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CONFIDENTIAL

January 2, 1990

To: Members of the Executive Board

From: The Secretary

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

Attached for consideration by the Executive Directors is the staff report for the midterm review of the first annual arrangement for Mauritania under the enhanced structural adjustment facility, which will be brought to the agenda for discussion on a date to be announced. A draft decision appears on page 22.

Mr. Diogo (ext. 6521) or Mr. Briangon (ext. 8392) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

MAURITANIA

Staff Report for the Midterm Review of the First Annual
Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

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

Approved by Mamoudou Touré and A. Basu

December 29, 1989

I. Introduction

In the attached letter to the Managing Director, dated November 30, 1989, concerning the midterm review of the first annual arrangement under the enhanced structural adjustment facility (ESAF) for Mauritania, the Minister of Finance and the Governor of the Central Bank indicate that, despite the social disturbances during April-July this year, that gave rise to a large net population influx, the Government has continued to implement the structural adjustment and reform program adopted for 1989. ^{1/} These events have affected government revenues and, in particular, customs duty collections, which have fallen sharply during the first half of the year as a result of the closing of the border with Senegal. The Government, however, remains committed to pursuing the policies contained in the letter of April 17, 1989.

The three-year arrangement under the ESAF and the first annual arrangement thereunder were approved by the Executive Board on May 24, 1989, in support of an economic and financial program covering the period 1989-91 (EBS/89/83, 4/24/89). Total access under the ESAF arrangement amounts to the equivalent of SDR 50.85 million (150 percent of quota), with annual access equivalent to SDR 16.95 million (50 percent of quota). The first semiannual disbursement, equivalent to SDR 8.48 million, was effected on June 15, 1989; and the second semiannual disbursement, to be made by

^{1/} The discussions for the midterm review were held in Nouakchott during the period October 3-18, 1989. The representatives of Mauritania included Mr. Ahmed Ould Zein, Governor of the Central Bank; Mr. Mohamed Ould Nany, Minister of Finance; Mr. Moustapha Ould Abeiderahmane, Minister of Planning and Employment; and other senior officials concerned with economic and financial matters. The staff representatives were Mr. Diogo (head-AFR), Mr. McCarthy (AFR), Mr. Briançon (AFR), Mr. de Zamaróczy (AFR), and Mrs. Culp (secretary-AFR).

January 30, 1990, is subject to the observance of the performance criteria for end-September and the completion of the present midterm review. The prospective position of the Fund during the ESAF arrangement is shown in Table 1.

The quantitative performance criteria for end-September 1989 were not observed for net domestic assets of the banking system and net claims on the Government on September 28, 1989. ^{1/} The net domestic assets of the banking system exceeded the programmed level by UM 133 million (0.7 percent of initial broad money supply), owing to a larger-than-envisaged increase in the banking system's net claims on the Government, which were 2.2 percent (in terms of initial stock of broad money) higher than programmed. The excess relative to the performance criterion on net credit to the Government was largely corrected by October 1, 1989 when the increase in net credit to the Government was lowered to UM 3.04 billion, compared with an adjusted program flow ceiling of UM 3.03 billion. Although balance sheet data for the banking system relating to October 1, 1989 are not available to show a corresponding reduction in the net domestic assets of the banking system, it is nevertheless expected that the related small deviation from the performance criterion has been eliminated. In the circumstances, the authorities have requested that waivers be granted for the technical nonobservance of the relevant performance criteria for end-September 1989.

The Fund and World Bank staffs have collaborated closely in assisting Mauritania. The Bank is currently discussing with the authorities a public enterprise sector loan and an agricultural sector loan, together amounting to about US\$195 million. In addition, the Bank convened a donors' meeting at the end of July 1989, in order to mobilize financial assistance for the 1989-91 public investment program. A second meeting was organized during the Annual Meetings of the Fund and the World Bank to enhance the donor community's understanding of the new difficulties confronting Mauritania, following the large net movements of population. Donors were generally willing to announce new commitments following reduction in political tension in the region.

II. Background

In 1985 Mauritania adopted a comprehensive economic and financial recovery program covering the period through 1988, with the twin objectives of raising the rate of economic growth and of improving the external position, which had been characterized by large current account deficits, external payments arrears, and a relatively weak official reserve position. The adjustment program was supported by three successive stand-by arrangements and two annual arrangements under the structural adjustment facility (SAF). Despite the improvement achieved under

^{1/} The last business day in September in Mauritania.

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

	Outstanding at Oct. 31, 1989	1989		1990				1991			
		Nov.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	Jan.- March	April- June	July- Sept.	Oct.- Dec.	
<u>(In millions of SDRs)</u>											
Transactions under tranche policies (net)	=	<u>-1.33</u>	<u>-2.66</u>	<u>-3.00</u>	<u>-2.65</u>	<u>-2.90</u>	<u>-2.55</u>	<u>-2.55</u>	<u>-2.60</u>	<u>-1.93</u>	
Purchases	=	=	=	=	=	=	=	=	=	=	
Ordinary resources	=	=	=	=	=	=	=	=	=	=	
Borrowed resources	=	=	=	=	=	=	=	=	=	=	
Repurchases	=	<u>-1.33</u>	<u>-2.66</u>	<u>-3.00</u>	<u>-2.65</u>	<u>-2.90</u>	<u>-2.55</u>	<u>-2.55</u>	<u>-2.60</u>	<u>-1.93</u>	
Ordinary resources	=	<u>-1.33</u>	<u>-2.66</u>	<u>-3.00</u>	<u>-2.65</u>	<u>-2.90</u>	<u>-2.55</u>	<u>-2.55</u>	<u>-2.60</u>	<u>-1.93</u>	
Borrowed resources	=	=	=	=	=	=	=	=	=	=	
Structural adjustment facility loans	=	=	=	=	=	=	=	=	=	=	
Enhanced structural adjustment facility loans	=	=	8.48	8.48	=	8.48	=	8.48	=	8.48	
Total Fund credit outstanding (end of period) ^{1/}	<u>53.18</u>	<u>51.85</u>	<u>57.66</u>	<u>63.14</u>	<u>60.49</u>	<u>66.06</u>	<u>63.51</u>	<u>69.44</u>	<u>66.84</u>	<u>73.38</u>	
Under tranche policies	27.75	26.42	23.76	20.76	18.11	15.21	12.66	10.11	7.51	5.58	
Under special facilities	=	=	=	=	=	=	=	=	=	=	
Under structural adjustment facility	16.95	16.95	16.95	16.95	16.95	16.95	16.95	16.95	16.95	16.95	
Under enhanced structural adjustment facility	8.48	8.48	16.95	25.42	25.42	33.90	33.90	42.38	42.38	50.85	
<u>(As percent of quota)</u>											
Total Fund credit outstanding (end of period) ^{1/}	<u>156.9</u>	<u>152.9</u>	<u>170.1</u>	<u>186.2</u>	<u>178.4</u>	<u>194.9</u>	<u>187.3</u>	<u>204.8</u>	<u>197.2</u>	<u>216.5</u>	
Under tranche policies	81.9	77.9	70.1	61.2	53.4	44.9	37.3	29.8	22.2	16.5	
Special facilities	=	=	=	=	=	=	=	=	=	=	
Under structural adjustment facility	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	
Under enhanced structural adjustment facility	25.0	25.0	50.0	75.0	75.0	100.0	100.0	125.0	125.0	150.0	

Source: IMF, Treasurer's Department.

^{1/} This total includes loans from ESAF Trust, which are not Fund resources.

the program in the fiscal area, and the reduction in the rate of inflation, Mauritania's external position remained weak and external payments arrears were accumulated on nonreschedulable debt. In addition, delays were encountered in the implementation of the structural reforms, and most of the structural benchmarks under the SAF-supported programs were not observed.

Against this background, the Government undertook an adjustment and structural reform program for the 1989-91 period, aimed at strengthening the external position and achieving a sustainable rate of economic growth. Under the program, the Government aims at achieving a real GDP growth rate of 3.5 percent a year; lowering the rate of inflation (as measured by the GDP deflator) to about 4.5 percent in 1991; and reducing the external current account deficit (excluding official transfers) to 9.8 percent of GDP in 1991. Gross official reserves are projected to cover 1.8 months of imports in 1991, thereby ensuring that Mauritania would meet its external payments obligations in a timely manner. The program seeks to achieve these objectives through the implementation of demand management measures coupled with structural reforms designed to enhance the private sector's participation in the economy.

III. Performance Under the 1989 Program

1. Macroeconomic developments

Economic developments during the first nine months of 1989 were broadly in line with the program objectives (Table 2). The performance in the real sector is now projected to be somewhat better than programmed, with real gross domestic product (GDP) estimated to grow by 3.5 percent versus 3.2 percent originally anticipated. The somewhat stronger rate of growth stems largely from the improved performance of the mining sector where iron ore output is now expected to reach 12 million metric tons, a level that is about 20 percent higher than program estimates. This production increase reflects productivity gains achieved through improved labor relations (following negotiations between the iron ore mining company (SNIM) and the unions) as well as the continuous operation of a third crusher. Livestock production is now expected to fare better than initially envisaged as the adverse impact of the locust invasion on pastures in late 1988 has been more limited than originally feared. However, activity in the fishery sector, the manufacturing sector, and the service sector is expected to be worse than originally anticipated owing to the tension that arose between Mauritania and Senegal. The rate of inflation, as measured by the GDP deflator, is now expected to be somewhat lower than anticipated (5.2 percent versus 6.8 percent), owing to lower-than-projected increases in primary sector prices. Nonetheless, the consumer price index is projected to rise at a somewhat faster pace than anticipated.

The external current account deficit, excluding official transfers, is expected to amount to SDR 98.4 million (13.1 percent of GDP),

Table 2. Mauritania: Selected Economic and Financial Indicators, 1985-89

	1985	1986	1987	1988	1989	
				Rev.	Prog.	Proj.
(Average annual percentage changes, unless otherwise noted)						
National income and prices						
GDP at constant prices	2.9	5.4	2.8	2.5	3.2	3.5
GDP deflator	15.4	7.9	7.3	6.6	6.8	5.2
Consumer price index	13.6	7.8	8.2	6.3	7.2	8.2
External sector						
Exports, f.o.b. (in SDRs)	27.6	-3.5	-12.2	4.7	5.4	12.1
Imports, f.o.b. (in SDRs)	3.1	-10.0	-10.5	3.7	3.0	1.6
Export volume	17.1	0.8	0.3	-3.6	-2.2	10.7
Import volume	4.3	-4.4	-11.9	3.9	1.2	-8.4
Terms of trade	10.1	1.7	-13.8	8.8	5.9	-8.7
Nominal effective exchange rate (depreciation -)	-5.3	6.6	-3.7	6.1
Real effective exchange rate (depreciation -)	-6.6	-9.1	-5.4	-8.3
Overall consolidated cent. govt. operations ^{1/}						
Revenue	19.5	14.7	15.1	5.7	18.8	12.1
Revenue and grants	13.4	12.4	20.7	-5.9	17.4	4.1
Total expenditure and net lending	-1.7	-6.5	17.5	7.7	22.1	15.6
Excluding restructuring operations	-1.7	-6.5	7.9	5.1	9.0	2.9
Money and credit						
Net domestic assets	19.1	6.6	4.3	6.8	5.2	1.6
Domestic credit	-2.9	13.5	6.7	13.6	17.8	20.2
Credit to the Government	-4.8	0.2	-4.7	17.6	62.3	54.1
Excluding restructuring operations	-4.8	0.2	-4.7	-3.2	-22.8	-27.8
Credit to the economy	1.9	18.2	10.1	12.6	6.3	11.3
Money and quasi-money (M2)	18.3	15.4	16.4	2.9	9.0	8.5
Velocity (GDP relative to M2)	4.6	4.5	4.3	4.4	4.6	4.3
Interest rate ^{2/}	8.0	10.0	10.0	10.0	...	10.0
(In percent of GDP)						
Overall consolidated central government balance						
excluding restructuring operations ^{1/ 3/}						
Excluding grants	-15.0	-7.8	-6.1	-6.0	-4.5	-4.2
Including grants	-4.5	-2.5	1.0	-3.4	2.3	0.4
Change in payments arrears	-12.5	1.0	0.3	-0.4	-0.4	-0.2
Overall consolidated central government balance						
excluding restructuring operations ^{1/ 4/}						
Excluding grants	-27.4	-6.8	-5.8	-6.4	-4.9	-4.4
Including grants	-17.0	-1.5	-1.3	-0.3	1.9	0.1
Foreign financing (net)	-0.3	-5.9	-2.3	0.7	-4.2	-3.6
Domestic financing (net)	-2.0	-0.9	-0.6	1.1	5.2	3.7
External debt relief and exceptional assistance	19.2	8.3	4.4	2.1	-	7.0
Financing gap (deficit -)	-	-	-	-	-4.5	-
Treasury operations (surplus +) ^{1/ 5/}	-12.7	2.0	3.2	2.1	3.8	3.3
Gross domestic investment	24.0	22.5	21.3	17.7	15.6	13.5
Gross domestic savings	8.4	11.7	11.1	10.0	10.9	9.8
Resource gap	-15.6	-10.8	-10.2	-7.7	-4.7	-3.7
Current account balance (deficit = -)						
Excluding official transfers	-26.2	-22.5	-21.6	-18.6	-13.6	-13.1
Including official transfers	-14.3	-13.6	-11.8	-1.4	-4.2	13.2
External debt outstanding	191.1	190.0	190.4	183.2	187.7	185.3
Debt service ratio ^{6/} before debt relief	31.1	43.5	45.0	49.9 ^{7/}	40.1	68.7 ^{8/}
Of which: on Fund resources	(3.8)	(3.7)	(2.1)	(1.7)	(2.3)	(2.4)
After debt relief	-7.4	25.1	28.3	42.2 ^{7/}	40.1	50.2 ^{8/}
(In millions of SDRs, unless otherwise specified)						
Overall balance of payments						
Before debt relief	-32.6	-62.8	-48.3	-57.3	-58.0	-41.3
After debt relief	125.2	10.9	11.8	-28.0	-58.0	36.1
Gross official reserves	46.6	47.0	58.0	48.3	49.2	60.0
(Months of imports of goods and nonfactor services)	1.1	1.2	1.6	1.3	1.3	1.6
Change in external payments arrears	-100.2	-	8.8 ^{9/}	17.3	-18.7	-19.0
Memorandum items:						
Nominal GDP (in billions of ouguiyas)	55.1	62.7	69.2	75.4	83.1	82.1
Ouguiyas per SDR (average rate)	78.3	87.3	95.5	101.2

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

^{1/} Includes Treasury's operations plus investment expenditures financed through external grants and external loans. Data for 1988 and 1989 exclude future payments on debt canceled during these two years, amounting to the equivalent of 5.8 percent of GDP in 1988 and 16 percent in 1989.

^{2/} Interest rates on savings accounts.

^{3/} Commitment basis; restructuring operations are expected to amount to the equivalent of 7.2 percent of GDP in 1989.

^{4/} Cash basis.

^{5/} Treasury operations, on a cash basis; includes budgetary grants and excludes restructuring operations.

^{6/} As a percentage of exports of goods and services.

^{7/} Includes debt forgiven by the Federal Republic of Germany amounting to the equivalent of 5.8 percent of GDP.

^{8/} Includes debt cancellation equivalent to 22.4 percent of GDP.

^{9/} Including SDR 2.7 million of arrears by public enterprises.

compared with a programmed deficit of SDR 105.2 million (13.6 percent of GDP) (Table 3). A larger-than-programmed trade surplus, brought about by the higher volume and price of iron ore exports, will be partially offset by a rise in net service payments, mainly on account of higher outlays on feasibility studies related to the public investment program. Net transfers receipts are now projected to exceed the program level by SDR 122.8 million, reflecting mainly the counterpart of debt cancellation by France and other bilateral creditors (SDR 141.3 million).

Nonmonetary capital outflows are expected to amount to SDR 140.9 million, compared with SDR 25.5 million estimated under the program. This reflected mainly an increase of SDR 125 million in external debt amortization, which includes 1989 and future external debt obligations that have been canceled; the counterpart of the latter has been recorded under official transfers. In light of these developments, the overall balance of payments deficit is projected to be about SDR 20 million lower than programmed. At a meeting on June 16, 1989, Paris Club creditors granted debt relief on concessional terms estimated to total SDR 50.2 million. Mauritania also benefited from debt cancellation estimated at SDR 27.2 million, ^{1/} which together bring total debt relief to SDR 77.4 million compared with the original program estimate of SDR 70 million. Taking into account payments of arrears to Paris Club creditors, Mauritania is expected to increase its gross international reserves by SDR 11.7 million, compared with SDR 0.8 million previously programmed. As a result, by the end of 1989, gross international reserves will cover 1.6 month of imports of goods and nonfactor services, thereby attaining the gross reserve target initially set for 1990.

2. Policy implementation

Policy implementation during the first nine months of 1989 has been satisfactory. The structural benchmarks relating to liberalization of import controls, tax reform, the reduction in the role of the Food Security Agency (CSA), improvement in the coordination of external debt monitoring, and reduction in the number of goods and services subject to price controls have all been met. Furthermore, the improvement in the consumer price index, which served as a structural performance criterion was also observed. However, despite commendable efforts on the part of the SNIM, the benchmark relating to the payments of tax arrears owed by the company may not be met fully by the end of the year as scheduled, reflecting delays in completing negotiations with the World Bank on a public enterprise loan. In addition, the banking system restructuring

^{1/} Loans were canceled by France under the UNCTAD least developed countries resolution (SDR 0.4 million) and President Mitterrand's Dakar initiative (estimated at SDR 2.1 million), by the Federal Republic of Germany (SDR 0.3 million), and by official Arab creditors (SDR 24.5 million). Debt rescheduled at the last Paris club but canceled subsequently is included under canceled debt.

Table 3. Mauritania: Balance of Payments, 1984-93

	1984	1985	1986	1987	1988	1989		1990	1991	1992	1993
					Rev. est.	Prog.	Prel. est.				
(In millions of SDRs)											
Trade balance (f.o.b.)	-18.3	52.5	71.2	57.9	63.2	79.6	98.8	67.9	68.8	72.2	85.0
Exports	291.6	371.9	358.7	315.1	330.0	349.9	369.9	365.1	374.3	390.8	410.2
Imports	-309.8	-319.5	-287.5	-257.2	-266.8	-270.3	-271.1	-297.1	-305.5	-318.6	-325.2
Services (net)	-207.9	-213.7	-210.2	-194.7	-181.1	-167.0	-177.4	-179.9	-173.1	-170.5	-171.8
Nonfactor services (net)	-163.6	-162.1	-148.9	-132.2	-127.2	-116.2	-125.6	-137.6	-131.7	-131.5	-131.6
Investment income (net)	-44.2	-51.7	-61.4	-62.5	-54.0	-50.7	-51.8	-42.3	-41.3	-38.9	-40.2
Of which: interest payments due	(-52.1)	(-54.2)	(-61.4)	(-61.4)	(-54.0)	(-51.3)	(-52.3)	(-43.8)	(-43.3)	(-41.4)	(-43.4)
Transfers (net)	75.0	60.4	41.4	51.7	107.6	54.8	177.6	65.1	60.9	65.9	71.6
Private transfers	-22.5	-23.3	-22.9	-19.4	-20.9	-17.8	-19.8	-16.8	-11.8	-8.8	-6.6
Public transfers	97.5	83.7	64.3	71.1	128.5 ^{1/}	72.6	197.5 ^{2/}	82.0	72.7	74.8	78.2
Current account											
Including public transfers	-151.2	-100.8	-97.5	-85.1	-10.3	-32.5	99.1	-46.8	-43.4	-32.4	-15.3
Excluding public transfers	-248.7	-184.7	-161.8	-156.3	-138.9	-105.2	-98.4	-128.8	-116.1	-107.1	-93.5
Nonmonetary capital (net)	47.9	68.2	34.7	36.8	-47.0	-25.5	-140.4	25.4	26.4	27.9	20.4
Direct investment	5.2	4.3	1.8	2.0	1.4	1.5	1.5	1.6	1.8	2.0	2.1
Official medium- and long-term loans	39.3	53.8	-4.7	7.9	-60.3	-29.0	-135.3	28.1	28.0	30.7	23.2
Disbursements	108.7	115.8	95.7	103.8	71.1	74.6	92.9	96.9	106.0	113.7	108.8
Project loans	103.5	115.8	95.7	83.8	52.9	46.4	72.1	58.3	69.1	71.8	72.5
Program loans	5.2	—	—	20.0	18.2	28.2	20.8	38.6	36.9	41.9	36.4
Principal due	-69.4	-62.0	-100.4	-95.9	-131.4 ^{1/}	-103.6	-228.2 ^{2/}	-68.8	-78.0	-83.0	-85.7
Suppliers' credit for boats	0.6	3.4	9.9	0.6	—	-8.1	-7.0	-4.3	-3.4	-4.8	-4.9
Disbursements	5.4	5.1	14.7	7.6	7.8	0.5	1.6	5.1	5.0	4.9	4.8
Principal due	-4.8	-1.7	-4.8	-7.0	-7.8	-8.6	-8.6	-9.4	-8.4	-9.7	-9.7
Other capital ^{3/}	2.8	6.7	27.8	26.3	11.9	10.0	0.4	—	—	—	—
Overall balance	-103.2	-32.6	-62.8	-48.3	-57.3	-58.0	-41.3	-21.4	-17.0	-4.5	5.1
Financing	103.2	32.6	62.8	48.3	57.3	-11.6	41.3	5.1	-2.4	-17.2	-18.9
Changes in net foreign assets of the banking system											
(- indicates an increase)	32.2	-26.3	-10.8	-20.6	10.7	7.0	-17.1	2.6	-2.4	-17.2	-18.9
Monetary authorities (net)	27.7	9.0	-7.6	-7.7	14.8	7.0	-15.5	2.6	-2.4	-17.2	-18.9
Change in gross reserves	32.2	24.4	-0.4	-10.9	9.6	-0.8	-11.7	-10.0	-12.0	-16.0	-16.0
Change in liabilities	-4.5	-15.4	-7.2	3.2	5.2	7.9	-3.9	12.6	9.6	-1.2	-2.9
Fund transactions	-9.0	-2.8	6.2	14.0	0.5	9.5	1.6	14.2	7.3	-5.9	-4.4
Purchases	—	9.6	18.5	18.9	4.0	17.0	8.5	25.4	17.0	—	—
Repurchases	-9.0	-12.4	-12.3	-4.9	-3.5	-7.4	-6.8	-11.2	-9.6	-5.9	-4.4
Other net (including AMF) ^{4/}	4.5	-12.7	-13.4	-10.8	4.7	-1.7	-5.5	-1.6	2.3	4.7	1.5
Deposit money banks (net)	4.5	-35.2	-3.2	-12.9	-4.1	—	-1.5	—	—	—	—
Change in arrears (+ indicates an increase)	41.7	-100.2	—	8.8	17.3 ^{5/}	-18.7	-19.0 ^{6/}	-7.1 ^{7/}	—	—	—
External debt relief and exceptional assistance	29.3	159.0	73.6	60.2	29.3	—	77.4	9.6	—	—	—
Rescheduling	29.3	122.5	73.6	56.4	28.3	—	50.2	9.6	—	—	—
Interest	12.5	20.8	15.1	14.9	9.2	—	10.1	6.8	—	—	—
Principal	16.9	26.2	58.5	41.5	19.0	—	25.2	2.8	—	—	—
Arrears	—	75.5	—	—	—	—	14.9	0.0	—	—	—
Exceptional assistance	—	36.5	—	3.1	—	—	—	—	—	—	—
Debt cancellation-related	—	—	—	0.6	1.0	—	27.2	—	—	—	—
Financing gap	—	—	—	—	—	69.7	—	16.3	19.4	21.7	13.8
(In percent of GDP)											
Memorandum items:											
Current account deficit											
Including official transfers	-21.3	-14.3	-13.6	-11.8	-1.4	-4.2	13.2	-5.9	-5.3	-3.8	-1.7
Excluding official transfers	-35.1	-26.2	-22.5	-21.6	-18.6	-13.6	-13.1	-16.4	-14.1	-12.5	-10.6

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

^{1/} Including debt cancellation of SDR 43.1 million of German loans in 1988.

^{2/} Including various bilateral debt forgiveness of SDR 141.3 million in 1989.

^{3/} Including private short-term capital, commercial credits, and errors and omissions.

^{4/} AMF, Arab Monetary Fund.

^{5/} Includes the repayment of 1987 arrears of SDR 8.8 million and the accumulation of new arrears to Paris Club members of SDR 26.1 million.

^{6/} Includes the repayment of 1988 arrears of SDR 22.7 million and net accumulation of reschedulable arrears of SDR 3.7 million under the Fourth Paris Club Agreement.

^{7/} Includes the repayment of all outstanding arrears, namely SDR 3.4 million on 1988 arrears and SDR 3.7 million on 1989 arrears, as agreed at the Fourth Paris Club Meeting.

has been delayed, reflecting factors beyond the Government's control and is now expected to be completed in early 1990 (Table 4).

a. Financial policies

(i) Fiscal policy

On the basis of the results obtained at the end of September 1989, it is likely that the treasury surplus for the year as a whole will fall slightly short of the programmed targets. The cash surplus in Treasury operations (excluding outlays related to public enterprise reform and the restructuring of the banking sector) is now expected to amount to the equivalent of 3.0 percent of GDP instead of the programmed 3.8 percent, as a result of a shortfall in revenue that was not fully offset by a corresponding reduction in expenditures. However, the overall fiscal cash deficit 1/ (excluding grants) will be limited to 11.6 percent of GDP, a level that is about 1 percentage point lower than programmed, because the shortfall in revenue other than grants is more than offset by a reduction in investment outlays (Table 5). 2/ Estimated debt relief received from Paris Club creditors and other official bilateral creditors, will enable the Government to reduce its net liabilities 3/ to the Central Bank by UM 1.2 billion, or UM 0.2 billion more than targeted under the program.

Measures taken under the 1989 budget to increase revenue did not bring about the expected results largely for reasons outside the control of the Government. Total revenue and grants are now projected to reach a level equivalent to 28.6 percent of GDP compared with 31.9 percent in the program, reflecting shortfalls in grants and budgetary revenue by 2.2 percentage points and 1 percentage point of GDP, respectively. The shortfall in budgetary grants stemmed from longer-than-anticipated negotiations with bilateral donors, while capital grants were held up by delays in implementing the investment program, caused in part by disruptions in the Senegal river valley, and administrative reorganization of the agency in charge of investment projects in the rural sector. The shortfall in budgetary revenue principally reflects the disruption in customs duty collection caused by the closing of the border with Senegal. As trade is progressively rerouted through the port of Nouakchott, it is anticipated that revenue from customs duties and other taxes collected on imports will recover during the fourth quarter.

1/ Includes treasury operations and foreign-financed investment outlays executed outside the budget.

2/ Excluding expenditures related to restructuring operations, the overall cash deficit is expected to be about 4.4 percent of GDP compared with 4.9 percent in the program. Restructuring operations are financed by counterpart funds of the World Bank and of the African Development Bank structural adjustment credit (SAC) and by issues of treasury bills.

3/ Excluding treasury bills to finance the restructuring of state-owned banks.

Table 4. Mauritania: Structural Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989

Policy measures	Programmed Timetable	Implementation Status
1. Elimination of import licenses and easing of the requirements for the import-export card.	April 30, 1989	Observed
2. Completion of the study of the integration of the minimum lump-sum tax (IMF) into the turnover tax (TCA) and harmonization of the TCA rates on domestic products and imports.	June 30, 1989	September 1989 ^{1/}
3. Further reduction in the role of the CSA in cereal marketing, as defined in paragraph 16.	June 30, 1989	Observed
4. Implementation of measures to improve the coordination and management of external debt.	June 30, 1989	Observed
5. Restructuring of the banking system.	June 30, 1989	Delayed; to be completed by early 1990
6. Reduction, by two thirds, of imported industrial and commercial products subject to the maximum margin.	June 30, 1989	Observed
7. Improvement in the methodology and procedures used in compiling the consumer price index.	June 30, 1989	Observed
8. Payment of arrears on the tax on wages and salaries owed by SNIM for 1987 and 1988.	December 31, 1989	Likely to be delayed because of slippage in World Bank timetable for negotiations of the Public Enterprise sector loan.

Source: Memorandum of Economic and Financial Policies (April 17, 1989).

^{1/} The delay was due to unavailability of Fund technical assistance before that date.

Table 5. Mauritania: Consolidated Government Financial Operations, 1985-1989 1/

	1985	1986	1987	1988	1989	
					Prog. 2/	Proj.
(In millions of ouguiyas)						
Total revenue, grants, and special accounts	18,781	18,309	22,099	22,555	26,486	23,489
Budgetary revenue	12,301	13,696	15,782	16,685	19,826	18,701
Grants	5,737	3,347	4,884	4,597	5,690	3,757
Budgetary	61	—	119	—	856	495
Extrabudgetary 3/	5,676	3,347	4,765	4,597	4,834	3,263
In kind 4/	1,756	270	239	273	278	278
Projects	2,497	1,463	2,552	2,249	2,349	951
Others	1,423	1,614	1,899	2,075	2,034	2,034
Common Fund	—	—	75	—	173	—
Special accounts	743	1,266	1,434	1,274	970	1,031
Total expenditure and net lending	21,235	19,866	23,347	25,143	30,706	29,056
Current expenditure	14,821	14,654	15,592	16,571	17,851	17,840
Budgetary 5/	11,642	12,770	13,454	14,223	15,539	15,528
Extrabudgetary 6/	3,179	1,884	2,138	2,348	2,312	2,312
Investment expenditure	6,239	5,011	5,736	5,926	6,500	5,132
Budgetary	706	658	760	820	1,556	901
Extrabudgetary	4,846	3,625	3,864	4,042	3,971	3,512
Special accounts	687	698	1,037	1,064	800	719
Common Fund	—	—	75	—	173	—
Net lending 7/	176	200	2,020	2,646	6,355	6,084
Of which: restructuring 8/	(—)	(—)	(1,913)	(2,623)	(6,155)	(5,884)
Overall surplus deficit (-) (commitment basis)						
Including grants	-2,454	-1,556	-1,248	-2,587	-4,220	-5,567
Excluding restructuring operations	-2,454	-1,556	665	36	1,935	317
Excluding grants	-8,191	-4,903	-6,132	-7,184	-9,910	9,324
Excluding restructuring operations	-8,191	-4,903	-4,219	-4,561	-3,755	-3,440
Change in payments arrears (increase +)	-6,887	617	218	-275	-358	-202
External	-6,187	—	615	-275	-358	-202
Domestic	-700	617	-397	—	—	—
Overall surplus deficit (-) (cash basis)	-9,341	-939	-1,030	-2,862	-4,578	-5,769
Financing	9,341	939	1,030	-2,862	798	5,769
Foreign borrowing (net)	-150	-3,675	-1,594	487	-3,522	-2,981
Drawings	2,351	2,192	3,429	3,278	3,616	4,132
Budgetary	2	—	2,117	1,485	1,993	1,570
Project	2,349	2,192	1,312	1,793	1,622	2,561
Amortization	-2,501	-5,867	-5,023	-4,288	-5,559	-5,559
Arrears 9/	—	—	—	1,497	-1,578	-1,554
Domestic (net)	-1,087	-585	-441	803	4,320	3,024
Banking system	-530	-271	-424	883	4,320	3,024
Other	-557	-314	-18	-80	—	—
External debt relief and exceptional assistance	10,578	5,199	3,065	1,573	...	5,727
Rescheduling	8,128	5,199	3,065	1,469	...	3,172
Exceptional assistance	2,450	—	—	104	...	2,555
Financing gap	—	—	—	—	3,780	—
Possible Paris Club rescheduling					4,760	
Memorandum items (In percent of GDP)						
Total revenue, grants, and special accounts	34.1	29.2	31.9	29.9	31.9	28.6
Budgetary revenue	22.5	21.8	22.8	22.1	23.9	22.8
Total expenditure and net lending	38.9	31.7	33.8	33.3	36.9	35.4
Current expenditure	27.2	23.4	22.5	22.0	21.5	21.7
Investment expenditure	11.4	8.0	8.3	7.9	7.8	6.2
Net lending	0.3	0.3	3.0	3.5	7.6	7.5
Overall fiscal surplus or deficit (-) (cash basis)						
Including grants	-17.0	-1.5	-1.5	-3.4	-5.5	-7.0
Excluding restructuring operations	-17.0	-1.5	1.3	—	1.9	-0.2
Excluding grants	-27.4	-6.8	-8.5	-9.5	-12.4	-11.6
Excluding restructuring operations	-27.4	-6.8	-6.4	-6.0	-4.9	-4.4
Financing gap	—	—	—	—	4.5	—
Treasury balance (surplus +)	-12.7	2.0	3.2	-2.1	3.8	3.3

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

1/ Including expenditure financed directly from abroad and therefore not recorded in treasury accounts and from 1987 onward, special operations related to restructuring of banks and public enterprises. Data for 1988 and 1989 exclude from grants and amortization future payments on debt cancelled during those two years; future payments amounted to the equivalent of 5.8 percent of GDP in 1988 and 16.0 percent in 1989.

2/ As shown in EBS/89/83.

3/ As recorded in the balance of payments, except for counter-entry for debt cancellation.

4/ Foreign-financed food aid, including food aid with counter-entry recorded under special accounts.

5/ Including interest due.

6/ Counter-entry of extrabudgetary grants (excluding project grants), less expenditure under special accounts (counterpart food aid).

7/ Excludes on-lending to public enterprises.

8/ Special operations related to restructuring of banks and public enterprises.

9/ Arrears to Paris Club members initially rescheduled in last Paris Club meeting; non rescheduled arrears will be paid in 4 installments in 1989 and 1990.

The taxation of petroleum imports required in connection with foreign-financed projects had to be discontinued when the donors' cooperation was no longer forthcoming. This development will not have an impact on the overall fiscal deficit, however, since provisions were made under the budget to reimburse tax payments made by donors. Revenues from taxes in wages and salaries are expected to be marginally lower than the amount targeted for 1989, even though the iron ore mining company (SNIM) has been paying on a regular basis the liabilities under this tax for 1989 as well as part of 1987-88 tax arrears (0.6 percent of total revenue programmed). The SNIM may be unable to fully pay the back taxes owing to delays in negotiations on the World Bank loan for public enterprise reform. Tax revenues from fish exports will also be somewhat less than programmed, in line with lower fish exports. The revenue shortfalls described above were partly offset by better-than-expected revenues from fishing license fees, as new licenses were sold at much higher prices. In addition, the sale of land by the Government generated 50 percent more revenue than programmed, as the traditionally nomadic Mauritanian population has been showing an increasing preference for land ownership, especially in and around the capital city. While the Government in general has improved its tax collection apparatus, the Treasury continues to face difficulties in collecting turnover taxes and real estate taxes.

Total expenditure and net lending is projected to amount to UM 29.1 billion in 1989, or 2.4 percentage points of GDP less than programmed. The lower-than-expected level of expenditure is fully explained by a fall in Government, investment outlays, as some projects have been delayed and the cost of some other projects has been reduced by the nonpayment of taxes on imported oil. Current expenditures are expected to be on target, with the increase in the wage bill being limited to 6 percent as programmed. With the consumer price index projected to rise by about 8 percent during 1989, civil servants' wages will be reduced in real terms. This result reflects the determination of the authorities to protect as much as possible the fiscal objectives of the program, notwithstanding pressures to increase spending in order to facilitate the reintegration of Mauritians returning from Senegal, whose number is officially estimated at 210,000. Thus far, the Government has limited its direct contribution to the reintegration program to UM 100 million through a 5 percent reduction in budgetary appropriations on materials and supplies.

(ii) Monetary and credit policy

Net domestic assets increased marginally faster than programmed in the first six months of the program, rising by UM 752 million as against a program benchmark of UM 700 million (Table 6). The excess was due to the larger-than-programmed increase in net credit to the Government. After adjusting for differences between the projected and the actual amounts of treasury bills issued to finance part of the restructuring of the banking system, for use of counterpart funds of the World Bank's and the African Development Bank's SAC, and for debt relief obtained from Paris Club and other bilateral creditors, net claims on the Government

Table 6. Mauritania: Monetary Survey, 1986-89

(In billions of ouguiyas; end of period)

	1986	1987	1988	1989			
	Dec.	Dec.	Dec. <u>1/</u>	March Act.	June Act.	Sept. Act.	Dec. Proj.
Net foreign assets	-9.20	-7.78	-8.96	-8.49	-8.70	-8.74	-7.87
Central Bank	-4.64	-3.97	-5.56	-6.07	-5.55	-4.49	-4.46
Deposit money banks	-4.56	3.80	-3.40	-2.42	-3.15	-4.25	-3.41
Domestic assets (net)	24.24	25.29	26.97	27.32	27.73	27.34	27.41
Domestic credit	20.65	22.04	26.00	26.68	30.98	31.18	31.25
Claims on Government (net) <u>2/</u>	4.70	4.48	5.40	5.97	9.01	8.82	8.32
Claims on the economy <u>3/</u>	15.95	17.55	20.60	20.72	21.97	22.36	22.93
Other items (net)	3.59	3.25	0.97	0.64	-3.25	-3.85	-3.85
Money and quasi-money	15.04	17.51	18.00	18.83	19.03	19.50	19.54
Money	11.57	13.27	14.03	16.21	15.58	16.38	...
Quasi money	3.47	4.24	3.97	2.62	3.45	3.12	...
<u>Memorandum items:</u>							
Claims on Government							
Excluding restructuring							
operations (net)	4.70	4.48	4.47	4.21	3.74	2.96	2.46

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

1/ The monetary statistics include data on the National Development Fund since September 1988.

2/ Customs bills with bank guarantees in the portfolio of the Treasury are excluded from claims on government.

3/ Excludes capitalized interest charges on loans unlikely to be repaid.

increased by UM 3.61 billion, compared with UM 3.28 billion retained as a benchmark under the program. Although the Government took steps to reduce the increase in net borrowing from the banking system to UM 3.42 billion by September 28, 1989, the banking system's net claims on the Government remained some UM 398 million (2.2 percent of initial broad money) higher than the relevant adjusted performance criterion. As a result, the expansion in net domestic assets exceeded the end-September adjusted performance criterion by 0.5 percent of initial broad money. On October 1, 1989, the Government's deposits at the Central Bank were credited for tax revenue collected by provincial administrations, ^{1/} with the result that the increase in net credit to the Government fell to UM 3.04 billion compared with the adjusted performance criterion of UM 3.03 billion. Although full balance sheet data of the banking system for October 1, 1989 are not available, it is expected that net domestic assets have been reduced by a corresponding amount. With respect to the stock of net foreign liabilities of the Central Bank, the authorities were able to observe the benchmarks set for end-June and end-September. Net foreign liabilities were UM 349 million below the ceiling on June 29, 1989 and UM 1.31 billion below the ceiling on September 28, 1989. The better-than-projected performance reflects the more favorable outturn for the balance of payments.

Taking into account the results obtained during the period to end-September and prospects for the last quarter of 1989 with respect to the balance of payments and government finances, the mission revised downward the indicative benchmarks relating to domestic assets of the banking system and net claims on the Government for end-December 1989 (Table 7). The new ceilings imply that net claims on the Government are expected to fall by UM 500 million in the last quarter as a result of tax arrears payments by the SNIM, while net domestic assets will rise by UM 70 million. The new target will allow an increase in credit to the economy by UM 570 million. The indicative benchmark on the net foreign liabilities of the Central Bank has also been revised downward, and is now expected to show a slight fall in the last quarter to reach UM 4.46 billion at year-end, which represents an improvement by UM 28 million from the actual level at end-September. The revised targets for December 1989 imply that, for 1989 as a whole, money supply will expand at a rate of 8.5 percent, which is broadly in line with the projected increase of 8.9 percent in nominal GDP.

The interest rate grid, as well as the intervention rates for the Central Bank, was simplified during 1989. The commercial banks were also given more freedom in setting their lending rates to better reflect risks. However, as a result of the tight credit policy adopted under the program, banks have been able to charge most customers the maximum permissible rates, with the result that lending rates have increased on average by 2 percentage points. In an effort to increase the average

^{1/} Taxes collected by branches of the Treasury are not credited to the central government account at the Central Bank in Nouakchott until the funds have been physically transported to the Central Bank.

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

Quantitative performance and criteria benchmarks	Stock at Dec. 31, 1989		Maximum cumulative change from Dec. 31, 1988 to							
	Orig. Est.	Act.	June 29, 1989 Benchmarks			Sept. 29, 1989 Performance criteria			Dec. 31, 1989 Benchmarks	
			Prog.	Adj. Prog. ^{1/}	Act.	Prog.	Adj. Prog. ^{1/}	Act.	Prog.	Rev. Proj.
(In millions of ouguiyas)										
Performance criteria										
Domestic sector										
Net domestic assets ^{1/}	26,929	26,968	700	700	752	900	237	370 ^{2/}	1,400 ^{3/}	440
Net credit to the Government ^{1/}	5,325	5,407	4,320	3,284	3,606	4,120	3,026	3,424 ^{2/}	3,320 ^{3/}	2,924
Accumulation of domestic arrears	...	—	—	—	—	—	—	—	—	—
(In millions of SDRs)										
External sector										
External arrears on government debt	18.7	25.3	—	—	—	—	-16.7 ^{4/}	-16.7 ^{4/}	-18.7	-2.3 ^{5/}
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—	—	—	—	—	—	—
Contracting or guaranteeing of non-concessional debt by the Government in the 1- to 15-year maturity range during period	—	—	—	—	—	—	—	—	—	—
Quantitative benchmarks										
	Stock at Dec. 31, 1988		Maximum stock on							
	Orig. est.	Act.	June 29, 1989 Benchmarks			Sept. 29, 1989 Benchmarks			Dec. 31, 1989 Benchmarks	
			Prog.	Adj. prog.	Act.	Prog.	Adj. prog.	Act.	Prog.	Rev. Proj.
(In millions of ouguiyas)										
External sector										
Net foreign liabilities of Central Bank	5,562	5,564	5,900	5,902	5,553	5,800	5,802	4,492	5,700	4,464

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

^{1/} The ceiling for net credit to the Government for end-June was adjusted downward by UM 1,040 million to reflect counterpart funds from the World Bank and African Development Bank program loans deposited at the Central Bank which were assumed to have been used up before the start of the program, and it was adjusted upward by UM 3 million to reflect treasury bill issues amounting to UM 3,463 million in 1989 instead of UM 3,460 million contemplated in the program. The ceiling for net credit to the Government for end-September was adjusted downward by UM 1,097 million to reflect counterpart funds amounting to UM 434 million instead of zero assumed in the program, and additional debt relief amounting to UM 663 million, obtained from creditors participating in the Paris Club and other bilateral creditors; it was also adjusted upward by UM 3 million for the difference in treasury bills effectively issued. The ceiling for net domestic assets for end-September was adjusted for the additional debt relief, whereas other adjustments made to net credit to the Government were offset by a counter-entry made in other items net.

^{2/} Data for September 28, 1989, the last working day of the month in Mauritania. On October 1, 1989, the increase in net credit to the Government is estimated to have been reduced to UM 3,040 million as the account of the Treasury at the Central Bank was credited with tax revenues transferred from treasurer's offices outside Nouakchott.

^{3/} The original benchmarks for net domestic assets and for net credit to the Government would have been reduced to UM 578 million and UM 2,496 million respectively, taking into account the adjustments noted in footnote 1.

^{4/} Amount re-scheduled at the last Paris Club meeting.

^{5/} First installment to be paid before December 31, 1989 under the terms of the last Paris Club agreements; the remaining three installments will be paid in 1990.

maturity of savings and time deposits, interest rates on these deposits have been raised so as to remain positive in real terms, while demand deposits no longer earn interest. It is still too early to gauge the impact of this measure on the mobilization of domestic savings, because the restructuring under way has resulted in a situation in which banks with adequate liquidity are not interested in attracting new deposits, whereas those that are illiquid cannot do so solely through a rise in interest rates. The problems of the latter are to be addressed in the context of rehabilitation programs (discussed below).

In order to improve the competitiveness of the export sector, Mauritania devalued the ouguiya by 5 percent in nominal terms against its currency basket on April 2, 1989 and has implemented additional monthly adjustments since July to keep the real effective exchange rate constant. Following these adjustments, it is anticipated that the real effective exchange rate of the ouguiya would remain roughly unchanged through end-December 1989. 1/ (Chart 1).

b. Structural policies

The Government has undertaken a comprehensive reform program to liberalize foreign trade, encourage productive investment, allow the price mechanism to play a major role in the allocation of resources, stimulate domestic food production, rehabilitate the public enterprise sector, and restructure the banking system. Progress has been rapid in implementing most of the reforms envisaged under the program, with the exception of the completion of the banking system restructuring, which has been delayed owing to difficulties in securing foreign partners' participation in one bank and the delayed submission of the foreign consultants' studies needed to rehabilitate another bank.

Regulations concerning foreign trade were liberalized during 1989. As planned in the program, import licenses were abolished and minimum capital requirements for obtaining an import/export card have been eased to a point where the card is currently maintained largely for taxpayer identification purposes. Importers currently require only the authorization of the Central Bank to purchase foreign exchange, which is granted without undue delay.

The authorities also took additional steps to encourage private sector activities and participation. A new investment code entered into force on January 1, 1989, which encourages labor-intensive techniques and export-oriented activities. Moreover, rulings on applications under the code are now being handled more expeditiously than before. In the area of pricing policy, the authorities have reduced by two thirds the number of industrial and commercial imports subject to price controls, and they plan to abolish the remaining controls during 1990. In addition, the number of locally manufactured products subject to the price

1/ Based on the currency basket agreed with the authorities.

certification procedure (homologation des prix) has been reduced from nine to three. ^{1/} The authorities have reviewed with the staff the list of some 20 categories of goods and services the Government considers as basic necessities. It is expected that price controls on these products will be phased out during 1990-91.

As agreed in the letter of intent as a structural benchmark, the authorities have undertaken measures designed to improve their ability to follow price developments by implementing the recommendations contained in a Fund technical assistance report. Resources allocated to collection of data have been increased and collection techniques have been improved as foreseen. Moreover, the introduction of a revised, and more appropriate, weighting system for the CPI will take place before the end of 1989.

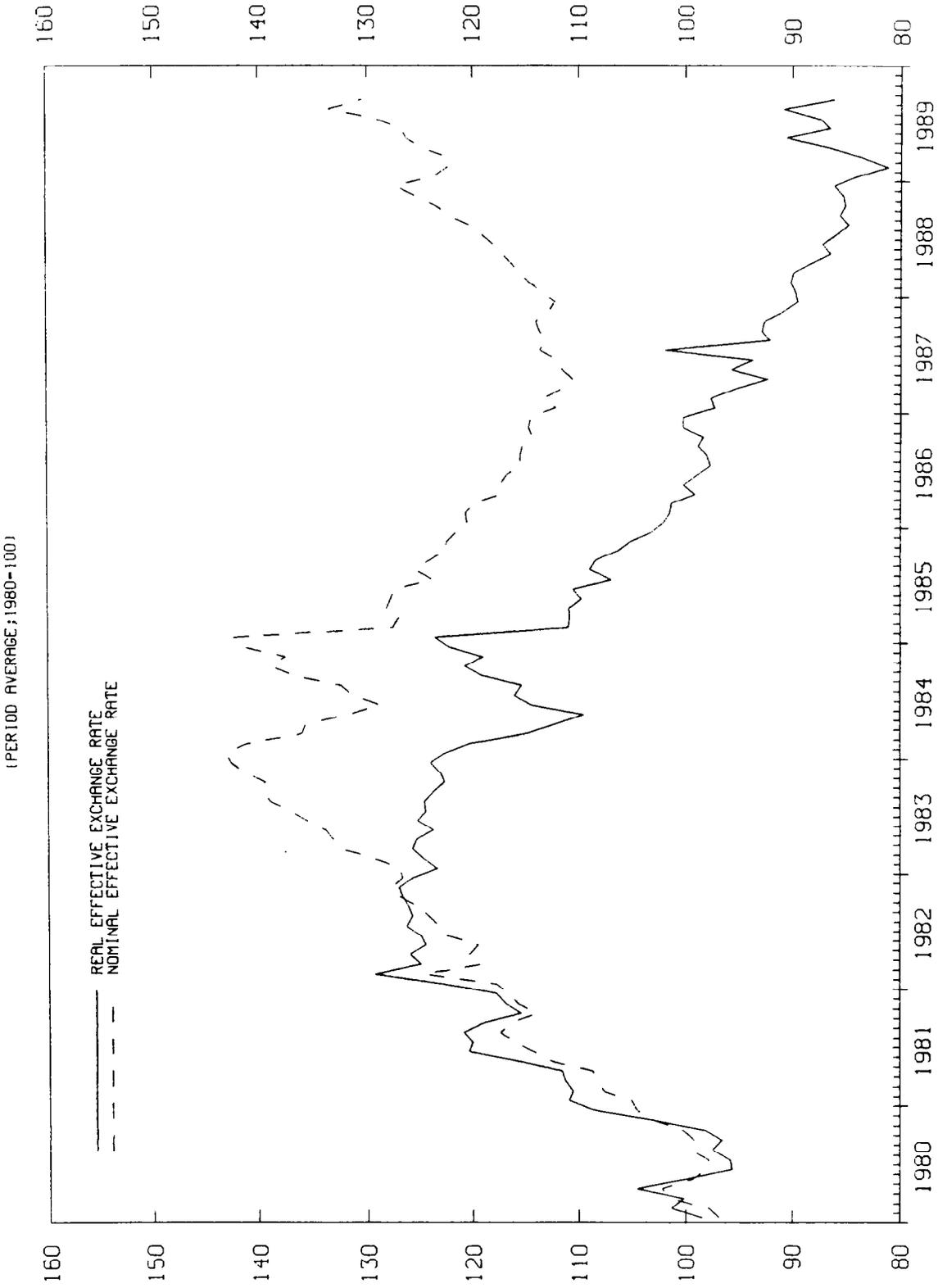
Stimulating domestic food production has been one of the Government's major priorities. To this end the authorities have eliminated the monopoly held by the trading company, the Société Nationale d'Importation et d'Exportation (SONIMEX), and the food aid agency (CSA), over the purchase and marketing of local rice. In addition, the CSA's activities have been refocused toward food aid distribution as originally intended. The agency has sold its two rice mills and all but 47 of its trucks. Sales prices for food aid are being gradually raised to bring them in line with import prices, and the producer price for rice paddy has been raised during the last two crop years.

Reform of the public enterprise sector is another major component of the structural reform program. It was envisaged that the utility company, the Société Nationale d'Eau et d'Electricité (SONELEC), which was restructured in 1988, would raise its tariffs further in 1989 with a view to covering a larger share of production costs. However, as the authorities consider that the company's high tariffs are already raising the cost of manufacturing activities, SONELEC undertook to reduce costs by converting its electrical plants to burn cheaper fuel oil, which the company is allowed to import directly. Progress has been made in strengthening the SNIM, as evidenced by the sharp increase in output in 1989. The price at which SONIMEX sells tea was raised as planned and a study is under way to review the company's import policy. The fish marketing company (SMCP) put up for sale its 15 trawlers and after some delays was able to sell eight boats. It is expected that the remaining seven boats will be sold by the end of the year or in early 1990.

The fisheries sector plays an important role in the Mauritanian economy and the authorities have continued their efforts to improve surveillance within the economic zone and increase domestic value added by the sector. The surveillance unit is being strengthened with the acquisition of a converted trawler, which has started patrolling in Mauritania's waters. Negotiations are under way with donors to lease

^{1/} Soap, cement, and noodles.

CHART 1
MAURITANIA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES
JANUARY 1980 - SEPTEMBER 1989
(PER 100 AVERAGE: 1980-100)



SOURCES: IMF DATA FUND AND STAFF ESTIMATES.

another surveillance vessel. In order to reduce the foreign exchange cost of the fishing sector, training of Mauritians to replace foreign crews continues as scheduled and a privately owned floating dock has been set up to handle routine maintenance work which, until recently, had to be effected in neighboring countries.

Rehabilitation of the banking system is being pursued. The authorities have endeavored to privatize the National Bank of Mauritania (BNM), which resulted from the merger of two state-owned banks. It proved impossible to find a foreign buyer, however, with the result that the Government had to turn to private national investors to whom about 10 percent of the capital has been sold thus far. Nevertheless, foreign executives have been recruited to strengthen the bank's management. In addition, a contrat programme has been signed, financial restructuring has been completed, and the bank's staff has been reduced as programmed. In the case of the development bank (UBD), the management has been strengthened, foreign experts have been recruited, and the much-delayed audit of the bank by a foreign consultant has now been completed, which will provide the basis for formulating a restructuring program. The recovery of bad debts has been proceeding more slowly than envisaged, with only about one half of the total frozen credits targeted having been recovered at end-September. The slow progress is ascribed to lengthy legal procedures for loan recovery and difficulties in selling confiscated property of delinquent borrowers. To address these issues the Government has now proposed changes in the legal procedures with a view to accelerating judicial decisions.

While progress has been made in strengthening coordination of external debt monitoring, additional steps are needed to centralize external debt data for more efficient management. To this end, the debt monitoring committee is being reinforced with a secretariat to be staffed by the Central Bank, in order to ensure that all external debt obligations are serviced without delays.

Under the terms of the recent Paris Club rescheduling, the Government has signed bilateral agreements with France and the Federal Republic of Germany. All bilateral agreements are expected to be concluded before March 31, 1990 as envisaged in the Agreed Minutes.

3. Medium-term outlook

Since the adoption of the 1989-91 program supported by ESAF resources, Mauritania has experienced a sudden net increase of 4.5 percent in its resident population, as an estimated 210,000 Mauritians previously living in Senegal were repatriated, while some 120,000 residents of Senegalese origin left Mauritania. The departing population held jobs in the agricultural sector in the Senegal river valley area, in the artisanal fishing sector, and in public administration. A survey conducted by the authorities also revealed that most of the returning Mauritians were tradesmen. The authorities have prepared an emergency plan and a medium-term program aimed at achieving the integration of the

repatriated population. Under the emergency plan, the authorities have undertaken to provide temporary shelter, food, and health services to the refugees, and the medium-term program aims at providing training and creating jobs. The cost of the emergency plan, estimated at UM 1.5 billion (US\$18 million), was financed largely by a budgetary contribution (UM 100 million), voluntary contributions from the population and businesses (UM 500 million), and foreign grants (UM 370 million). The authorities are still seeking additional foreign assistance for the balance of UM 530 million. In addition, at a donors' meeting held during the 1989 Annual Meetings, the authorities presented the medium-term program, estimated to cost UM 4.9 billion (US\$57 million), excluding food aid requirements. It was agreed that a detailed list of projects will be presented for donors' consideration at the next meeting, to be held in January 1990. The authorities indicated that the population displacement and resettlement program will have a limited impact on the Government's finances since it will be financed largely by foreign assistance. In full consultation with the staff, the Government is preparing the 1990 budget which will seek to protect as much as possible the fiscal objectives set in the ESAF arrangement for 1990, while making adequate provisions to alleviate the hardship experienced by the repatriated population. The authorities also believe that the programs for reintegration will not adversely affect Mauritania's export capacity over the medium term.

The staff estimates that during the period 1990-93, however, export earnings are likely to grow by about 2-3 percent annually, reflecting a return to the longer term trend for iron ore exports, and a moderate increase (about 2 percent annually) in volume of fish exports (Table 3). Based on the latest World Economic Outlook (WEO) exercise projections, world market prices for iron ore are expected to decline marginally during the period. The authorities estimate that fish export prices will rise by 2.7 percent annually. The staff estimates that import payments could grow by about 5 percent annually, reflecting a volume increase of about 3 percent combined with a moderate rise in prices. The expected increase in import volume, particularly during 1990 (when volume may rise by 5.6 percent), will reflect higher imports of foodstuffs required by the larger population, as well as imports associated with the medium-term resettlement program. As the resettlement program unfolds, the authorities anticipate that the disruptions to domestic food crop production occasioned by the population displacements will be progressively reversed and food import requirements will fall. Net service payments are projected to average SDR 66 million. Thus, the external current account deficit, excluding official transfers, will peak at SDR 128.8 million in 1990; it will fall thereafter gradually, reaching SDR 93.5 million by 1993.

Taking into account existing and prospective new loan commitments, net capital inflows would average SDR 25 million annually during the projection period. On the assumption that the authorities would maintain a gross international reserves objective of two to three months of imports, a residual financing gap would emerge, averaging SDR 18 million annually. The gap could be financed during 1990-91, the last two years

under the ESAF arrangement, through external debt rescheduling on concessional terms, further debt cancellations, and other concessional assistance. Beyond 1991, it is expected that the additional financing requirements would be met by increased concessional assistance from bilateral donors as well as by project loans from multilateral institutions, including the World Bank and the African Development Bank.

The debt service ratio is projected to fall from an estimated 68.7 percent of exports of goods and nonfactor services in 1989 ^{1/} to 28.7 percent by 1993 (Chart 2). Fund charges will represent 6.7 percent of all interest payments due during 1989, and are projected to decline to 2.1 percent in 1993. Fund repurchases and repayments are projected to decline from 7.8 percent of total principal payments due in 1989 to about 5.1 percent in 1993. Thus, total obligations falling due to the Fund will decline from 15 percent of gross international reserves at end-1989 to 4.3 percent at end-1993.

In light of the foregoing, the staff is of the opinion that, in the medium term, the population movements earlier this year are likely to have a limited effect on the financial situation of Mauritania. Although the needs of the additional population will raise the level of imports during 1990-91, the resulting larger current account deficit will be financed by external grants and concessional loans. The staff will closely monitor the implementation of the authorities reinsertion program, with a view to ensuring that the ESAF program targets are protected as much as possible, while avoiding additional hardships on the poorest segment of the population.

IV. Staff Appraisal

The Mauritanian authorities have pursued with determination the policies envisaged under the adjustment program supported by the first annual arrangement under the ESAF, in spite of an unfavorable social climate. The adverse impact of the social tension was, however, significantly mitigated by Mauritania's good export performance, particularly in the mining sector, and by the large external debt cancellation and rescheduling granted by Paris Club members and other bilateral creditors, notably Arab creditors. Most structural measures were adopted, notwithstanding some slippages in the completion of the banking system restructuring. Although the envisaged tax measures were introduced, tax revenue is projected to be lower than program targets, not only because of a shortfall in customs duty collection that stemmed from the closing of the border with Senegal and the resulting disruption in trade flows, but also because of a lower-than-projected level of budgetary grants. Government expenditures have been kept in check as anticipated and in particular the increase in the wage bill is projected

^{1/} Including debt cancellation equivalent to 40 percent of exports of goods and nonfactor services.

to be 2 percentage points below the expected inflation rate. As a result of larger-than-expected debt relief, the Government was able to reduce its net liabilities to the banking system broadly in line with the relevant performance criterion.

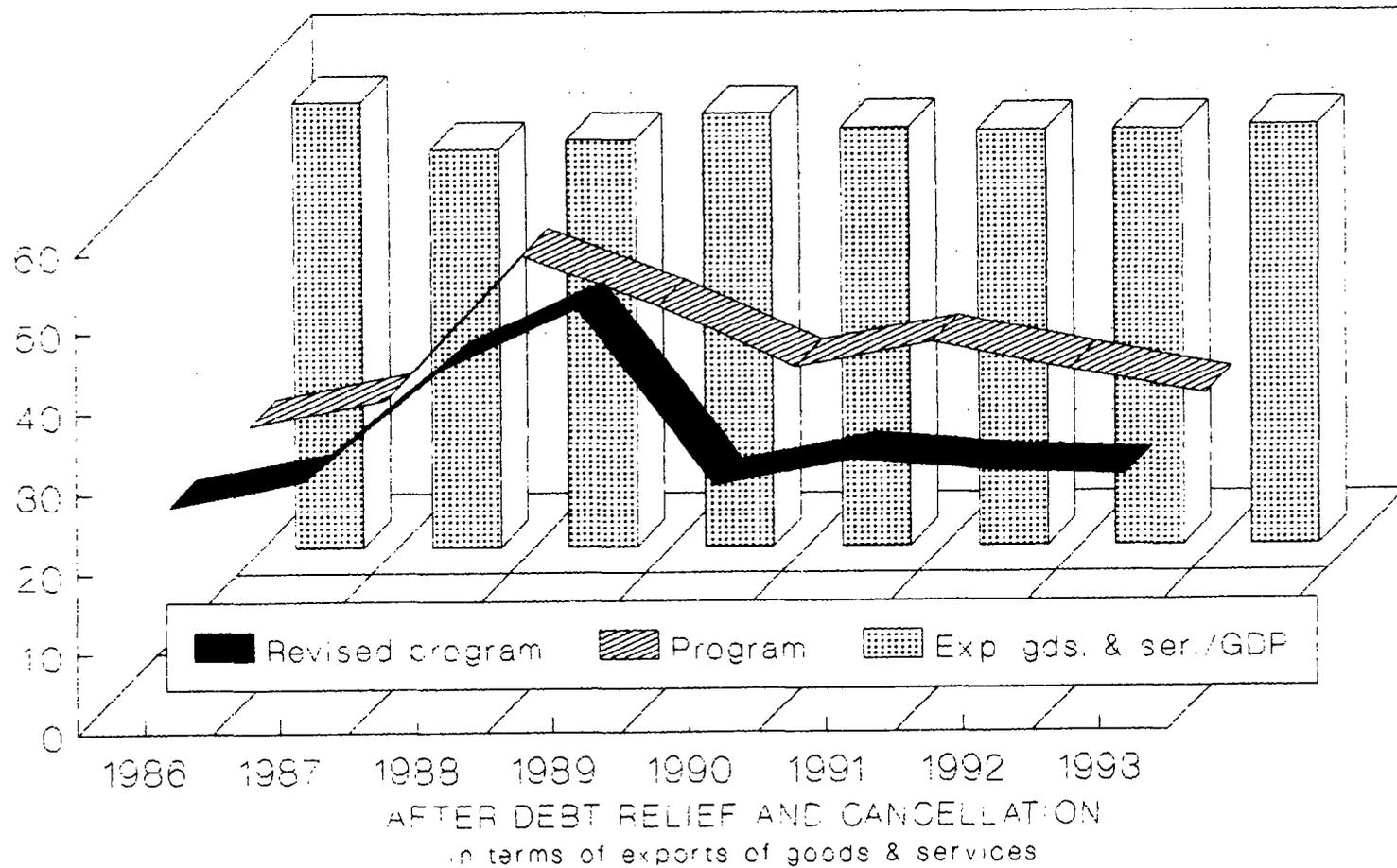
Regarding the restructuring of the banking system, significant progress was achieved with respect to the improvements of the Central Bank's ability to monitor commercial banks' performance and the strengthening of the management of the development bank. Nevertheless, completion of the banking system restructuring has been delayed by the inability of the authorities to find a foreign bank willing to participate in the capital of the state-owned National Bank of Mauritania. The Government has sold part of the bank's capital to Mauritanian investors and intends to sell a majority of it to a broader range of local private investors. Loan recovery has also been less than satisfactory, partly as a result of legal difficulties encountered by the banks in prosecuting delinquent borrowers.

The authorities have liberalized the price and trade systems, by eliminating maximum profit margins on two thirds of imported goods; reducing to three the number of products subject to the price certification system; eliminating import licensing; simplifying the conditions for obtaining the import/export card, which is being maintained now for tax purposes only; and reducing the involvement of the food security agency in the marketing of cereals. The structure of interest rates has been simplified and commercial banks have been given some latitude in setting certain lending and deposits rates.

The rehabilitation of public enterprises has been delayed, since the negotiation of the World Bank's public enterprise sector loan has taken longer than expected and is not likely to be completed before the end of the first quarter in 1990. Nevertheless, the iron ore mining company (SNIM) has implemented measures to increase productivity. This, together with a favorable international environment, has allowed the SNIM to repay part of its overdrafts on domestic banks and remain current on its tax payments. Although the delayed sectoral adjustment loan from the World Bank was intended to be used in part to clear the SNIM's 1987 and 1988 tax payments arrears, the enterprise will nevertheless be able to clear most of those arrears before year-end, by drawing on funds accumulated in the Trustee account ^{1/} to service external loans that were subsequently rescheduled at the Paris Club meeting in June 1989.

^{1/} SNIM maintains a Trustee account, which receives one third of all iron ore exports earnings to enable the company to meet its external debt service obligations. Deposits are made in such a way that sufficient funds are available three months ahead of the due date of the obligation.

CHART 2 MAURITANIA EXTERNAL DEBT SERVICE, 1986-93



Sources: CBM, and staff estimates

External debt monitoring has been improved and additional steps are being taken by the authorities to strengthen debt management and avoid any accumulation of payments arrears.

Overall, the authorities have demonstrated their commitment to the structural adjustment program, although the need to integrate the displaced population into the economy may, to some extent, slow the pace of the adjustment beyond 1989. However, the staff believes that this factor will not impair Mauritania's ability to achieve a sustainable external position over the medium term and meet its obligations to the Fund. The Government remains committed to further containing public expenditures, with particular attention being given to personnel expenditure and recruitment; in addition, it intends to pursue the fiscal reform program along the lines of the recent study conducted by FAD, with a view to integrating the minimum tax and the turnover tax. The Government continues to assign a high priority to the improvement in the performance of key public enterprises, as well as to the reform of the agricultural sector, with assistance from the World Bank.

The staff believes that the measures implemented by the authorities are adequate to achieve the objectives of the program, and that they deserve the continued support of the Fund in the context of the current ESAF arrangement.

The authorities have requested that waivers be granted for the non-observance of the end-September performance criteria relating to net domestic assets and net bank claims on the Government. Inasmuch as these deviations were reduced to marginal amounts by October 1989, appropriate policies have been implemented to correct the deviations fully, and the targets of the program remain achievable, the staff proposes that the waivers be granted and that the present review be completed.

V. Proposed Decision

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

Review Under First Annual Arrangement Under ESAF

1. The Fund determines that the review contemplated in paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility for Mauritania (EBS/89/83, April 24, 1989) has been completed.
2. The joint letter of the Governor of the Central Bank and the Minister of Finance, dated November 30, 1989 shall be attached to the ESAF arrangement for Mauritania (EBS/89/83, April 24, 1989), and the joint letter of the Governor of the Central Bank and the Minister of Finance, dated April 17, 1989, shall be read as supplemented and modified by the letter dated November 30, 1989.
3. The Fund finds that no further understandings are necessary and that Mauritania may proceed to request the disbursement of the second loan referred to in paragraph 1(c) (ii) of the first annual arrangement, notwithstanding the nonobservance of the performance criteria specified in paragraphs 2(a) (i) and 2(a) (ii) of the arrangement.

Nouakchott, November 30, 1989

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

Dear Mr. Camdessus:

1. In the first half of 1989, Mauritania was confronted by a difficult social situation owing to sizable population movements on both sides of the border with Senegal. In this context, taking in and meeting the needs of the persons repatriated to Mauritania, estimated to number some 210,000 (10 percent of the population), as well as the departure of about 120,000 people, imposed additional constraints on economic and financial management. Despite these difficulties, we have continued the adjustment effort undertaken with assistance from the International Monetary Fund and World Bank, because of the importance we attach to reducing financial imbalances and pursuing structural reforms with a view to ensuring lasting economic growth and improvement in per capita income.

2. The measures taken with a view to attenuating the impact of the population shifts on the economic and financial situation have been supported by relatively favorable economic conditions, in particular for agriculture and the mining and fishing sectors. Accordingly, thanks to good rainfall and despite the grasshopper attack, cereal production is expected to increase by 3.7 percent this year. In the fishing sector, expansion of the industrial fleet should make it possible to maintain the catch at a level comparable to that of 1988, despite the problems experienced by small-scale fishing following the departure of some fishermen. In the mining sector, extensive efforts to increase productivity will make it possible for iron ore production to rise to 12 million metric tons, exceeding the level set forth in the program by some 20 percent.

3. The confluence of these trends is such that it is possible to project a 1989 increase in gross domestic product (GDP) of 3.5 percent in real terms as compared to the programmed 3.2 percent. Taking into account the net increase in population from repatriation, however, per capita GDP will decline noticeably. Prices rose somewhat faster during the first nine months of the year, and the inflation rate may reach about 8 percent in 1989. This development reflects both the temporary disruption of distribution channels following the closing of the border with Senegal and recent improvements in the procedures for surveying market prices following implementation of the methodological recommendations of a Fund technical assistance mission.

4. In addition to the two thirds reduction in the number of imported manufactured goods subject to maximum mark-ups, the number of products with administered prices has been reduced from nine to three. The Government also considerably improved the flexibility of the regulations applicable to foreign trade, in particular by eliminating the import license and easing the conditions for obtaining importer/exporter cards. In this regard, the minimum turnover requirement was lowered appreciably and the advance payment of minimum lump-sum tax (IMF) was reduced.

5. Within the framework of the new cereals policy, private traders may now market local rice, which they may purchase and sell freely without dealing with the Food Security Agency (CSA). The latter's activities have been cut back significantly, inter alia by selling its rice mills to the private sector and by reducing its motor pool to 47 trucks, a level deemed sufficient for buying up the harvests of remotely located producers and ensuring the distribution of food aid.

6. The Mauritanian Fish Marketing Company (SMCP) has put up for sale its 15 boats, the ownership of which was not compatible with its trading function. It was only possible to sell two of the boats because the potential buyers were unable to obtain the necessary bank surety and because the SMCP had problems obtaining the titles. The SMCP Board of Directors, at its October meeting, took steps to facilitate the rapid completion of these sales; in particular, the need for bank surety was replaced by other forms of guarantee. The Government undertakes to do everything possible to ensure that the 13 remaining boats will effectively be sold by December 31, 1989.

7. Most of the reforms contemplated as part of the bank reorganization were implemented in accordance with the planned timetable. Now that the restrictions have been lifted on ownership of the capital of the National Bank of Mauritania (BNM), 10 percent thereof is held by the private sector. However, the Government's objective of selling a majority interest to the Mauritanian and foreign private sector has yet to be achieved owing to lack of interest on the part of foreign investors. The Government is sparing no effort to encourage participation by such investors, to whom it is prepared to convey a significant proportion of the bank's capital. The audit report from Price Waterhouse on the Union of Development Banks (UBD) has just been submitted; review of its conclusions will make it possible to reach decisions on the steps to be taken in order to carry out the rehabilitation of that bank.

8. Collections of the nonperforming loans of the commercial banks increased by 88 percent over the first seven months of the year as compared to the same period in 1988. The amounts collected (41 percent of the forecast level) remain small, however. In appraising the collection effort, however, it is necessary to take into account the property seizures carried out with respect to delinquent debtors (UM 42 million), claims in respect of which a protocol of agreement on collection is ready to be signed (UM 231 million), claims covered by court rulings

that have yet to be enforced (UM 1.6 billion), and claims not yet brought before the courts (UM 2.5 billion). The last two categories are of such sizable amounts (27 percent of all nonperforming loans) that the Government has introduced special mechanisms aimed at reducing the cost of court proceedings for banks. The authorities will take the steps necessary to ensure that the special court will hand down its rulings within the 45-day deadline prescribed by law.

9. The study on the creation of the money market and the introduction of mandatory bank reserves has been started with assistance from the Fund. In cooperation with the Fund, the Government will take the steps necessary to implement the recommendations of the study by March 30, 1990, taking into account the still fragile condition of the commercial banks undergoing reorganization.

10. Monitoring of the external debt has been carried out in coordination between the Ministry of Finance and the Central Bank, and the technical offices of both are meeting monthly in order to compare data and ensure that debt service is paid on schedule. In order to further strengthen this coordination, the Government has decided to provide the committee with a secretariat before the end of 1989. This secretariat, which will be manned by the Central Bank, will be responsible for centralizing all the information on Mauritania's external public debt and for preparing, in close collaboration with the External Debt Directorate of the Ministry of Finance, monthly statements on debt maturities and the payment thereof. These documents, copies of which will be forwarded to Fund staff each month, will make it easier to monitor the debt and make it possible to ensure that there will be no accumulation of external payment arrears. Computerization of the management of this debt has been delayed somewhat owing to recent administrative upheavals and the unsuitability of some of the computer hardware. The Government, with French technical assistance, will take the steps necessary to speed up and complete the computerization effort by January 31, 1990, in accordance with the guidelines in the policy framework paper.

11. Based on the changes in net foreign assets of the Central Bank, the overall balance of payments deficit improved by SDR 9.8 million over the first nine months of the year. Estimates for the year as a whole show an overall deficit of SDR 41.3 million (5.5 percent of GDP) before rescheduling, or an improvement of SDR 16.7 million over the program estimates. This improvement is attributable to a lower-than-expected current account deficit, which is estimated to amount to the equivalent of 13.1 percent of GDP, compared with 13.6 percent in the program. The current account deficit (excluding public transfers) is estimated at SDR 98 million, or SDR 7 million below the level projected in the program. Exports will total SDR 370 million thanks to an increase in iron ore exports, which exceeded the program forecasts by 22 percent in volume terms and 8 percent in terms of price. The surplus in net transfers, however, is anticipated to be SDR 123 million higher than programmed, owing to the recording of the counterpart of cancellation of debt maturing after 1989. The capital account should register a deficit

of SDR 140 million as against a forecast deficit of SDR 26 million, as a result of the recording, under principal payments due, of cancellation of debt maturing after 1989. The reduction in the overall balance of payments deficit would enable the Central Bank to increase official reserves by SDR 11.7 million (as compared to the initial forecast of SDR 0.8 million).

12. The Government has endeavored to absorb the repatriated Mauritians and avoid aggravating their poverty without at the same time jeopardizing the structural adjustment program supported by the enhanced structural adjustment facility (ESAF). The disruptions associated with these repatriations and the closing of the border with Senegal had an unfavorable impact on the Central Government's revenues during the first half of the year. In particular, budgetary revenue in June 1989 was down 30 percent compared to the level of June 1988, following a 43 percent decline in customs revenues. In view of this trend, the Government recourse to borrowing from the Central Bank exceeded the level forecast in the program, with the result that the Government's net position vis-à-vis the banking system was UM 322 million higher than programmed. Accordingly, the authorities began an effort to correct the slippage, which made it possible to reduce the Government's net credit position vis-à-vis the banking system to UM 8,883 million on September 28, 1989, which was UM 398 million (4.7 percent) above the program ceiling. However, by October 1, 1989, the excess net credit was reduced to UM 14 million, or 0.5 percent of the adjusted ceiling for net credit to the Government, as budgetary receipts collected by treasuries outside Nouakchott were credited to the treasury's account at the Central Bank.

13. The Government estimates that Treasury operations will yield a surplus of UM 2.7 billion (3.3 percent of GDP in 1989) instead of UM 3.2 billion (3.9 percent of GDP) in the program. This result will be attributable, on the one hand, to a shortfall in budgetary receipts larger than the shortfall in treasury expenditure and, on the other hand, to the deferred payment of arrears. Budgetary expenditure and net lending will be about UM 1.0 billion lower than projected in the program, mainly because of the lower-than-programmed level of investment outlays (UM 655 million). Revenue and grants are expected to amount to UM 20.2 billion, or UM 1.4 billion below projections. Tax revenue is expected to fall short of forecasts by UM 1.1 billion, largely owing to lower collections of customs duties and taxes. Nontax revenue should be as forecast, thanks to fishing royalties that would exceed projections by UM 250 million and sizable revenues from land sales. Grants are expected to amount to UM 495 million, only 43 percent of the programmed amount. Taking into account debt cancellation and Paris Club rescheduling, the surplus in treasury operations is estimated at UM 3.6 billion, which will make it possible to meet debt amortization payments estimated at UM 2.4 billion, and reduce the net position of the Central Government vis-à-vis the banking system by UM 1.2 billion (excluding issues of treasury bills).

14. The consolidated operations of the Central Government on a cash basis will register a deficit of UM 5.8 billion (7.0 percent of GDP) as compared to a forecast of UM 4.6 billion (5.5 percent of GDP). Total revenue (UM 23.5 billion) will fall short of forecasts by UM 3 billion, with two thirds of the shortfall being explained by the lower level of project grants. Total expenditure and net lending will amount to UM 29.1 billion, or UM 1.6 billions below forecasts, largely because of a decline in investment financed from abroad.

15. The Government has introduced all the revenue and expenditure measures scheduled under the program. On the expenditure side in particular, we have managed to keep the wage bill strictly within program limits, inter alia by avoiding the use of civil service hiring to aid the repatriated population. The Government has allocated 5 percent of 1989 appropriations for expenditures on materials to participation in the financing of the program for assisting the repatriated persons. In its emergency phase, this program will be financed largely by voluntary contributions and international aid. The Government is also examining the possibility of developing a small loan program for setting up repatriated individuals in the private sector at their own expense.

16. Favorable developments in the external accounts were reflected in a significant reduction in the net external liabilities of the Central Bank, which declined from UM 5.6 billion at December 31, 1988 to UM 4.5 billion on September 28, 1989, which represents a UM 1.1 billion improvement over the programmed amount. As a result, the Central Bank met the corresponding benchmarks. In view of an improvement of UM 56 million in the external position of the commercial banks, the net external liabilities of the banking system were reduced by UM 1.1 billion during the period. Net domestic assets increased to UM 27.7 billion at end-June (as programmed) and to UM 27.3 billion at end-September as against a ceiling of UM 27.2 billion. Net credit to the Central Government totaled UM 9.0 billion on June 30 and UM 8.8 billion on September 28. These levels exceeded the ceilings established for June and September by UM 322 million and UM 398 million, respectively. Measures taken made it possible to reduce by October 1, 1989, the Government's recourse to the banking system by UM 566 million from its June 30, 1989 level. Thus, the performance criterion for net credit to the Government was met after a delay of a few days, despite the difficulties that prevented the Government from meeting the benchmark for June 30, 1989. The Government also observed the structural benchmarks set forth under the program. In view of these results, the Government would like to obtain a waiver for the technical nonobservance of the performance criterion on net credit to the Government and conclude the review of the 1989 program.

17. On the basis of developments for the first nine months of the year, the Government agrees to modify the December 31, 1989 benchmarks for net domestic assets, net credit to the Government, and the maximum level of net foreign liabilities of the Central Bank, as shown in the attached table.

18. As indicated in its letter of April 17, 1989, the Government is of the opinion that the policies and measures agreed in its letter of request of the same date will make it possible to achieve the objectives of its structural adjustment program. However, it is prepared to take any additional steps which may prove necessary to that end. In addition, during the remainder of the period of the first annual arrangement under the enhanced structural adjustment facility, the Government will consult with the Managing Director with a view to adopting any measures which may prove appropriate, on its own initiative or whenever the Managing Director requests such a consultation.

Sincerely yours,

Mohamed Ould Nany
Minister of Finance

Ahmed Ould Zein
Governor, Central Bank

Table 1. Mauritania: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989

Quantitative performance and criteria benchmarks	Stock at Dec. 31, 1989		Maximum cumulative change from Dec. 31, 1988 to							
			June 29, 1989 Benchmarks			Sept. 29, 1989 Performance criteria			Dec. 31, 1989 Benchmarks	
	Orig. Est.	Act.	Prog.	Adj. Prog. 1/	Act.	Prog.	Adj. Prog. 1/	Act.	Prog.	Rev. Proj.
(In millions of ouguiyas)										
Performance criteria										
Domestic sector										
Net domestic assets 1/	26,929	26,968	700	700	752	900	237	370 2/	1,400 3/	440
Net credit to the Government 1/	5,325	5,407	4,320	3,284	3,606	4,120	3,026	3,424 2/	3,320 3/	2,924
Accumulation of domestic arrears	...	—	—	—	—	—	—	—	—	—
(In millions of SDRs)										
External sector										
External arrears on government debt	18.7	25.3	—	—	—	—	-16.7 4/	-16.7 4/	-18.7	-2.3 5/
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—	—	—	—	—	—	—
Contracting or guaranteeing of non-concessional debt by the Government in the 1- to 15-year maturity range during period	—	—	—	—	—	—	—	—	—	—
Quantitative benchmarks										
Stock at Dec. 31, 1988		Maximum stock on								
Orig. est.	Act.	June 29, 1989 Benchmarks			Sept. 29, 1989 Benchmarks			Dec. 31, 1989 Benchmarks		
		Prog.	Adj. prog.	Act.	Prog.	Adj. prog.	Act.	Prog.	Rev. Proj.	
(In millions of ouguiyas)										
External sector										
Net foreign liabilities of Central Bank	5,562	5,564	5,900	5,902	5,553	5,800	5,802	4,492	5,700	4,464

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

1/ The ceiling for net credit to the Government for end-June was adjusted downward by UM 1,040 million to reflect counterpart funds from the World Bank and African Development Bank program loans deposited at the Central Bank which were assumed to have been used up before the start of the program, and it was adjusted upward by UM 3 million to reflect treasury bill issues amounting to UM 3,463 million in 1989 instead of UM 3,460 million contemplated in the program. The ceiling for net credit to the Government for end-September was adjusted downward by UM 1,097 million to reflect counterpart funds amounting to UM 434 million instead of zero assumed in the program, and additional debt relief amounting to UM 663 million, obtained from creditors participating in the Paris Club and other bilateral creditors; it was also adjusted upward by UM 3 million for the difference in treasury bills effectively issued. The ceiling for net domestic assets for end-September was adjusted for the additional debt relief, whereas other adjustments made to net credit to the Government were offset by a counter-entry made in other items net.

2/ Data for September 28, 1989, the last working day of the month in Mauritania. On October 1, 1989, the increase in net credit to the Government is estimated to have been reduced to UM 3,040 million as the account of the Treasury at the Central Bank was credited with tax revenues transferred from treasurer's offices outside Nouakchott.

3/ The original benchmarks for net domestic assets and for net credit to the Government would have been reduced to UM 578 million and UM 2,496 million respectively, taking into account the adjustments noted in footnote 1.

4/ Amount rescheduled at the last Paris Club meeting.

5/ First installment to be paid before December 31, 1989 under the terms of the last Paris Club agreements; the remaining three installments will be paid in 1990.

MAURITANIA - Relations with the Fund

(As of November 30 1989; amounts in SDRs
unless otherwise indicated)

I. Membership Status

- (a) Date of membership: September 10, 1963
- (b) Status: Article XIV

(A) Financial Relations

II. General Department

- (a) Quota: 33.9 million
- (b) Total Fund currency holdings: 61.61 million
(181.73 percent of quota)
- (c) Fund credit:

	SDR Millions	Percent of quota
General Resources Account	27.70	81.71
Credit tranche	27.70	81.71
Special disbursement Account	20.34	60.0
SAF arrangement	16.95	50.0
ESAF arrangement	3.39	10.0

- (d) Reserve tranche position: None

III. Current and Previous Stand-By Arrangements and Special Facilities

	<u>Type</u>	<u>Date of Approval</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>
(a)	Current arrangement:				
	ESAF	May 24, 1989	36 months	50.9 million	8.48 million
(b)	Previous arrangements:				
	SBA	June 1, 1981	10 months	25.8 million	25.8 million
	SBA	April 12, 1985	12 months	12.0 million	12.0 million
	SBA	April 26, 1986	12 months	12.0 million	12.0 million
	SBA	May 4, 1987	12 months	10.0 million	10.0 million
(c)	Special facilities:				
	CFF	December 1979		10.5 million	
	SAF	September 1986	First loan	6.8 million	
	SAF	October 1987	Second loan	10.2 million	

MAURITANIA - Relations with the Fund (continued)

IV. SDR Department

- (a) Net cumulative allocation: 9.72 million
- (b) Holdings: 0.16 million (1.65 percent of allocation)

V. Administered Accounts

- (a) Trust Fund loan:
 - (i) Disbursed: 12.70 million
 - (ii) Outstanding: 0.44 million
- (b) SFF Subsidy Account: 2.33 million
- (c) ESAF Loan: Trust Account
 - (i) Disbursed 5.09 million
 - (ii) Outstanding 5.09 million

VI. Financial Obligations to the Fund

	Overdue Financial Obligations 10/31/89	Principal and Interest Due				
		1989 Dec.	1990	1991	1992	1993
Principal						
- Repurchases	--	0.8	11.2	9.6	4.6	1.0
- Trust Fund repayments	--	--	0.4	0.1	--	--
- SAF loans	--	--	--	--	<u>1.4</u>	<u>3.4</u>
	--	0.8	11.6	9.7	6.0	4.4
Charges and interest including SDR, Trust Fund, and SAF						
	--	0.1	3.1	2.1	1.3	0.9
Total	--	<u>0.9</u>	<u>14.7</u>	<u>11.7</u>	<u>7.2</u>	<u>5.3</u>

MAURITANIA - Relations with the Fund (continued)

(B) Nonfinancial Relations

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.

VIII. Last Article IV Consultation

The staff completed discussions with the authorities on the 1989 Article IV consultation, together with discussions on an updated medium-term policy framework paper (PFP) for the three-year period January 1989-December 1991 and an economic and financial program that would be supported by arrangements under the enhanced structural adjustment facility (ESAF), during the period February 13-25, 1989.

The staff report (EBS/89/83) and the report on recent economic developments (SM/89/81) were considered by the Executive Board on May 24, 1989. The decision concluding the Article IV consultation was as follows:

A. 1989 Consultation

1. The Fund takes this decision in concluding the 1989 Article XIV consultation with Mauritania and in light of the 1989 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977, as amended ("Surveillance over Exchange Rate Policies").

2. Mauritania maintains the restrictive exchange measures described in EBS/89/83 in accordance with Article XIV, Section 2, and none of these measures is subject to approval under Article VIII.

IX. Technical Assistance (since 1980)

(a) CBD

Technical assistance mission to study the banking system:
April 1-11, 1980

Bank supervision advisor: February 1981-June 1983,
September 1983-October 1984, and October 1985 to date.

Foreign exchange advisor: November 1980-May 1983 and
May 1983-June 1985.

Research department advisor: February 1981-June 1985.

MAURITANIA - Relations with the Fund (concluded)

External debt consultant: May-October 1983.

External debt advisor: November 1985 to November 1988.

Technical assistance mission to study the creation of an interbank money market and the setting of reserve requirements: August 16-29, 1989.

(b) Fiscal

Technical assistance mission on tax administration and policy, budget administration, and expenditure policies: September 20-October 18, 1983.

Technical assistance mission on investment budgeting: October 3-24, 1985.

Advisor to the Minister of Economy and Finance: February-July 1986.

Technical assistance mission on import tax exemptions and taxation of enterprises: November 11-18, 1986. Technical assistance mission on a new tariff structure: April 12-24, 1988.

Technical assistance mission on the integration of the minimum lump-sum tax (IMF) and the turnover tax (TCA): August 12-23, 1989.

(c) Bureau of Statistics

Technical assistance mission on compilation of monetary aggregates: November 19-30, 1984.

Technical assistance mission on compilation of consumer price index: November 22-December 6, 1985.

Technical assistance mission on compilation of balance of payments statistics: January 9-23, 1986.

Technical assistance mission on compilation of consumer price index: May 29-June 8, 1989.

X. Resident Representative: None

Financial Relations of The World Bank Group with Mauritania

(As of June 30, 1989)

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:	<u>Amount (less cancellations)</u> (In millions of U.S. dollars)			
		<u>Committed</u>		<u>Disbursed</u>	
		<u>IBRD</u>	<u>IDA</u>	<u>IBRD</u>	<u>IDA</u>
	Three loans and twelve credits fully disbursed	146.0	63.26	146.0	60.33
	Agriculture, livestock, and rural development		23.20		9.20
	Transportation		4.00		3.89
	Education		23.90		4.99
	Industry		5.25		2.80
	Energy		3.00		2.97
	Public Enterprises		16.40		12.52
	Structural Adjustment <u>1/</u>		42.40		25.49
	Development Management		10.00		0.00
	Technical Assistance		4.60		1.48
	Total	<u>146.0</u>	<u>196.01</u>	<u>146.0</u>	<u>146.95</u>
	Repayments	93.0	4.01		
	Debt outstanding	53.0	148.12		
4.	IFC: In 1985 the IFC financed an edible-oil refinery.				
5.	<u>Status of Bank Group Dialogue and Operations</u>				

To date, the Bank Group has approved 29 projects in Mauritania for a total of US\$342.01 million. Of these, three are Bank loans for mining operations (US\$68 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 other 26 are IDA credits totaling US\$196.01 million. The Bank Group's share in Mauritania's external capital assistance amounted to about 7.6 percent in 1987-88 on a disbursement basis.

The Bank plans continued support for the implementation of structural reforms aimed at (i) improved incentives to stimulate efficient development of private sector activities; and (ii) improved

Financial Relations of The World Bank Group with Mauritania (continued)

management of public sector resources. This support will be effected primarily through fast-disbursing operations, complemented by a small number of 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).

Dialogue is relatively well advanced in the public enterprise sector where the Bank has been supporting a reform effort since 1985 and where the Government is conscious of an urgent need to resolve the sizeable financial difficulties of a number of large enterprises (especially SNIM which continues to receive assistance to achieve improvements and cost reductions in management, operations, procurement, investment, personnel, overhead costs, and cash management). This program will also contribute to a lessening of the debt burden as the enterprises included in the program account for the quasi-totality of the external debt owed by public enterprises.

Built upon progress realized under the first SAL (FY88) and during recent discussions of the 1989-91 investment program, a second SAL (FY91) is planned to support public expenditure reform, implement already agreed to, as well as new, import and pricing liberalization measures, and improve implementation of the fisheries policy. Initial measures under the SAL I to restructure the banking sector will be supported through a financial sector SECAL (FY91).

The Development Management Project 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.

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 agricultural sector, an Agricultural SECAL (FY90) is being planned 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 Government make progress in land tenure. Rural institutions are being strengthened through the Second Technical

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Assistance Project to the Rural Sector (FY84). Development of small-scale irrigation is being assisted through a small-scale irrigation project (FY85). The Second Livestock Project (FY87) is developing reforms to strengthen livestock.

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. In the health sector, a Population/Health Project (FY91) is being prepared to strengthen basic health service delivery and to promote family planning. A second Consultative Group Meeting is scheduled for the summer of 1989. A public investment program and the Government's 1989-91 economic policy program (Programme de Consolidation et de Relance) have been prepared for presentation to the Consultative Group.

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