginning January 1, 1993, of a system of auctions of import authorizations for all imports except two thirds of priority imports; this category will also be covered by the auction by March 31, 1993.

(c) Before October 30, 1992 the BCM will simplify the exchange regulations and issue circulars, instructions, and internal administrative notes establishing the operation of the free market.

(d) The Central Bank, in conjunction with the commercial banks, will also take the necessary steps to negotiate, before December 31, 1992, the establishment of a revolving letter of credit facility with a correspondent bank to ensure that adequate amounts of foreign exchange are available to support the recovery of the fishing sector.

B. Banking system

15. The Government is deeply concerned by the deteriorating financial situation of the commercial banks and is aware of the need to support its financial policies with a strengthening of monetary management and a restructuring of the banking system. Accordingly, it has decided to reinforce bank supervision and to ensure strict application of prudential ratios. To this end, the Central Bank will require commercial banks--with the exception of the Union des Banques de Développement (UBD)--to close their accounts three months after the end of the financial year. The Government has decided to conduct financial and management audits (including audits of portfolios) of all the primary banks (except the UBD) for the 1991 financial year. This will be carried out by international audit firms, which were selected on September 19, 1992 and which will forward the results of the audits directly to the Government, to the IMF, and to the World Bank before November 15, 1992. In addition, in view of the Government's decision to sell to the private sector its shares in the Banque Nationale de Mauritanie (BNM), the Banque Mauritanienne pour le Commerce International (BMCI), and the Banque Al Baraka Mauritanienne Islamique (BAMIS), the Minister of Finance, in consultation with the World Bank and the IMF staffs, will appoint an administrator to manage this portfolio. On the basis of the audits, the administrator will prepare an action plan and a timetable for privatization. As for the UBD, the bank has already ceased all lending operations and has appointed a temporary administrator. An audit will also be undertaken, and its conclusions will be fully implemented in consultation with the World Bank and IMF staffs by November 15, 1992 at the latest. With assistance from the World Bank and major donors, a rural credit system is being established to meet the needs of the rural sector.

16. In order to eliminate distortions in the distribution of credit, the Central Bank has decided to eliminate the preferential rediscount rate as of October 15, 1992. The special rediscount facility favoring certain banks will also be eliminated after the restructuring of the BNM, while quantitative restrictions on credit will be gradually phased out. In addition, before November 30, 1992, the Central Bank will reach agreement with the Treasury on a schedule for the amortization of the treasury bonds that were issued in 1989-91 to support the restructuring of the commercial banks. The program envisages the reimbursement of UM 1.3 billion of these bonds in 1992. With technical assistance from the Fund, the Government will prepare new treasury bill issues to replace the overdraft facility presently extended by the Central Bank to the Treasury. These treasury bills will be auctioned on a regular basis to banks and institutional investors, beginning January 1, 1994. In the meantime, starting January 1, 1993 the Central Bank will apply to this overdraft an interest rate equal to the rediscount rate.

17. The Government will intensify its efforts to recover the nonperforming portfolio that it took over from the banks. To this end, the judicial system will be revised with a view to strengthening the means available to the banks for recovering their loans and eliminating the costs borne by the banks in the process. In addition, the computerized data base on repayments of nonperforming loans will be updated, recoverable loans from the largest debtors identified, and a timetable for recovery will be prepared. Furthermore, the largest delinquent debtors (those with a total indebtedness of UM 1 million or more each) will be excluded from participation in public works contracts starting October 15, 1992, and the updated list of nonperforming loans will be sent to all commercial banks on November 1, 1992 with the interdiction of extending new credits to these debtors. The authorities will review the requirements for granting the importer/exporter cards. No cards will be issued to traders or other operators having delinquent accounts with the commercial banks; in addition, starting January 1, 1993, existing cards will not be renewed for operators who are in arrears on their loan payments. To strengthen the capital base of the commercial banks and prepare a sectoral adjustment program for the banking system with World Bank assistance, the Government will prepare before December 31, 1992 an action plan to restructure or liquidate all insolvent or nonviable primary banks, and a strategy to develop the financial sector.

C. Other structural policies

18. The Government intends to accelerate the restructuring of public enterprises in the context of the Public Enterprise Sector Adjustment Program (PESECAL) agreed with the World Bank. In 1992 the Government will abolish the monopoly of the Mauritanian insurance and reinsurance company (SMAR) with respect to reinsurance, and of the national import-export company (SONIMEX) with respect to tea. The Government will settle the balance on identified and verified cross-debts between the administration and the public enterprise sector, and will prepare a plan of action to restructure the public enterprises that are not included in the current sector adjustment program. With regard to the fisheries sector, the

Government will amend the legal status of the Mauritanian fish marketing company (SMCP), in order to limit the Government's participation in its capital to a maximum of 50 percent by December 31, 1992; it will also permit a corresponding increase in private sector participation in the capital and management of the company.

19. Following the exchange rate adjustment on October 4, a wave of speculative increases was observed in prices of essential consumer goods imported prior to the devaluation. The price increases swiftly spread to locally produced goods as well. These actions led to riots by the most vulnerable segments of the population, forcing the Government to impose a curfew. In order to preserve social peace without which the Government's adjustment program cannot be successfully implemented, the authorities decided to (a) liberalize further access to the import trade sector by simplifying the conditions to be met in order to qualify as an importer; (b) reduce to two months' bank credit for financing new stocks of major imported consumer goods; (c) impose a temporary control on the retail prices of seven goods imported either by a handful of traders or by the state import monopoly (SONIMEX), and on two locally produced goods that are the mainstay of the local diet. Consistent with its commitment to liberalize the regulatory framework, the Government intends to (a) eliminate the controls imposed on local products and on two of the seven imported goods by November 15, 1992; and (b) decontrol the price of the other five imported goods by December 31, 1992. The Government will revise the retail prices of petroleum products to reflect the higher cost of imports during 1992/93. Public service tariffs, particularly those applied by the water and power company (SONELEC), will also be adjusted in two stages before December 31, 1992. The first adjustment (16 percent) will be effective before November 15, 1992.

20. To stimulate private sector development, the Government will prepare a strategy to support this sector, which will include a reform of the existing legal and institutional framework and the streamlining of administrative procedures to bring them in line with those of the investment code. Specifically, a strategy and action plan aimed at promoting the continued development of the fisheries sector will be prepared in this context.

III. Program Monitoring

21. All the structural policies to be introduced in 1992-93 are described in greater detail in the policy framework paper; the early prior actions to be undertaken are shown in Table 1, and the proposed structural benchmarks for the program to be supported by the enhanced structural adjustment facility (ESAF) are shown in Table 2.

22. The program's proposed quantitative benchmarks are shown in Table 3 and they establish quarterly cumulative limits on: (a) changes in the net domestic assets of the banking system, excluding valuation losses; (b) changes in the net claims of the banking system on the Government;

(c) the treasury deficit (on a commitment basis and excluding grants and restructuring operations); (d) the government wage bill; (e) the checks for tax payments to be encashed by the Treasury; (f) the reduction of external payments arrears and the accumulation of new ones; (g) new borrowing contracted or guaranteed by the Government on nonconcessional terms with maturities of 0-1 year (except for normal import-related credits), and 1-15 years (except for loans resulting from rescheduling of the external debt); (h) increase in short-term debt of the commercial banks during the program period (except for normal import-related credits); and (i) the level of the Central Bank's net foreign liabilities.

23. Quantitative performance criteria for monitoring the adjustment program have been set for March 1993 and include items (a-h) 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 first annual arrangement under the two-year arrangement is contingent upon a midterm review to be concluded no later than July 31, 1993. The midterm review will, in particular, examine the following issues: the exchange rate policy, in light of balance of payments developments and the trends on the free foreign exchange market as well as the auctioning of import authorizations; the operation of the free exchange market at the commercial bank level and the other components of the liberalization policy and fiscal policy, especially the wage policy applicable to civil servants. The review will consider any additional measures that might be needed to attain the objectives of the 1992-93 program, including the establishment of quantitative benchmarks for the remainder of 1993.

24. Among the structural benchmarks shown on Table 2, items (14), (15), (16) and (17) will serve as structural performance criteria.

Table 1. Mauritania: Prior Actions

1. Cessation of new lending operations by UBD and appointment of a temporary administrator.

2. Announcement of the establishment of a free market in foreign currency notes and traveler's checks, and the commitment to liberalize within three months the purchase of foreign exchange through the free market for invisible transactions.

3. Assumption by the BCM of short-term external payments arrears of commercial banks for which the ouguiya equivalents have been deposited with the BCM, and regularization of the accounting entries in the balance sheets of the commercial banks and the BCM.

4. Announcement of new procedures for the auction of import licenses.

5. Elimination of the preferential rediscount rate.

6. Adjustment of water and electricity tariffs (first adjustment) and of the price structure for petroleum products to take into account the adjustment of the exchange rate.

7. Dismissal of 159 "ghost" employees and mandatory retirement of 141 contractual workers who have exceeded the official retirement age.

8. Submission of mission report by temporary administrator of the UBD.

9. Submission of the audits of all primary banks (except the UBD).

10. Further simplification of requirements for issuance of the importer/exporter card.

11. Reduction to two months' bank credit to finance consumer goods stocks.

12. Elimination of price controls on locally produced goods (meat and fish) and on two imported consumer goods.

Table 2. Mauritania: Structural Performance Criteria and Benchmarks for Monitoring Policy Reforms Under the 1992-93 Program

	Measures	Schedule
1.	Achievement of complete consistency between the payroll and civil service files.	September 30, 1992
2.	Elimination of prior authorization for exports.	October 20, 1992
3.	Submission of audits of the management of all primary banks (except UBD) and 1991 accounts.	November 15, 1992
4.	Implementation of decision not to issue importer/exporter cards for operators having delinquent accounts with the commercial banks.	December 1, 1992
5.	Preparation of action plan to restructure the ailing commercial banks and liquidate all nonviable ones.	December 15, 1992
6.	Reduction of government equity in SMCP by 50 percent.	December 15, 1992
7.	Adoption of measure to lower the retirement age for auxiliary workers to 60 years.	December 31, 1992
8.	Establishment of a special revolving letter of credit facility to support the recovery of the fishing sector.	December 31, 1992
9.	Elimination of price controls on the five remaining imported consumer goods.	December 31, 1992
10.	Submission to the IMF of draft outline on the reforms of the taxation system for the fisheries sector.	December 31, 1992
11.	Liberalization of interest rates.	During 1993
12.	Implementation of first auction of import authorizations.	January 1, 1993
13.	Elimination of preferential exchange rate for workers' remittances.	January 1, 1993
14.	Extension of import authorization auction to all imports. 1/	March 31, 1993
15.	No renewal of importer/exporter cards for operators having delinquent accounts with the commercial banks as of December 31, 1992. 1/	March 31, 1993
16.	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. 1/	January 1-March 31, 1993
17.	Submission to the IMF of draft outline on the VAT (value-added tax). 1/	March 31, 1993
18.	Submission to the IMF of a study on taxation of the agricultural and livestock sectors, and the mining industry.	June 30, 1993

1/ Structural performance criterion.

Table 3. Mauritania: Quantitative Performance Criteria and Benchmarks for the 1992-93 Program

	Stock at		Cumulative change from June 30, 1992				
	1991	1992	1992	1993			
	Dec. 31	June 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
			Benchmark	Perf. crit.	Indicative Benchmarks		
				(In billions of ouguiyas)			
I. Performance criteria and benchmarks							
Net domestic assets 1/	48.4	52.8	-0.3	-0.5	-0.1	-2.9	-3.2
Net credit to the Government 2/	9.6	11.6	-- 3/	-0.5	-1.1	-3.0	-3.3
Government wage bill (in millions of ouguiyas)	5,422	3,084	2,880	4,632	6,197	7,730	9,321
Overall balance of treasury operations 4/ (on a commitment basis, after debt amortization)	--	-3.15	-3.46	-4.42	-5.93	-5.40	-7.66
Treasury checks to be encashed	--	0.94	0.95	0.48	0.01	-0.46	-0.94
				(In millions of SDRs)			
External payments arrears on government debt	111.0	141.9	-141.9	-141.9	-141.9	-141.9	-141.9
External payments arrears on short-term private debt	97.3	115.3	2.2	-90.8	-99.0	-107.2	-115.3
Increase in short-term debt of the commercial banks during program period (excluding import-related credits)			--	--	--	--	--
New nonconcessional external loans contracted or guaranteed by the Government:							
Short term (less than 1 year) 5/	--	--	--	--	--	--	--
1-15 years maturity 6/	--	--	--	--	--	--	--
II. Indicative benchmarks				(In millions of SDRs)			
	Stock at		Maximum stock at				
	1991	1992	1992	1993			
	Dec. 31	June 30	Dec. 31	Mar. 31	June 30	Sept. 30	Dec. 31
Net foreign liabilities of the Central Bank 7/	95.9	102.2	143.9	124.3	124.0	95.6	92.4

Sources: Data provided by the Mauritanian authorities.

1/ Excluding valuation changes in the net foreign assets of the banking system. Net domestic assets will be reduced to reflect changes in net credit to the Government as described in footnote 2.

2/ Net credit to the Government includes counterpart funds from World Bank program loans deposited at the Central Bank. In the event that the counterpart fund deposits are higher than the amount programmed, net credit to the Government will be adjusted accordingly. In case the Paris Club rescheduling is higher than programmed, or if Government outlays related to the BCM exchange loss are lower than anticipated, net credit to the Government will be reduced accordingly.

3/ Represents an increase of UM 49 million.

4/ It does not take into account the net accumulation of checks to be encashed, the stock of which amounted to UM 1.9 billion at end-August 1992, nor foreign-financed sectoral adjustment. If at end-1992 the outcome is more favorable, the 1993 quarterly benchmarks will be adjusted accordingly. In addition, if Government outlays related to the BCM exchange loss prove to be lower than programmed, the 1993 quarterly benchmarks will be adjusted accordingly.

5/ Excludes normal short-term import-related credits.

6/ Excludes possible Paris Club rescheduling.

7/ In case the Paris Club rescheduling is higher than programmed or if the settlement of the commercial banks' arrears assumed by the Central Bank turns out to be lower than programmed, the quarterly benchmarks will be adjusted accordingly.

Mauritania - Relations with the Fund

(As of October 31, 1992)

I. Membership Status: Joined September 10, 1963; Article XIV

II. General Resources Account:	SDR Million	Percent of quota
Quota	33.90	100.0
Fund holdings of currency	35.16	103.7

III. SDR Department:	SDR Million	Percent of Allocation
Net cumulative allocation	9.72	100.0
Holdings	0.24	2.5

IV. Outstanding Purchases and Loans:	SDR million	Percent of quota
Stand-by arrangements	1.25	3.7
SAF arrangements	15.59	46.0
ESAF arrangements	16.95	50.0

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
ESAF	5/24/89	5/23/92	50.85	16.95
SAF	9/22/86	9/21/89	21.50	16.95
Stand-by	5/04/87	5/03/88	10.00	10.00

VI. Projected Obligations to Fund:

(SDR million; based on existing use of resources only)

	Overdue 10/31/92	Forthcoming 1992	1993	1994	1995	1996
Principal	--	0.3	4.4	4.2	5.9	6.8
Charges/interest	--	0.3	0.7	0.7	0.7	0.6
Total	--	0.5	5.1	4.9	6.6	7.4

Mauritania - Relations with the Fund (continued)

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. On October 26, 1992, US$1 was equivalent to UM 118.18.

VIII. Last Article IV Consultation

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

The staff completed discussions with the authorities on the 1991 Article IV consultation during the period May 4-18, 1991 and the consultation was concluded on August 28, 1991 instead of on July 24, 1990. The delay was due to difficulties in proceeding with the second annual ESAF arrangement to which the consultation was linked, because the financial requirements of the program could not be fully covered following the withdrawal of financing commitments by Mauritania's traditional donors.

2. The staff report (SM/91/141) and a staff paper containing statistical background information (SM/91/150) were considered by the Executive Board on August 28, 1991. The decision concluding the Article IV consultation was as follows:

A. 1991 Consultation

1. The Fund takes this decision in concluding the 1991 Article XIV consultation with Mauritania and in light of the 1991 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended ("Surveillance over Exchange Rate Policies").

2. The restrictions on payments and transfers for current international transactions described in SM/91/141 are maintained by Mauritania under transitional arrangements under Article XIV.

IX. Technical Assistance (since 1990)

(a) MAE

External debt advisor: June 1989 to date.

Mauritania - Relations with the Fund (concluded)

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

Technical assistance on transferring the exchange system: October 5-10, 1992.

Advisor to the Governor: October 15, 1992 to date.

(b) FAD

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

(c) Department of Statistics

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

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

(d) PDR

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

X. Resident Representative: None

Mauritania - Financial Relations with the World Bank Group

(As of August 31, 1992)

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 credits fully disbursed	146.00	134.56	146.00	134.56
Agriculture, livestock, and rural development		40.10		21.05
Education		18.20		8.92
Population/Health 1/		15.70		0.82
Industry		5.25		3.25
Public enterprise		68.90		43.74
Development management		10.00		7.63
Water supply 1/		10.50		11.34
Total	146.00	303.21	146.00	231.31
Repayments	119.84	6.99		
Debt outstanding	26.16	296.22		

4. IFC: In 1985 the IFC financed an edible-oil refinery (US$1.5 million).

5. Status of Bank Group dialogue and operations

To date, the Bank Group has approved 33 projects in Mauritania for a total of US$449.7 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 29 IDA credits totaling US$303.21 million and an IFC investment of US$1.5 million for an oil refinery in 1985. The Bank Group's share in Mauritania's external capital assistance amounted to about 23.2 percent in 1985-90 on a disbursement basis.

1/ Not yet effective.

Mauritania - Financial Relations with the World Bank Group (continued)

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 vehicles 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 small-scale irrigation is being assisted through a small-scale irrigation project (FY85) and through a proposed irrigation project (FY94) to develop private irrigation, plus selected rehabilitation of publicly constructed irrigation schemes. 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 restructuring, which was approved in June 1990, is supporting the extension of the Government's structural adjustment program aimed at deepening the reforms in the public enterprise sector. Actions under the proposed program would 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, will provide support to the Government for implementation of the program.

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 reform at central sector and local levels.

Mauritania - Financial Relations with the World Bank Group (concluded)

An Industrial and Artisanal Project (FY85) is providing assistance through the Mauritanian Development Bank to finance economically viable SMEs. The Development Bank is also being strengthened under this project and staff are being trained. This project also provides for training of the private sector's accounting capability.

In the infrastructure sector, the Water Supply Project (FY92) will reinforce the Nouakchott water supply system and rehabilitate the water and electricity system in the interior centers, while a Construction Project (FY93) will reform and streamline procedures for contract management and develop the domestic construction industry.

In the education sector, the Government is redressing the imbalance between secondary and higher education as opposed to primary education expenditure. A program is being implemented under the Education Sector Restructuring Project (FY89) to reduce the unit costs of education to permit more rapid expansion. The priorities in secondary and technical education are being adapted to the demand for skilled workers. Another Education Restructuring II project is planned for FY95. 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 Public Expenditure Review has recently been carried out and the preparation of the main report 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.

Mauritania - Statistical Issues

1. Outstanding statistical issues

a. Real sector

The weighting of the CPI is out of date. The authorities have indicated to staff that a new weighting system is being developed. There are also weaknesses in the price collection procedures.

Producer price indexes, production, earnings, and employment data are not available.

Trade values are available, but with a considerable delay. Trade volume and unit value indexes are not available.

National accounts data are of poor quality and uncurrent. It is understood that France has been supplying long-term technical assistance.

b. Balance of payments

The latest period for which the Department of Statistics has comprehensive balance of payments data is 1989. The most serious weakness of the balance of payments methodology of Mauritania is the estimate of imports of goods. About 45 percent of the value of imports recorded in the balance of pyaments is based on the Central Bank's foreign exchange record with adjustments introduced to some goods for which the transaction value can be obtained. The remainder is all recorded on a transactions basis from various official sources. In their present form, customs data cannot be fully exploited as an alternative source of information because they may include goods whose ownership has not been transferred to residents of Mauritania. However, customs data have improved considerably and should be considered a better source than exchange records, which have become quite unreliable, in particular since there are arrears outstanding. The reliability of the nonfactor services account is also affected by exclusive reliance on the foreign exchange record particularly when no foreign exchange reserves are available to make payments overseas but services are nonetheless acquired.

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 November 1992 issue of IFS. The data are based on reports sent to the Fund's Statistics Department by the Central Bank of Mauritania which, during the past year, have been provided on an irregular basis.

Status of IFS Data

Sector	Series	Latest Data in November 1992 IFS
Real Sector	- National Accounts	1989 1/
	- Prices: WPI	n.a.
	CPI	May 1991
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
Monetary accounts	- Monetary authorities	July 1992
	- Deposit money banks	July 1992
Interest rates	- Discount rate	1988
	- Bank deposit/lending rates	1988
External Sector	- Merchandise Trade:	
	Values:	March 1991
	Volumes	n.a.
	Prices	n.a.
	- Balance of payments	1989
	- International Reserves	July 1992
	- Exchange rates	September 1992

1/ Only GDP at current prices reported.

3. Technical assistance missions in statistics (1987-present)

Subject	Staff Member	Date
Real Sector	Mr. M. Le Marois	May 1989
Monetary Statistics	Mr. G. Raymond	January 1990
Monetary Statistics	Mr. G. Raymond and Mr. G. Iradian	October 1991

Mauritania - Basic Data

Area, population and GDP per capita

Area		1.0 million square kilometers
Population:	Total (1990)	2.2 million
	Growth rate	2.7 percent
GDP per capita (1990)		SDR 357

	1987	1988	1989	1990	1991
GDP (at 1985 market prices)					
Total (in millions of UM)	56,731	57,707	60,464	59,393	60,944
Annual rate of growth	1.9	1.7	4.8	-1.8	2.6
			(In percent of GDP)		
Agriculture and livestock	19.8	20.0	19.9	19.0	19.3
Fishing (including industrial fishing)	9.0	8.2	6.8	6.2	6.6
Mining	10.2	10.3	14.7	13.5	12.2
Manufacturing	3.6	3.9	3.9	3.8	3.8
Construction and public works	7.2	7.5	6.0	6.3	6.4
Government	17.5	17.6	16.9	17.5	17.6
Gross capital formation	29.2	27.8	18.6	19.9	16.2
Gross national savings	2.9	0.9	4.1	-1.6	1.7
Prices			(Percent change)		
GDP deflator	10.5	5.4	8.0	2.6	9.8
Consumer price index	7.8	1.7	13.0	6.4	5.6
Central government finance			(In millions of ouguiyas)		
Total revenue and grants	20,380	20,208	20,955	21,978	22,101
Revenue	17,216	17,959	18,854	20,231	20,562
Foreign grants	3,154	2,249	2,101	1,747	1,539
Total expenditure	22,148	22,263	27,483	26,446	26,374
Recurrent	13,973	14,755	16,711	17,643	20,371
Development	6,155	4,862	4,543	5,140	4,750
Net lending	2,020	2,646	6,229	3,663	1,253
Overall deficit (-) (commitment)	-1,768	-2,055	-6,528	-4,259	-4,687
Changes in arrears (decrease -)	218	428	219	-1,170	-1,149
Overall deficit (-) (cash basis)	-1,550	-1,627	-6,309	-3,089	-3,538
Foreign borrowing (net)	-662	583	-3,801	2,522	2,750
Domestic borrowing (net)	-410	-161	3,751	474	788
Of which: from banking system	(424)	(883)	(3,352)	(321)	(440)

MAURITANIA - Basic Data (continued)

	1987	1988	1989	1990	1991
	(In percent of initial broad money)				
Money and credit					
Net domestic assets	7.0	9.6	28.4	42.0	25.9
Domestic credit	9.2	22.6	28.1	19.2	18.8
Government	-1.5	5.3	26.1	1.5	1.9
Private sector	10.7	17.4	2.1	17.7	16.9
Money and quasi-money	16.4	2.8	12.2	11.5	9.3
	(In millions of SDRs)				
Balance of payments					
Exports, f.o.b	311.1	327.8	349.2	311.1	320.1
Imports, f.o.b	-273.8	-267.8	-275.5	-298.6	-281.2
Trade balance	37.3	60.0	73.7	12.5	38.8
Services (net)	-219.2	-197.6	-166.2	-163.7	-146.3
Transfers	55.6	90.9	204.5	54.7	48.2
Current account	-126.3	-46.7	111.9	-96.5	-59.3
Excluding official transfers	-201.3	-158.6	-111.1	-161.5	-118.7
Capital inflows (net)	78.0	-10.6	-156.9	7.1	-27.8
Medium- and long-term capital	16.9	-53.8	-163.6	3.4	-14.9
Other	61.1	43.2	6.7	3.7	-12.9
Overall balance	-48.3	-57.3	-45.0	-89.4	-87.1
Financing	48.3	57.3	45.0	89.4	87.1
Change in net foreign assets	-20.6	10.7	-13.4	17.0	-10.9
Accumulation of arrears	8.8	17.3	-19.0	54.3	94.4
Other financing	60.2	29.3	77.4	18.1	3.6
External public debt					
Debt outstanding	1,378.8	1,296.9	1,151.3	1,274.5	1,289.9
in percent of GDP	196.0	180.6	150.4	169.6	156.6
Debt service (in percent of goods and services)	46.5	39.8	37.2	35.4	33.9
Of which: to the Fund	(2.2)	(1.7)	(2.8)	(4.0)	(3.2)

MAURITANIA - Basic Data (concluded)

Social indicators
(in percent unless otherwise specified)

Population and vital statistics

	1975	1982-90
Total population (thousands)	1,369	2,100
Urban population	20	36
Population growth rate	2.3	2.6
Life expectancy at birth (year)	41	47
Crude birth rate (per thousand)	47	47
Infant mortality rate	154	123
Labor force		
Total labor force (thousands)	472	607
Female	21	21
Agriculture	77	69
Industry	7	9
Education		
Enrollment		
Primary: Total	19	52
Male	24	58
Female	13	46
Secondary: Total	4	22
Male	7	29
Female	1	15
Pupil teacher ratio		
Primary	35	51
Secondary	25	...

Food, health, and nutrition

Per capita supply of:		
Calories (per day)	1,820	2,071
Proteins (grams per day)	67	65
Population per physician (thousands)	18	11
Population per hospital bed (thousands)	2.9	1.3

EBS/92/180
Supplement 1

CONFIDENTIAL

December 17, 1992

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - 1992 Consultation

Attached for the records of Executive Directors is the decision taken in concluding the 1992 Article XIV consultation, in the light of the 1992 Article IV consultation with Mauritania at Executive Board Meeting 92/148 (12/9/92).

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Mauritania - 1992 Consultation

Executive Board Decision - December 9, 1992

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 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 (a) a preferential exchange rate for workers' remittances, (b) an official rate pegged to a basket of currencies, and (c) 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 enhanced structural adjustment 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 1993 Article IV consultation with Mauritania, whichever is earlier.