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EBS/89/83

CONFIDENTIAL

April 24, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Staff Report for the 1989 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1989 Article IV consultation with Mauritania and its request for arrangements under the enhanced structural adjustment facility. Draft decisions appear on page 29.

This subject, together with the policy framework paper for Mauritania (EBD/89/116, 4/24/89), will be brought to the agenda for discussion on a date to be announced.

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

Att: (1)

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INTERNATIONAL MONETARY FUND

MAURITANIA

Staff Report for the 1989 Article IV Consultation and Request for Arrangements Under the Enhanced Structural Adjustment Facility

Prepared by the African Department and the Exchange and Trade Relations Department

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

Approved by Mamoudou Touré and H.B. Junz

April 21, 1989

I. Introduction

The discussions for the 1989 Article IV consultation with Mauritania together with discussions on an updated medium-term policy framework paper (PFP) and an economic and financial program that could be supported by arrangements under the enhanced structural adjustment facility (ESAF), were completed in Washington during the period February 13-25, 1989. 1/ The Mauritanian delegation was led by Mr. Mohamed Ould Nany, Minister of Economy and Finance, Mr. Ahmed Ould Zein, Governor of the Central Bank, and included other senior officials responsible for economic and financial management.

In the attached letter, dated April 17, 1989, the Government of Mauritania requests a three-year arrangement under the ESAF in an amount equivalent to SDR 50.85 million (150 percent of Mauritania's quota), in support of an economic and financial program for the period 1989-91, as well as the first annual arrangement thereunder in an amount equivalent to SDR 16.95 million (50 percent of quota) in support of a program for the period January-December 1989. The requested three-year ESAF arrangement would replace Mauritania's three-year arrangement under the structural adjustment policy (SAF) approved on September 22, 1986, under

1/ The staff representatives were: Mr. I. Diogo (head-AFR), Mr. C. Briançon (AFR), Mr. Daco (BUR), Mr. B. Fritz-Krockow (ETR) and Ms. J. Laidlaw (Secretary-AFR) during the November-December mission that initiated the discussions. Mr. S. Mawakani (Executive Director for Mauritania) and Mr. B. Sarr (Advisor to the ED) participated in some of the February discussions at headquarters. Messrs. P. Marciniak and Y. Fassassi (both-AFR) and Ms. B. Quartey (Sec-AFR) took part in a preliminary negotiations mission during May-June 1988. A World Bank team led by Messrs. R. Key and M. Saponara took part in the PFP discussions.

which Mauritania has received loans equivalent to SDR 6.78 million (20 percent of quota) and SDR 10.17 million (30 percent of quota) under the first and second annual arrangements, respectively. The request to replace the SAF arrangement reflects in part the authorities' decision to strengthen their foreign reserve position concurrently with the adjustment effort, in particular by the implementation of exchange and trade liberalization policies. In a letter dated April 17, 1989, the authorities have transmitted to the Managing Director of the Fund and to the President of the World Bank their updated PFP (EBD/89/116), covering the three-year period 1989-91. The PFP is expected to be considered by the Bank's Executive Directors, at a meeting of the Committee of the Whole, in May 1989.

Mauritania made all the purchases totaling SDR 10 million (29.5 percent of quota) under the last stand-by arrangement, which expired on May 30, 1988. As indicated above, it also drew SDR 10.17 million under the second annual SAF arrangement, which expired June 30, 1988. Full use of the requested ESAF would increase total outstanding Fund credit to Mauritania from SDR 50.21 million (148 percent of quota) at end-February to SDR 73.4 million (217 percent of quota) at the end of the program period in December 1991 (Table 1).

Mauritania is on the standard 12-month consultation cycle. The 1987 Article IV consultation was concluded on November 6, 1987. In that context, the Executive Directors noted that, despite recent gains, Mauritania's economy remained fragile and was characterized by large financial imbalances; they stressed the need for a continuation of firm demand management and structural adjustment policies; and encouraged the authorities to further pursue price and import liberalization policies, to complete the banking sector restructuring, and to carry out the tax and tariff reforms that had been initiated. Completion of the 1988 Article IV consultation was delayed and the Board was so notified on January 26, 1989 (EBD/89/22). Mauritania continues to avail itself of the transitional arrangements of Article XIV.

In support of Mauritania's economic program, the World Bank approved a structural adjustment credit (SAC) for Mauritania on June 2, 1987 in an amount equivalent to US$50 million which was fully disbursed at the end of 1988. A credit for institutional development in an amount of US$10 million was approved on November 23, 1987. Fund and Bank staffs have closely collaborated in the policy dialogue with Mauritania. Discussions are at an advanced stage for a public enterprise sector and an agricultural sector adjustment loans, amounting to about $195 million.

Discussions on a second structural adjustment credit (US$40 million including cofinancing) started recently. The World Bank also intends to convene the second Consultative Group for Mauritania, probably in June 1989, in order to mobilize financial assistance for the 1989-91 public investment program.

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

	Outstanding at Feb. 28, 1989	1989 March	1989 April-June	1989 July-Sept.	1989 Oct.-Dec.	1990 Jan.-March	1990 April-June	1990 July-Sept.	1990 Oct.-Dec.	1991 Jan.-March	1991 April-June	1991 July-Sept.	1991 Oct.-Dec.
						(In millions of SDRs)							
Transactions under tranche policies (net)	—	-1.66	-1.20	-1.65	-2.33	-2.66	-3.00	-2.65	-2.90	-2.55	-2.55	-2.60	-1.93
Purchases	—	—	—	—	—	—	—	—	—	—	—	—	—
Ordinary resources	—	—	—	—	—	—	—	—	—	—	—	—	—
Borrowed resources	—	—	—	—	—	—	—	—	—	—	—	—	—
Repurchases	—	-1.66	-1.20	-1.65	-2.33	-2.66	-3.00	-2.65	-2.90	-2.55	-2.55	-2.60	-1.93
Ordinary resources	—	-0.60	-1.20	-1.65	-2.33	-2.66	-3.00	-2.65	-2.90	-2.55	-2.55	-2.60	-1.93
Borrowed resources	—	-1.06	—	—	—	—	—	—	—	—	—	—	—
Structural adjustment facility loans	—	—	—	—	—	—	—	—	—	—	—	—	—
Enhanced structural adjustment facility	—	—	8.48	—	8.48	—	8.48	—	8.48	—	8.48	—	8.48
Total Fund credit outstanding (end of period) 1/	50.21	48.55	55.83	54.18	60.32	57.66	63.14	60.49	66.06	63.51	69.44	66.84	73.38
Under tranche policies	33.26	31.60	30.40	28.75	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	16.95	16.95	16.95
Under enhanced structural adjustment facility	—	—	8.48	8.48	16.95	16.95	25.43	25.43	33.90	33.90	42.38	42.38	50.85
						(As percent of quota)							
Total Fund credit outstanding (end of period) 1/	148.1	143.2	164.7	159.8	177.9	170.1	186.2	178.4	194.9	187.3	204.8	197.2	216.5
Under tranche policies	98.1	93.2	89.7	84.8	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	50.0	50.0	50.0
Under enhanced structural adjustment facility	—	—	25.0	25.0	50.0	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.

II. Background and Performance Under the 1987/88 Program

Mauritania adopted a comprehensive economic and financial reform program starting in 1985 with the twin objectives of raising the rate of economic growth, which had been marginal since the early 1980s, and of improving the external position, characterized by large current account deficits, external payments arrears, and a relatively weak official reserve position. The Government's economic and financial recovery program (PREF) covering the period 1985-88 was supported by three successive stand-by arrangements from the Fund and, more recently, by the first two annual arrangements of a three-year arrangement under SAF. In the context of this program, the Government implemented demand management policies combined with structural reform measures that aimed at reducing the large external imbalances and alleviating the deep-seated structural impediments to sustainable growth. In 1987, the consolidated overall deficit in central government operations (on a cash basis and excluding grants) fell to a level equivalent to 5.8 percent of GDP, compared with the deficit in 1985 which was nearly five times as large. The resource gap narrowed by about one third to 10.2 percent of GDP, but the external current account deficit (excluding official transfers) was reduced only to 21.6 percent of GDP (from 26.2 percent of GDP), reflecting a deterioration of terms of trade and a rise in interest payments on external debt that increased the debt service ratio, after rescheduling, to 28.3 percent of exports of goods and services, from minus 7.4 percent in 1985 (excluding rescheduling of payments arrears). Gross official reserves rose to a level equivalent to 1.6 months of imports from 1.1 month in 1985.

The growth rate of real GDP averaged about 4 percent during the period 1985-87, compared with about 1.2 percent during the preceding two years. The rate of inflation fell to 8.2 percent in 1987 from 13.6 percent in 1985.

As discussed in EBS/87/218 (10/15/87), the quantitative benchmarks and performance criteria established to monitor implementation of the 1986/87 program supported by a stand-by arrangement and the first annual arrangement under the SAF were observed with the notable exception of the performance criterion regarding nonaccumulation of external arrears, for which the Board granted a waiver on September 23, 1987 (EBS/87/199), following the adoption of appropriate corrective measures by the authorities. There were also slippages in implementation of some structural reforms, including the preparation of the investment code, a new customs tariff, reform of the cereals marketing policies, and restructuring the banking system.

The reform program that the authorities adopted for the period 1987/88 was also supported by both a stand-by arrangement and the second annual arrangement under the SAF. There was an improvement in the financial position of the Government, credit policy was restrained, the real effective exchange rate of the ouguiya depreciated further and domestic inflation was reduced. Although debt rescheduling was obtained under the aegis of the Paris Club in 1987, Mauritania continued to experience difficulties in servicing nonrescheduled debt and accumulated payments arrears, thus not observing the corresponding benchmark under the SAF arrangements that also served as a performance criterion for the purpose of monitoring the stand-by arrangement. Furthermore, additional delays were encountered in the implementation of the structural reform program, in some cases because of factors beyond the government's control.

Gross domestic product grew at an average annual rate of 2.6 percent during the period 1987-88 compared with annual growth rate of about 4 percent targeted under the government program (Table 2). Large gains were posted in the agricultural sector during both years. Economic activity fell in the fishing sector during the period, but recovered in 1988 in the mining sector. The surplus in treasury operations (on a cash basis) represented 3.2 percent of GDP in 1987 and 2.1 percent in 1988, compared with the program targets of 2.1 and 2.6 percent, respectively. The lower-than-programmed fiscal outturn, in 1988 in particular, reflected a weaker revenue performance stemming in part from the inability of the mining company (SNIM) to pay taxes owed the Government and the difficulty experienced by the Treasury in cashing tax checks drawn on illiquid state commercial banks. Arrears on external debt service payments were accumulated at the end of 1987. At end-June 1988, the benchmarks on domestic credit was slightly exceeded (by one-half percentage point) above the programmed rate of growth, owing to an increase of 9 percent in credit to the private sector that could not be offset by a reduction in the banking system net claims on the government below the program's ceiling. The external current account targets were not reached, reflecting expansionary credit policies during the year as a whole and slippages in the implementation of structural policies aimed at improving the external position (Table 3).

In the area of structural reforms, the measures that had the potential to significantly alleviate impediments to growth were delayed, either due to slippages in the timetable for completion of the necessary studies or because it took longer than anticipated to generate the consensus required within the government to proceed with the reforms. Thus, there were delays in the adoption and implementation of a new customs' tariff, investment code, cereals pricing and marketing policy, direct and indirect taxation reform, and the banking system restructuring. These reforms were at the heart of the government's new strategy for allowing the private sector to play a larger role in investment and production. Furthermore, the continued lack of administrative coordination of external debt management and monitoring resulted in the accumulation of external arrears at end-February 1988, contrary the government's program. On the basis of a report from Mauritania that all these arrears were cleared-up as of end-March 1988, the Fund granted a waiver of the relevant performance criterion on April 18, 1988 (EBD/88/80), to enable Mauritania to make the last two purchases under the stand-by arrangement. It was determined subsequently that this purchase gave rise to a noncomplying purchase

Table 2. Mauritania: Selected Economic and Financial Indicators, 1985-93

	1985	1986	1987 Prog.	1987 Act.	1988 Prog.	1988 Prel.	1989	1990	1991	1992	1993
							Projections				
	(Average annual percentage changes, unless otherwise noted)										
National income and prices											
GDP at constant prices	2.9	5.4	4.5	2.8	4.0	2.5	3.2	3.6	3.7	3.8	4.0
GDP deflator	15.4	7.9	6.5	7.3	6.0	6.6	6.8	5.6	4.4	3.9	3.8
Consumer price index	13.6	7.8	7.7	8.2	6.2	6.3	7.2	5.5	4.0	3.5	3.5
External sector											
Exports, f.o.b. (in SDRs)	33.3	-3.5	-2.0	-12.2	11.1	5.4	5.4	4.9	6.5	5.7	5.7
Imports, f.o.b. (in SDRs)	1.4	-10.0	-6.0	-10.5	4.1	2.1	3.0	3.4	5.4	5.5	5.8
Export volume	17.1	0.8	5.0	0.3	6.1	-1.6	-2.2	2.7	3.1	2.1	2.1
Import volume	4.3	-4.4	-7.7	-11.9	1.1	0.5	1.2	2.2	1.8	2.2	2.4
Terms of trade	10.1	1.7	-8.4	-13.8	1.8	5.5	5.9	1.0	-0.2	0.3	0.3
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 central government operations 1/											
Revenue	19.5	14.7	15.4	15.1	11.0	4.3	15.8	7.9	8.5	7.4	7.3
Revenue and grants	13.4	12.4	12.8	20.7	6.4	21.8 2/	-1.6	4.6	3.3	10.7	6.5
Total expenditure and net lending	-1.7	-6.5	6.7	17.5	5.5	7.7	22.1	-9.8	-2.2	5.2	6.1
Excluding restructuring operations	-1.7	-6.5	...	7.9	...	5.1	9.0	7.4	0.2	5.9	6.9
Money and credit											
Net domestic assets	19.1	6.6	...	4.3	...	6.8	5.2	...	...	...	...
Domestic credit	-2.9	13.5	6.5	6.7	6.4	13.6	17.8	...	...	...	...
Credit to the Government	-4.8	0.2	...	-4.7	...	17.6	62.3	...	...	...	...
Excluding restructuring operations	(-4.8)	(0.2)	(—)	(-4.7)	(—)	(-3.2)	(-22.8)	(...)	(...)	(...)	(...)
Credit to the economy	1.9	18.2	8.5	10.1	8.0	12.6	6.3	...	...	...	...
Money and quasi-money	18.3	15.4	11.5	16.4	10.0	2.9	9.0	...	...	...	...
Velocity (GDP relative to M2)	4.6	4.5	3.9	4.3	3.9	4.4	4.6	...	...	...	...
Interest rate 3/	8.0	10.0	10.0	10.0	10.0	10.0	...	...	...	...	...
	(In percent of GDP)										
Overall consolidated central government balance excluding restructuring operations 4/											
Excluding grants	-15.0	-7.8	-10.1	-6.1	-9.1	-6.0	-4.5	-4.4	-2.1	-1.7	-1.6
Including grants	-4.5	-2.5	-0.6	1.0	0.3	5.8 2/	2.3	1.4	2.2	3.4	3.3
Change in payments arrears	-12.5	1.0	—	0.3	—	-0.4	-0.4	—	—	—	—
Overall consolidated central government balance excluding restructuring operations 5/											
Excluding grants	-27.4	-6.8	-10.1	-5.8	-9.1	-6.4	-4.9	-4.3	-2.1	-1.7	-1.6
Including grants	-17.0	-1.5	-0.6	-1.3	0.3	5.5 2/	1.9	1.4	2.2	3.4	3.3
Foreign financing (net)	-0.3	-5.9	-5.8	-2.3	-5.5	-5.1	-4.2	-1.0	-1.8	-1.3	-1.1
Domestic financing (net)	-2.0	-0.9	-0.4	-0.6	-0.2	1.1	5.2	-0.3	-0.5	—	—
External debt relief and exceptional assistance	19.2	8.3	...	4.4	...	2.1	—	—	—	—	—
Financing gap (deficit -)	—	—	-6.8	—	-5.4	—	-4.5	-1.4	-0.8	1.6	2.0
Possible Paris Club rescheduling							5.9	...	...	—	—
Treasury operations (surplus +) 6/	-12.7	2.0	2.1	3.2	2.6	7.8 2/	3.8	4.0	4.8	5.4	5.7
Gross domestic investment	24.0	22.5	20.2	21.3	21.8	17.7	15.6	16.1	15.8	16.1	16.3
Gross domestic savings	8.4	11.7	11.8	11.1	16.8	10.0	10.9	11.8	12.7	13.6	14.2
Resource gap	-15.6	-10.8	-8.4	-10.2	-5.0	-7.7	-4.7	-4.2	-3.1	-2.5	-2.2
Current account deficit											
Excluding official transfers	-26.2	-22.5	-17.9	-21.6	-13.9	-17.8	-13.6	-12.1	-9.8	-8.3	-7.4
Including official transfers	-14.3	-13.6	-7.1	-11.8	-5.2	-0.7	-4.2	-4.3	-3.6	-2.1	-1.1
External debt outstanding	191.1	190.0	179.7	190.4	195.1	184.9	187.7	187.0	181.4	175.8	169.2
Debt service ratio 7/											
Before debt relief	31.1	43.5	40.3	45.0	40.0	54.2 2/	40.1	35.2	35.4	31.9	28.8
Of which: on Fund resources	3.8	3.0	1.9	2.1	1.5	1.6	2.3	3.1	2.3	1.4	1.0
After debt relief	-7.4	25.1	26.8	28.3	...	46.5	40.1	35.2	35.4	31.9	28.8
	(In millions of SDRs, unless otherwise specified)										
Overall balance of payments											
Before debt relief	-32.6	-62.8	-48.8	-48.3	-36.4	-49.9	-58.0	-13.8	-12.6	-0.2	15.2
After debt relief	126.2	10.9	-0.2	11.3	...	-21.6	-58.0	-13.8	-12.6	-0.2	15.2
Gross official reserves	46.6	47.0	60.0	58.0	79.1	48.3	49.2	59.2	71.2	87.2	103.2
(Months of imports of goods and services)	1.1	1.2	1.5	1.6	2.1	1.3	1.3	1.6	1.8	2.1	2.4
External payments arrears	—	—	—	8.8 8/	...	18.7	—	—	—	—	—
Memorandum items:											
Nominal GDP (in billions of ouguiyas)	55.1	62.7	69.2	69.2	76.0	75.4	83.1	90.9	98.3	106.0	114.4
Ouguiyas per SDR (average rate)	78.3	87.3	...	95.5	...	101.2					

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

1/ Includes Treasury's operations plus investment expenditures financed through external grants and external loans.
2/ Includes debt forgiven by the Federal Republic of Germany amounting to the equivalent of 5.8 percent of GDP.
3/ Interest rates on savings accounts.
4/ Commitments basis.
5/ Cash basis.
6/ Treasury operations, on a cash basis; includes budgetary grants and excludes restructuring operations.
7/ As a percentage of exports of goods and services.
8/ Including SDR 2.7 million of arrears by public enterprises.

Table 3. Mauritania: Quantitative Benchmarks for the Second Annual Arrangement Under the Structural Adjustment Facility, 1987/88

(End of period)

A. Quantitative benchmarks 1/	Cumulative change from end-December 1986 to end- 2/					
	December 1987		February 1988		June 1988	
	Prog.	Act.	Prog.	Act.	Prog.	Act.
	(In billions of ouguiyas)					
Domestic credit	1.35	1.38	1.80	1.79	2.20	2.31
Net bank credit to the Government	—	-0.20	—	-0.20	—	-0.07
Domestic arrears of the Government (stock at end-period)	—	0.22	—	-0.22	—	—
	(In millions of SDRs)					
New nonconcessional foreign borrowing with maturities between 1 and 15 years contracted or guaranteed by the Government 3/	—	—	—	—	—	—
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—	—	—
External arrears on government debt	—	8.8	—	4.6	—	2.3
Indicative targets						
Net external assets of the Central Bank	2.4	1.4	...	...	...	...

B. Benchmarks of Policy Implementation

Actions	Programmed Timetable	Implementation Status
1. Fiscal policy		
- Elimination of customs tariff exemptions for raw materials and intermediate goods for projects agreed under the Investment Code	Before end-1987	Delayed. New investment code implemented in January 1989.
- First step for the elimination of exemptions for externally financed projects	Before end-1987	Delayed. Measure taken in 1989 Finance Law.
- Implementation of the customs tariff reform	1988	Delayed. Reform implemented in January 1989.
- Reform of corporate income taxation	Before end-1987	Initial measure included under 1988 Finance Law. Additional measure taken in 1989 Finance Law.
- Preparation of the reform of turnover tax	1988	Delayed. Study to be completed in 1988 for implementation in 1990 Finance Law.
2. External debt		
- Introduction of system of external debt service monitoring	Before end-1987	Delayed. Reactivation of Debt Monitoring Committee in December 1988.
3. Agricultural policies		
- Reform of the marketing of agricultural products and transfer of rice mills to private operators	By end-1987	Delayed. Policy statement issued in June 1988; participation of private sector in marketing of cereals allowed in November 1988. Sales of rice mills in February 1989.
4. Price control		
- Elimination of system of maximum markups on the price of domestically manufactured products, and reduction of list of products under the certified price system	Before end-October 1987	Partially observed. Elimination of maximum markups at end-1987. - Reduction of list of products in 1988.
5. External trade		
- Elimination of import licenses for intermediate goods for industry and related services	Before end-October 1987	Observed. Elimination in 1987/88 for small-scale enterprises in manufacturing and handicrafts.
6. Banking system		
- Finalization of transfer of certain banks to the private sector, and strengthening of supervision	Before end-1987	Strengthening of supervision mid-1988. Search for private partners unsuccessful.

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

1/ These benchmarks served also as performance criteria under the 1987/88 stand-by which overlapped with the second annual arrangement.

2/ Cumulative change from end-December 1986.

3/ Excluding debt rescheduling.

under the guidelines established by the Executive Board, because payments were not made on some bilateral commercial loans for which the authorities had requested a cancellation from creditors. Mauritania cleared all arrears on these loans and became current on all external debt payments to bilateral and multilateral creditors by November 15, 1988. 1/ In light of the temporary nature of the deviation from the relevant performance criterion and the authorities' decision to put in place a more effective debt monitoring system to prevent any recurrence of arrears accumulation, the Fund granted a waiver of nonobservance on December 19, 1988 (EBS/88/251).

III. Objectives and Policies for the Period 1989/91

In the context of the Article IV consultation discussions, the government has outlined the objectives and policies it intends to pursue over the medium-term, consistent with its policy framework paper. The government objectives include (i) achieving a real growth rate of about 3.5 percent annually during 1989-91; (ii) lowering the rate of inflation (as measured by the GDP deflator) from about 7 percent in 1987 to approximately 4.5 percent in 1991; and (iii) reducing the external current account deficit from 11.8 percent of GDP in 1987 to some 3.6 percent in 1991. The current account deficit excluding official grants will be reduced by about one half to 9.8 percent of GDP in 1991. Gross official reserve holdings will be increased to cover 1.8 months of imports compared with 1.3 months' coverage in 1988; this will help the Government meet its nonrescheduled external debt service obligations in a timely manner. The current account objective takes into account a moderate growth in Mauritania's major exports (fish and iron ore) and a reduction in debt service payments, combined with containment of import growth through appropriate demand management and exchange rate policies (Appendix Table I). The assumption regarding the growth of export and import are fairly conservative and reflect the Government's decision to achieve its growth objective through an increase in efficiency of production and imports and, in particular, the achievement of self-sufficiency in rice production, the main staple food.

The targeted improvement in the external position will be facilitated by the demand management policies and structural reform measures elaborated by the Government. Specifically, public sector demand will be limited as the cash surplus of the Treasury (excluding grants, and operations related to public enterprise and banking system restructuring) is targeted to double to 4.8 percent of GDP in 1991 from 2.1 percent in 1988. At the same time, the overall consolidated cash deficit, which includes investment outlays financed from abroad, will be

1/ All external debt payments that could not be covered by the rescheduling requested by Mauritania from Paris Club members and other bilateral creditors.

reduced by two thirds to 2.1 percent of GDP in 1991. The Government is determined to encourage private sector initiative and participation in all areas of economic activity and to this end, has started putting in place most of the structural reform measures that have been delayed.

The rehabilitation of public enterprises is to be at the heart of the government efforts to raise the contribution of the manufacturing sector to economic growth and will involve divestiture, liquidation, and increased private sector participation. Together with these reforms, the Government has scaled down the size of its 1989-91 investment program which emphasizes infrastructure investments that will support private sector productive activities. The scaling down of the investment program and the rise in its grant financing component will help reduce external borrowing and the attendant increase in Mauritania's external debt. At the same time, the efficiency of the investment program will be increased so as to enable the Government to achieve its growth objective.

1. Structural measures

In the agricultural sector, the Government's policy aims to liberalize rapidly the marketing and price system for agricultural inputs and outputs, to ensure more secure and equitable land distribution, as well as a more viable credit system, and thereby improve incentives for increased private sector participation in this area. These measures, which are being implemented in cooperation with the World Bank, will be supplemented by steps to increase the effectiveness of the public agencies entrusted with government policy--in particular, the rural development agency (SONADER) and the Ministry of Rural Development--and to improve extension and research services. The Government will also extend irrigation systems which will offer the highest growth prospects for agricultural output, help protect livestock from drought and provide more effective desertification control.

While some of these issues will be addressed over the long term, the Government has already adopted a program of action spanning the crop years 1988/89 to 1990/91 (July-June) which will open production, collection, processing and marketing of rice to the private sector, increase producer prices of cereals, and gradually raise the retail prices so as to cover the processing and distribution costs. The retail price of rice was increased by 10 percent to UM 32 per kilogram took place in November 1988, and additional adjustments will be effected during 1989-1991. These increases will permit the marketing agency (SONIMEX) to raise its wholesale price for rice from UM 30 per kilogram during 1988/89 to UM 35 per kilogram by 1991, enabling it at least to cover costs. The marketing agency will purchase hulked paddy only from the food aid agency (CSA), which will collect domestic paddy from producers in remote areas where private traders are not present.

Consistent with the reduced role of the public sector in this area, public agencies sold all five rice mills to the private sector in early 1989 and the CSA reduced its fleet of trucks and curtailed the operations of its repair shop. Private traders are henceforth free to purchase and process paddy, and market domestic rice without going through the public agencies. Producer prices of traditional cereals, millet, sorghum and corn were also raised for the 1988/89 crop season and in order to encourage these crops, the price of food aid in Nouakchott (wheat and sorghum) was raised by 5 percent in October 1988 to UM 21.50 per kilogram. The Government will review the adequacy of these prices during the year. In addition, during 1989/90 and 1990/91, the Government will raise the retail price of food aid to the level of domestic production costs.

The new fishing policy adopted by the Government aims at preserving fish resources over the medium term by controlling the size of fish catch and protecting hatcheries. In line with this policy, the Government is negotiating, with the support of the World Bank and foreign bilateral partners, the establisment of a surveillance unit to monitor fishing activities within Mauritania's exclusive economic zone. The land-based facilities of this unit will be reinforced by the acquisition of a patrol boat and an aircraft financed by France and the Federal Republic of Germany. The Government is also taking steps to increase the contribution of the fishing sector to domestic value added. In this connection, the Government has taken measures to promote small artisanal fishing companies, establish cold storage units along the coast line and created a port for artisanal fishing. In addition, the Government has launched a training program that will ensure that qualified Mauritanian personnel are available over the medium term to replace expatriate seamen. The replacement of the expatriates by Mauritanian seamen is expected also to have a favorable impact on the service account of the balance of payments.

In the manufacturing and mining sectors, the Government's policies aim at strengthening existing capacity and promoting private sector initiative with respect to new investments and enterprises. Accordingly, the Government will further the rehabilitation of major public enterprises, divest itself from some nonstrategic holdings, and liquidate nonviable units. In particular, the Nouakchott Port Authority and the Postal and Telecommunication Office (OPT) will be reorganized and their managements strengthened during the three-year period. The restructuring of the water and power company, SONELEC, will be pursued in order to further improve the financial situation of the enterprise, including annual revisions of the tariff schedule and reduction of production costs through the increased efficiency of the power plants.

Under a public enterprise sector adjustment program being prepared with assistance from the World Bank, comprehensive reforms will be implemented at the iron ore company (SNIM). Specifically, the company's financial situation will be brought back into balance, mainly by an increase of production at the new mine (Guelbs) beyond the break-even point, estimated at 2.5 million tons annually over the period 1989-91. This entails an increase in the output of the Guelbs plant, to about 60 percent of its design capacity. The overall operating costs of SNIM will be reduced by about 10 percent annually during the same period, in part through more efficient energy use and the adoption of a more rational procurement policy. The improvement in SNIM's financial situation will help build up needed cash reserves to meet tax obligations, to retire some expensive foreign loans contracted in the past, and/or to finance development of high grade ore at a newly discovered mine, which will replace the first iron ore mine that is expected to be depleted by the mid-1990s.

The reforms of the public enterprise sector will be supplemented by incentive measures provided to the private sector to increase its participation in most economic activities. To this end, a new investment code is being implemented which provides specific tax benefits to entrepreneurs while reducing excessive exemptions from import duties. The tariff code has also been revamped with a view to simplifying it, reducing the level of effective protection, stimulating competition, and improving resource allocation. The incentive measures in favor of the private sector will be further enhanced by the elimination of administrative price controls on most products by 1991, and a liberalization of the trade system, with the abolition of the import licensing system in 1989 and the exporter/importer card in 1990. These incentive measures will be strengthened by the completion of the banking system restructuring with private (domestic and foreign) participation in the new banks' capital.

2. Management of public resources

The Government has decided to double the surplus in treasury operations (excluding grants) to some 4.8 percent of GDP between 1988 and 1991 (Table 4 and Appendix Table II). This implies that the overall consolidated deficit in central government operations (taking into account foreign-financed investment outlays) will be reduced by two thirds, to about 2.1 percent of GDP in 1991. To achieve this objective the Government will implement measures to raise the budgetary revenue from 22.1 percent of GDP in 1988 to 23.6 percent in 1991. Revenue measures will include the implementation of the new tariff code, reforms of the minimum lump-sum tax (IMF), the corporate profits tax (BIC), and the turnover tax (TCA). To complement the reduction of tax exemptions under the new investment code, the Government will revise tax exemptions enjoyed by shipchandlers and expatriate sailors, and recover taxes thatSNIM withheld but failed to transfer to the Treasury in past years. Revenue is expected to be also strengthened with the completion of the banking sector restructuring that will enable the government to collect ckecks drawn in domestic banks for tax payments, in a timely manner.

Total expenditure and net lending, relative to GDP, will be reduced from 33 percent in 1988 to about 28 percent in 1991. Current outlays will decline by some 3 percentage points of GDP to about 19 percent, reflecting a more cautious trend in expenditure on wages and salaries, a freeze in military outlays in nominal terms, and a more selective allocation of subsidies and transfers. Regarding investment outlays, the Government, in consultation with the World Bank, has adopted a public investment program totaling UM 45 billion for 1989-1991, which is 10 percent lower in nominal terms, than the 1985-88 program. The foreign-financed investments to be carried out by the Central Government are targeted to amount UM 13 billion, which implies in nominal terms a reduction by 20 percent relative to the externally financed investments implemented during the preceding four years. In scaling down total expenditure, and in particular investment outlays, the Government is taking into account Mauritania's absorptive capacity and the need to contain external borrowing to levels that are compatible with available resources and the country's debt servicing capacity.

The projected improvement in the financial position of the Government will permit the implementation of prudent credit policies that will be consistent with the medium-term balance of payments and inflation targets. In addition, the authorities will implement a flexible interest rate policy that will yield positive rates on domestic financial assets, thereby increasing domestic savings, and reducing the need to excessively increase external borrowing.

3. External sector policies

The Government's external policies will aim at lowering trade restrictions currently applicable to imports, reducing the rate of effective protection of domestic production, and relying on price signals to promote exports. As mentioned earlier, importers are no longer required to secure an import authorization and import licenses from the Ministry of Commerce, and the importer/exporter card, which hitherto has been used to restrict entry into the trade sector, will be eliminated by 1990. The Central Bank will authorize purchase of foreign exchange on the basis of a declaration of intent to import, submitted by the importer's bank. The reform of the customs tariff, that is being phased in over the period 1989-1991, will reduce the rate of effective protection from 132 percent in 1987 to 76 percent in 1991. This reform, together with the more limited tax exemptions provided for under the new investment code will foster a more competitive environment and encourage a higher efficiency of production.

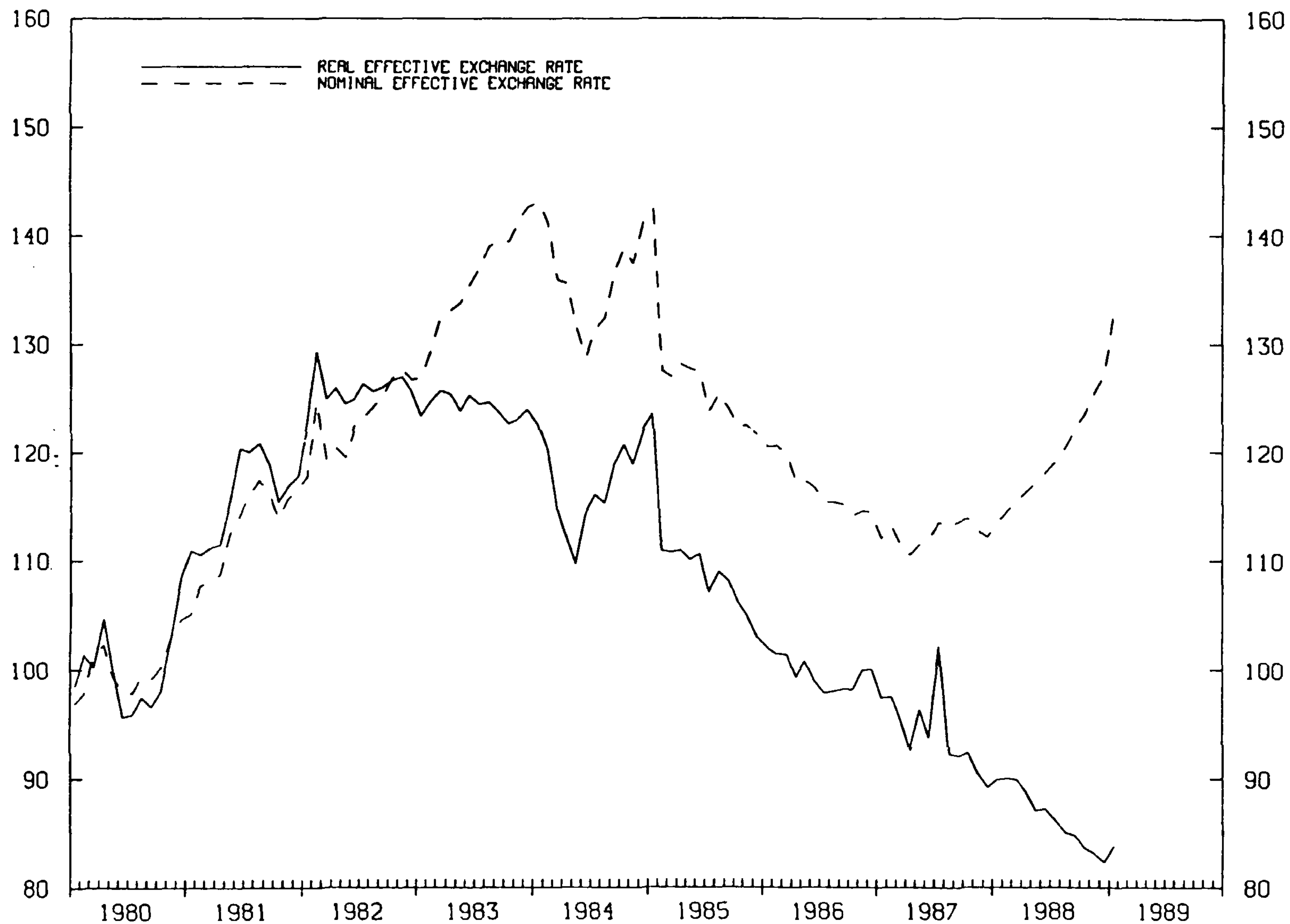
These reforms will be supported by a flexible exchange rate policy that will help contain the demand for imports and promote exports. Since the inception of the Government's adjustment program in 1985, the real effective exchange rate of the ouguiya has depreciated, through both discretionary measures and movements in the authorities' currency basket, by some 30 percent up to the end of 1988 (Chart 1). If 1980 is taken as the base year, the ouguiya real depreciation is about one-half

CHART 1

MAURITANIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1980-JAN. 1989

(PERIOD AVERAGE; 1980=100)



SOURCES: IMF DATA FUND; AND STAFF ESTIMATES.

Table 4. Mauritania: Consolidated Government Financial Operations, 1985-1993 1/

	1985	1986	1987		1988	1989	1990	1991	1992	1993
			Prog.	Act.	Prel.	Projections				
					(In millions of ouguiyas)					
Total revenue, grants, and special accounts	18,781	18,309	22,428	22,099	26,912	26,486	27,697	28,614	31,662	33,717
Budgetary revenue	12,301	13,696	15,798	15,782	16,685	19,826	21,376	23,188	24,895	26,725
Grants	5,737	3,347	5,180	4,884	8,953	5,690	5,251	4,256	5,497	5,642
Budgetary	61	—	400	119	4,357	856	—	—	—	—
Extrabudgetary 2/	5,676	3,347	4,780	4,765	4,597	4,834	5,251	4,256	5,947	5,642
In kind 3/	1,756	270	310	239	273	278	284	289	295	300
Projects	2,497	1,463	2,590	2,552	2,249	2,349	2,682	1,630	2,811	2,897
Others	1,423	1,614	1,880	1,899	2,075	2,034	2,085	2,137	2,190	2,245
Common Fund	—	—	300	75	—	173	200	200	200	200
Special accounts	743	1,266	1,450	1,434	1,274	970	1,070	1,170	1,270	1,350
Total expenditure and net lending	21,235	19,865	22,790	23,347	25,143	30,706	27,732	27,119	28,506	20,253
Current expenditure	14,821	14,654	16,235	15,592	16,571	17,851	18,367	18,897	19,331	20,073
Budgetary 4/	11,642	12,770	14,045	13,454	14,223	15,539	15,998	16,470	16,846	17,528
Extrabudgetary 5/	3,179	1,884	2,190	2,138	2,348	2,312	2,368	2,426	2,485	2,545
Investment expenditure	6,239	5,011	6,335	5,736	5,926	6,500	7,816	7,313	8,400	9,605
Budgetary	706	658	888	760	820	1,556	1,734	1,961	2,258	2,610
Extrabudgetary	4,846	3,655	4,367	3,864	4,042	3,971	4,981	4,152	4,842	5,615
Special accounts	687	698	1,100	1,037	1,064	800	900	1,000	1,100	1,180
Common Fund	—	—	—	75	—	173	200	200	200	200
Net lending 6/	176	200	200	2,020	2,646	6,355	1,550	910	775	575
Of which: restructuring 7/	—	—	—	1,913	2,623	6,155	1,330	660	500	300
Overall surplus deficit (-) (commitment basis)										
Including grants	-2,454	-1,556	-362	-1,248	1,769	-4,220	-35	1,495	3,155	3,464
Excluding restructuring operations	-2,454	-1,556	-362	665	4,392	1,935	1,295	2,155	3,655	3,764
Excluding grants	-8,191	-4,903	-5,542	-6,132	-7,184	-9,910	-5,286	-2,761	-2,341	-2,179
Excluding restructuring operations	-8,191	-4,903	-5,542	-4,219	-4,561	-3,755	-3,956	-2,101	-1,841	-1,879
Change in payments arrears (increase +)	-6,887	617	—	218	-275	-358	—	—	—	—
External	-6,187	—	—	615	-275	-358	—	—	—	—
Domestic	-700	617	—	-397	—	—	—	—	—	—
Overall surplus deficit (-) (cash basis)	-9,341	-939	-362	-1,030	1,494	-4,578	-35	1,495	3,155	3,464
Financing	9,341	939	362	1,030	-1,494	798	-1,210	-2,251	-1,408	-1,229
Foreign borrowing (net)	-150	-3,675	-3,835	-1,594	-3,870	-3,522	-910	-1,751	-1,408	-1,229
Drawings	2,351	2,192	1,777	3,429	3,278	3,616	5,272	5,359	5,512	5,729
Budgetary	2	—	—	2,117	1,485	1,993	2,973	2,837	3,482	3,011
Project	2,349	2,192	1,777	1,312	1,793	1,622	2,299	2,523	2,031	2,718
Amortization	-2,501	-5,867	-5,612	-5,023	-8,645	-5,559	-6,182	-7,110	-6,920	-6,958
Arrears 8/					1,497	-1,578	—	—	—	—
Domestic (net)	-1,087	-585	-295	-441	803	4,320	-300	-500	—	—
Banking system	-530	-271	—	-424	883	4,320	-300	-500	—	—
Other	-557	-314	-295	-18	-80	—	—	—	—	—
External debt relief and exceptional assistance	10,578	5,199	4,492	3,065	1,573	...	...	...	...	...
Rescheduling	8,128	5,199	4,292	3,065	1,469	...	...	...	...	...
Exceptional assistance	2,450	—	200	—	104	...	...	...	...	...
Financing gap	—	—	—	—	—	3,780	1,245	757	-1,747	-2,235
Possible Paris Club rescheduling						4,760				
Memorandum items:					(In percent of GDP)					
Total revenue, grants and special accounts	34.1	29.2	31.9	31.9	35.7	31.9	30.5	29.1	29.8	29.5
Budgetary revenue	22.5	21.8	24.0	22.8	22.1	23.9	23.5	23.6	23.5	23.4
Total expenditure and net lending	38.9	31.7	34.6	33.8	33.3	36.9	30.5	27.6	26.9	26.4
Current expenditure	27.2	23.4	24.6	22.5	22.0	21.5	20.2	19.2	18.2	17.5
Investment expenditure	11.4	8.0	9.6	8.3	7.9	7.8	8.6	7.4	7.9	8.4
Net lending	0.3	0.3	0.3	3.0	3.5	7.6	1.7	1.0	0.8	0.5
Overall fiscal surplus or deficit (-) (cash basis)										
Including grants	-17.0	-1.5	-0.6	-1.5	2.0 9/	-5.5	—	1.5	3.0	3.0
Excluding restructuring operations	-17.0	-1.5	...	1.3	5.5 9/	1.9	1.4	2.2	3.4	3.3
Excluding grants	-27.4	-6.8	-10.1	-8.5	-9.9	-12.4	-5.8	-2.8	-2.2	-1.9
Excluding restructuring operations	-27.4	-6.8	...	-6.4	-6.4	-4.9	-4.4	-2.1	-1.7	-1.6
Financing gap	—	—	—	—	—	4.5	1.4	0.8	-1.6	-2.0
Treasury balance	-12.7	2.0	2.1	3.2	7.8 9/	3.8	4.0	4.8	5.4	5.7

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.
2/ As recorded in the balance of payments.
3/ Foreign-financed food aid, including food aid with counterpart recorded under special accounts.
4/ Including interest due.
5/ Equivalent to the counterpart of extrabudgetary grants (excluding project grants), less expenditure under special accounts (counterpart food aid).
6/ Excludes on-lending to public enterprises.
7/ Special operations related to restructuring of banks and public operations.
8/ Arrears to Paris Club members to be rescheduled in forthcoming Paris Club.
9/ Includes debt forgiven by the Federal Republic of Germany amounting to the equivalent of 5.8 percent of GDP.

the above rate. Moreover, the authorities devalued the ouguiya by 5 percent on April 2, 1989 and will take appropriate measures to prevent any real appreciation of the currency during the remaining period under the ESAF arrangement.

In the area of external debt management, the Government has decided to put in place reforms that will prevent the recurrence of arrears on external debt service, by controlling the stock of external debt through a careful streamlining of the investment program and by striving to secure foreign financing that will result in a ratio of loan to grants and very concessional assistance of about 1 to 3. In line with this objective, the Government will finance the 1989-91 public investment program mainly through external assistance obtained on highly concessional terms and through the increase in public savings. The administrative departments in charge of servicing the debt will continue to coordinate more closely their respective responsibilities, starting with the establishing of a comprehensive and commonly shared data base regarding the size of the debt and its service. Human and material resources will be provided to these units so as to enhance the effectiveness of debt management and monitoring.

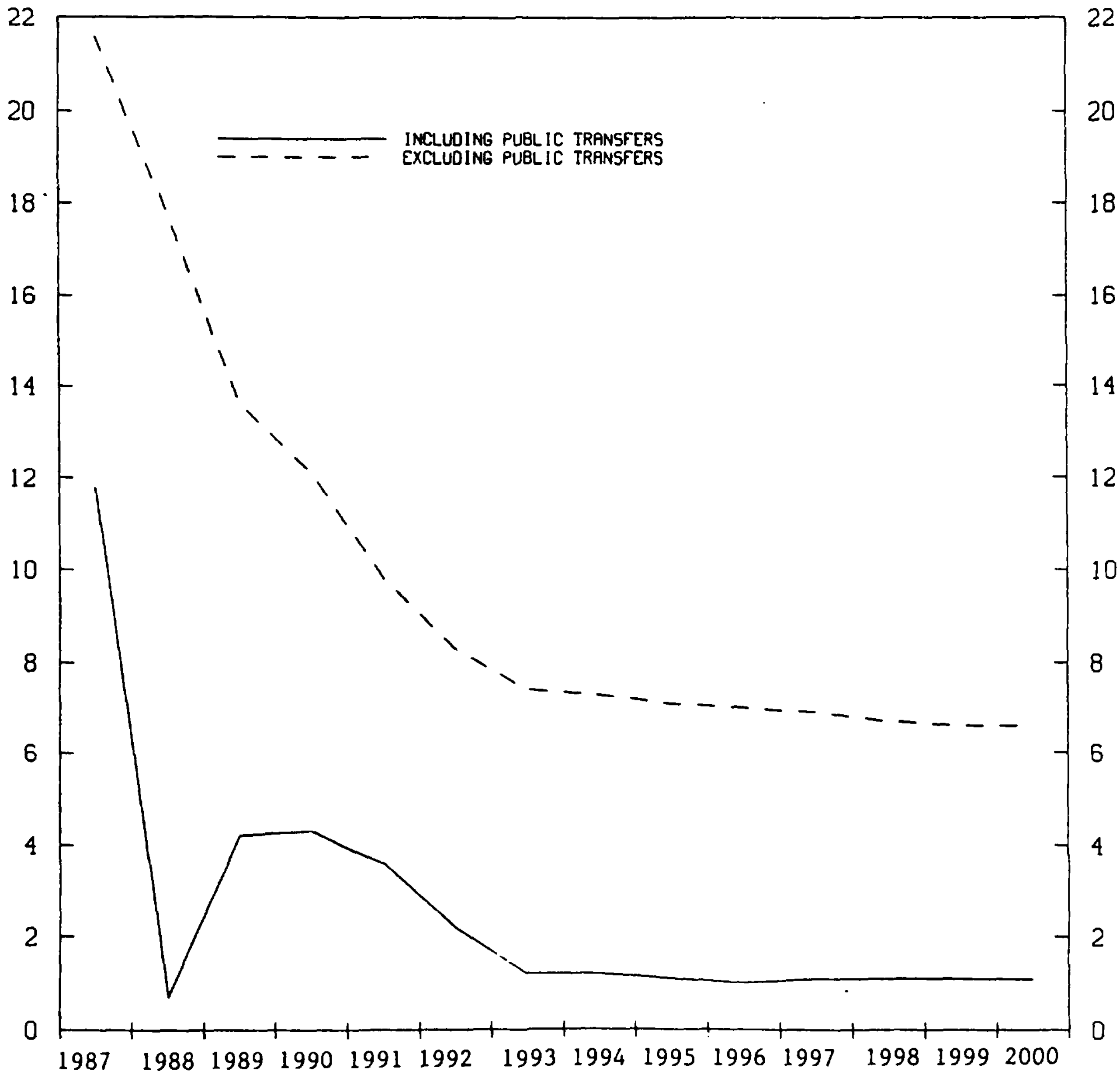
4. External Financing Needs

The demand management policies, together with incentives being provided for increased private sector output and exports will enable the Government, over the medium term, to reduce the external current account deficit to some 3.6 percent of GDP by 1991 (Table 5). However, the current account deficit, excluding official transfers, will still represent about 9.8 percent of GDP in 1991. In addition, the need to meet principal debt payments falling due (including repurchases from the Fund) estimated at SDR 348 million for the period 1989-91 and to strengthen gross official reserves to cover two months of imports, will require additional financial assistance estimated at about SDR 100 million annually. On the basis of prudent estimates of new grant and loan commitments expected by the Government, (including program lending by the World Bank and disbursements under the ESAF), the residual financing gap can be lowered from SDR 70 million in 1989 to SDR 23 million in 1992. The Government expects that additional assistance under the Special Assistance Program (SPA) of the World Bank and the structural adjustment program of the African Development Bank will be adequate to cover the residual gaps.

As shown in Charts (2 to 5), the adjustment efforts of Mauritania will effectively contain the external current account deficit as a ratio to GDP to a sustainable level 1/, which will allow for a reduction in the ratio of external debt to GDP and significantly curtail the financing gaps, particularly during 1997, when repurchases under the

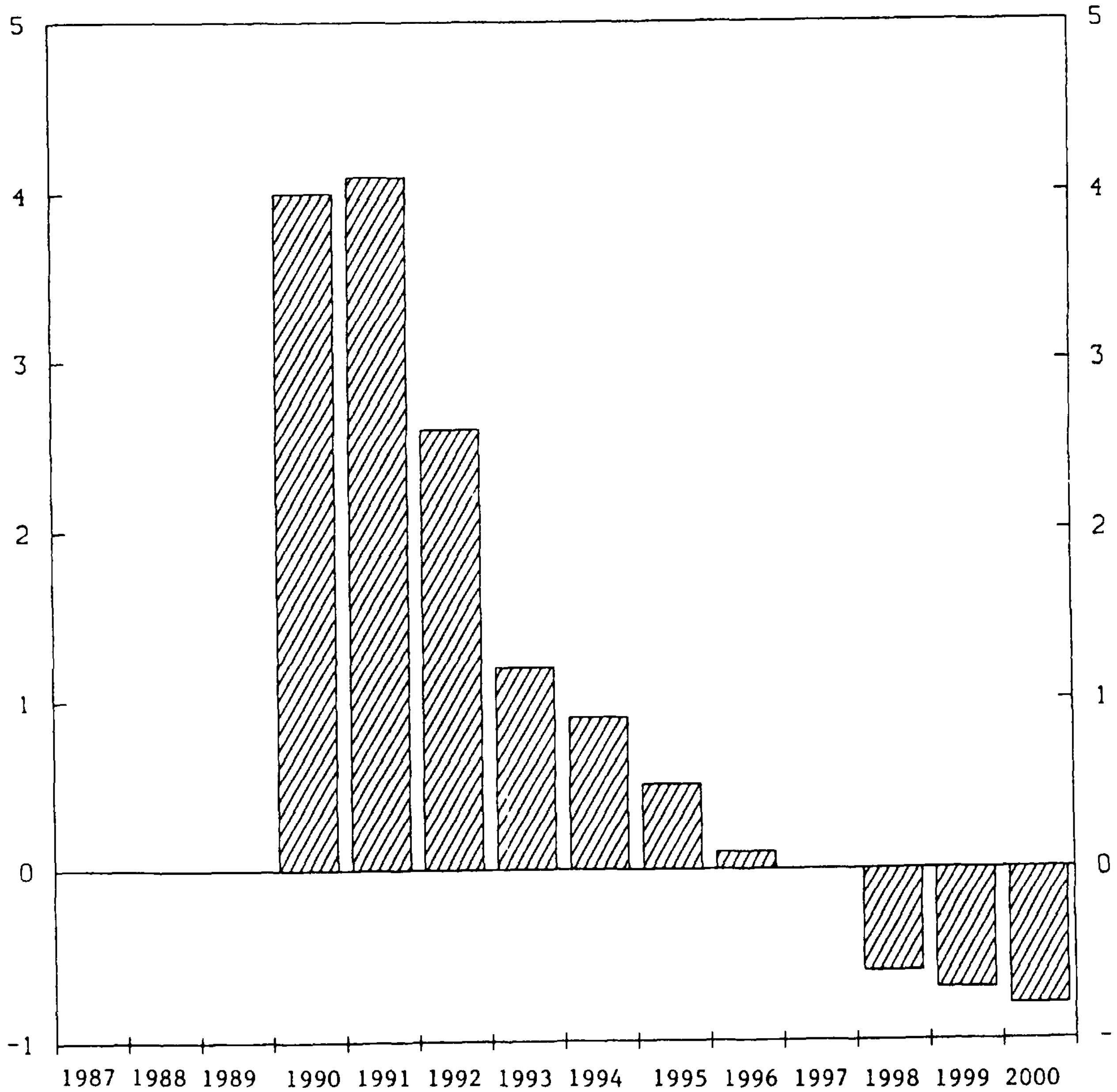
1/ The baseline scenario retains very conservative assumptions regarding export prices.

CHART 2
MAURITANIA
CURRENT ACCOUNT DEFICIT,1987-2000
(IN PERCENT OF GDP)



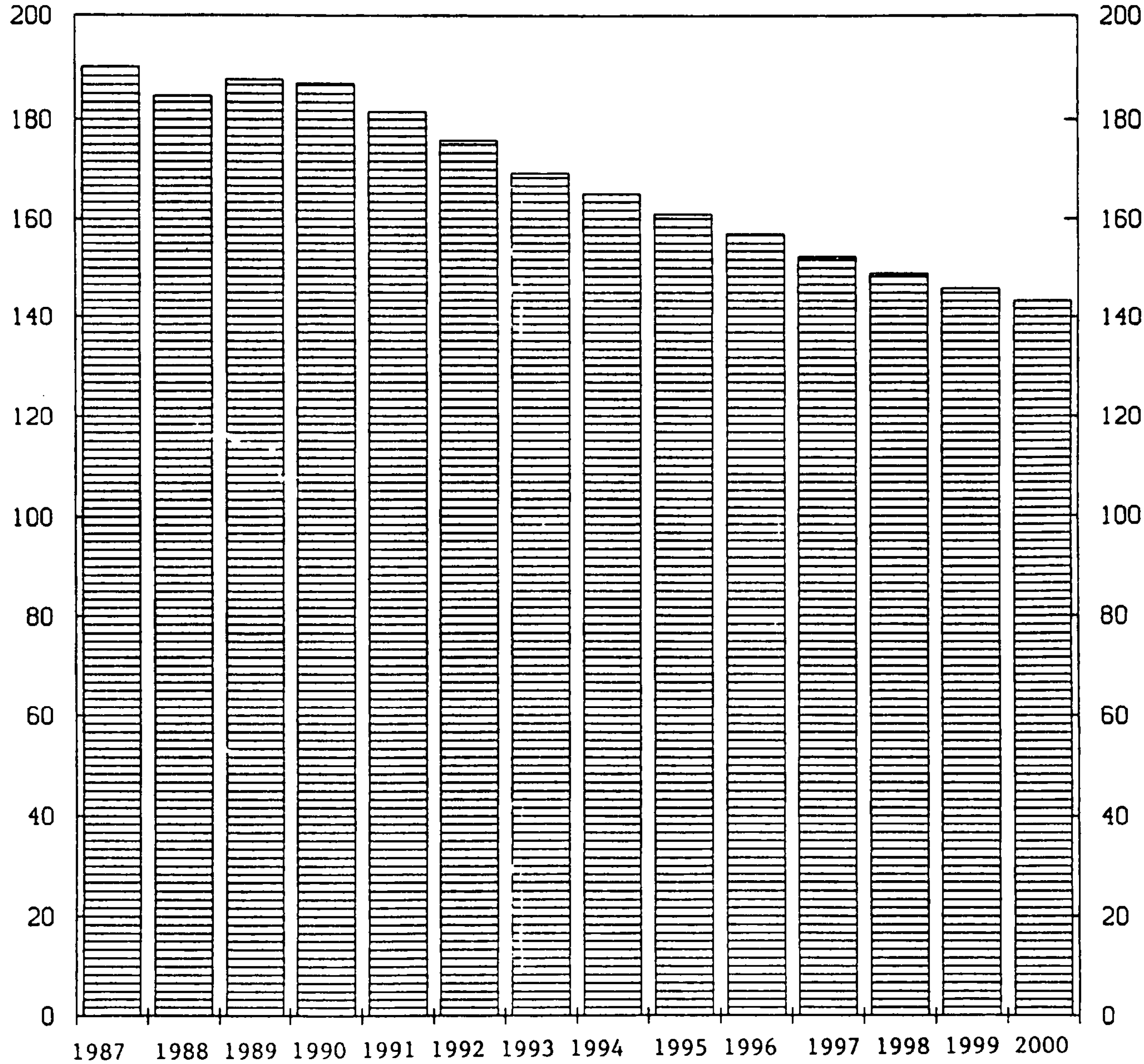
SOURCES: DATA PROVIDED BY MAURITANIA AUTHORITIES; AND STAFF ESTIMATES

CHART 3
MAURITANIA
FINANCING GAPS,1987-2000
(IN PERCENT OF GDP)



SOURCES: DATA PROVIDED BY MAURITANIA AUTHORITIES; AND STAFF ESTIMATES

CHART 4
MAURITANIA
EXTERNAL DEBT, 1987-2000
(IN PERCENT OF GDP)



SOURCES: DATA PROVIDED BY MAURITANIA AUTHORITIES; AND STAFF ESTIMATES

CHART 5
MAURITANIA
EXTERNAL DEBT SERVICE, 1987-2000
(IN TERMS OF EXPORTS OF GOODS AND SERVICES)

SOURCES: DATA PROVIDED BY MAURITANIA AUTHORITIES; AND STAFF ESTIMATES

Table 5. Mauritania: Balance of Payments, 1984-93

	1984	1985	1986	1987 Prog.	1987 Act.	1988 Est.	1989	1990	1991	1992	1993
					(In millions of SDRs)						
Trade balance (f.o.b.)	-18.3	52.5	71.2	90.9	57.9	69.4	79.6	87.5	96.3	102.3	108.0
Exports	291.6	371.9	358.7	347.6	315.1	332.0	349.9	367.1	391.1	413.3	436.9
Imports	-309.8	-319.5	-287.5	-256.7	-257.2	-262.5	-270.3	-279.5	-294.7	-311.0	-328.9
Services (net)	-207.9	-213.7	-210.2	-202.4	-194.7	-180.0	-167.0	-169.6	-169.5	-169.3	-172.4
Nonfactor services (net)	-163.6	-162.1	-148.9	-149.8	-132.2	-127.0	-116.2	-121.7	-122.7	-124.3	-128.7
Investment income (net)	-44.2	-51.7	-61.4	-52.6	-62.5	-53.0	-50.7	-47.9	-46.8	-44.9	-43.6
Of which: interest payments due	(-52.1)	(-54.2)	(-61.4)	(-53.9)	(-61.4)	(-53.0)	(-51.3)	(-48.4)	(-47.8)	(-46.4)	(-45.9)
Transfers (net)	75.0	60.4	41.4	61.5	51.7	105.6	54.8	47.6	42.8	47.6	53.4
Private transfers	-22.5	-23.3	-22.9	-14.0	-19.4	-21.8	-17.8	-15.1	-10.6	-7.9	-6.0
Public transfers	97.5	83.7	64.3	75.5	71.1	127.4 1/	72.6	62.7	53.4	55.5	59.4
Current account											
Including public transfers	-151.2	-100.8	-97.5	-49.89	-85.1	-5.0	-32.5	-34.4	-30.4	-19.4	-10.9
Excluding public transfers	-248.7	-184.7	-161.8	-125.5	-156.3	-132.4	-105.2	-95.2	-83.8	-74.9	-70.3
Nonmonetary capital (net)	47.9	68.2	34.7	1.1	36.8	-44.9	-25.5	20.1	16.8	18.2	25.1
Direct investment	5.2	4.3	1.8	5.8	2.0	1.4	1.5	1.7	1.9	2.1	2.3
Official medium- and long-term loans	39.3	53.8	-4.7	2.5	7.9	-78.7	-29.0	8.6	5.3	9.8	16.7
Disbursements	108.7	115.8	95.7	100.4	103.8	71.1	74.6	97.3	106.5	108.0	110.2
Project loans	103.5	115.8	95.7	82.7	83.8	52.9	46.4	58.7	69.6	73.5	76.1
Program loans	5.2	—	—	17.7	20.0	18.2	28.2	38.6	36.9	34.5	34.1
Principal due	-69.4	-62.0	-100.4	-97.9	-95.9	-149.8 1/	-103.6	-88.8	-101.2	-98.2	-93.5
Suppliers' credit for boats	0.6	3.4	9.9	—	0.6	—	-8.1	0.9	1.7	-0.7	-0.9
Disbursements	5.4	5.1	14.7	—	7.6	7.8	0.5	10.3	10.1	9.0	8.8
Principal due	-4.8	-1.7	-4.8	—	-7.0	-7.8	-8.6	-9.4	-8.4	-9.7	-9.7
Other capital 2/	2.8	6.7	27.8	-7.2	26.3	-32.4	10.0	9.0	8.0	7.0	7.0
Overall balance	-103.2	-32.6	-62.8	-48.8	-48.3	-49.9	-58.0	-14.3	-13.5	-1.2	14.2
Financing	103.2	32.6	62.8	48.8	48.3	49.9	-11.6	-1.3	-4.7	-21.9	-25.4
Changes in net foreign assets of the banking system (- indicates an increase)	32.2	-26.3	-10.8	-9.4	-20.6	10.7	7.0	-1.3	-4.7	-21.9	-25.4
Monetary authorities (net)	27.7	9.0	-7.6	-2.4	-7.7	-14.8	7.0	-1.3	-4.7	-21.9	-25.4
Change in gross reserves	32.2	24.4	-0.4	-13.0	-10.9	9.6	-0.8	-10.0	-12.0	-16.0	-16.0
Change in liabilities	-4.5	-15.4	-7.2	10.6	3.2	5.2	7.9	8.7	7.3	-5.9	-9.4
Of which: Fund transactions	(-9.0)	(-2.8)	(-8.5)	(10.6)	(14.0)	(0.5)	(9.5)	(-5.7)	(-7.3)	(-5.9)	(-4.4)
Purchases	(—)	(9.6)	(18.5)	(15.5)	(18.9)	(4.0)	(17.0)	(17.0)	(17.0)	(—)	(—)
Repurchases	(-9.0)	(-12.4)	(-9.7)	(-4.9)	(-4.9)	(-3.5)	(-7.4)	(-11.2)	(-9.6)	(-5.9)	(-4.4)
Other net (including AMF) 3/	4.5	-12.7	-13.4	—	-10.8	4.7	-1.7	3.0	—	—	-5.0
Deposit money banks (net)	4.5	-35.2	-3.2	-7.0	-12.9	-4.1	—	—	—	—	—
Accumulation of arrears (+ indicates an increase)	41.7	-100.2	—	—	8.8	9.8 4/	-18.7	—	—	—	—
External debt relief and exceptional assistance	29.3	159.0	73.6	17.5	60.2	29.3	—	—	—	—	—
Rescheduling	29.3	122.5	73.6	17.5	56.4	28.3	—	—	—	—	—
Interest	12.5	20.8	15.1	1.5	14.9	9.2	—	—	—	—	—
Principal	16.9	26.2	58.5	16.0	41.5	19.0	—	—	—	—	—
Arrears	—	75.5	—	—	—	—	—	—	—	—	—
Exceptional assistance	—	36.5	—	—	3.1	—	—	—	—	—	—
Debt cancellation-related	—	—	—	—	0.6	1.0	—	—	—	—	—
Financing gap	—	—	—	—	—	—	69.7	15.7	18.3	23.1	11.3
Memorandum items:					(In percent of GDP)						
Current account deficit											
Including official transfers	-21.3	-14.3	-13.6	-7.1	-11.8	-0.7	-4.2	-4.3	-3.6	-2.1	-1.1
Excluding official transfers	-35.1	-26.2	-22.5	-17.9	-21.6	-17.8	-13.6	-12.1	-9.8	-8.3	-7.4

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

1/ Including debt cancellation of DM 94.2 million of German loans in 1988.
2/ Including private short-term capital, commercial credits, and errors and omissions.
3/ AMF, Arab Monetary Fund.
4/ Includes the repayment of 1987 arrears and new arrears to Paris Club members and other bilateral creditors of SDR 18.7 million.

SAF/ESAF arrangements peak. These external prospects are sensitive to the performance of exports of iron ore and fish, Mauritania's main exports. In the event that export earnings fall short of those assumed in the base scenario above--owing to lower export price and volume of iron exports or alternatively lower prices for fish exports--faster domestic adjustment would be required, including tighter budgetary and credit policies. This additional adjustment would be necessary to prevent the emergence of unsustainable financing gaps.

Mauritania's outstanding use of Fund credit is projected to rise from 177.9 percent of quota in 1989 to 216.5 percent of quota in 1991. Thereafter, it is expected to decline to 82.6 percent of quota in 1997 and further to 7.6 percent by the year 2000 (Appendix Table III). The ratio of debt service to the Fund in relation to external current account receipts is expected to decrease from 2.6 percent in 1990 to 1.8 percent in 1997 when repayments of SAF and ESAF loans reach their peak; subsequently it declines to 0.7 percent by the year 2000. Even assuming that export performance is somewhat weaker than projected in the baseline scenario, the improvement in the capacity to service the debt to the Fund would be broadly maintained. Thus, assuming that the dollar price of iron ore export declines by 10 percent during 1990 with unchanged volume through 1995 and a volume reduction by 10 percent in 1996 (Scenario I), the ratio of debt service to the Fund in relation to current account receipts, falls from 2.7 percent in 1990 to 1.8 percent by 1997 and further to 0.8 percent during 2000. Under alternative assumptions of a fall by 10 percent in the export price of fish in 1990 followed by an increase at the rate of projected inflation in industrial countries (Scenario II), the ratio falls from 2.8 percent in 1990 to 1.9 percent in 1997, and further to 0.8 percent by 2000. In relation to gross official reserves, debt service to the Fund falls from 13 percent in 1989 to 8.4 percent in 1997 and further to 3.2 percent in 2000. Furthermore, the debt to the Fund will represent 4.4 percent of total Mauritanian debt in 1989 and less than 1 percent by 1998.

Given Mauritania's past record of consistently meeting its obligations to the Fund, the projected build-up of its external reserves, the efforts of the government to reduce the ratio of the external debt to GDP, and the fact that the Fund credit outstanding represents only a small portion of total external debt, it is not expected that Mauritania will experience difficulties in meeting its financial obligations to the Fund over the medium-term.

5. <u>Social aspects of the government adjustment program</u>

The Government intends to ensure that the implementation of its adjustment program does not adversely affect the most vulnerable population groups in Mauritania. In that light, the Government will emphasize reform measures that will shield these groups, as much as possible, from the negative aspects of the adjustment process. In the primary sector, agricultural producer prices have been increased during the last two crop seasons and will be reviewed periodically to ensure that producers purchasing power is adequately maintained and that additional production incentives are also provided. In the fishing sector, the Government's decision to promote small-scale fishing enterprises will help create employment opportunities for the urban poor. The attainment of the Government's objective of increasing Mauritanian participation in the fishing sector will require the training of skilled seamen to progressively replace expatriate workers. The impact of public enterprise restructuring on employment has been mitigated by provision of adequate severance pay and facilities extended to help laid-off employees become self-employed. Food aid policy will remain one of the main safeguards for the most vulnerable segments of the population, and its administration through the food for work scheme will preserve and enhance the ability of the recipients to participate in the development process.

In order to better identify the most vulnerable groups and design appropriate compensating measures, the Government has launched an effort to enhance data collection and analysis, improve the assessment of the country's social situation, and prepare priority projects.

IV. The Program for 1989

Consistent with the medium-term framework described above, the objectives of the 1989 program are to achieve a growth of real GDP of about 3.2 percent; to limit inflation, as measured by the GDP deflator, to about 7 percent, taking into account the implementation of a flexible exchange rate policy and the liberalization of most import prices; and to narrow the external current account deficit (excluding official grants) to 13.6 percent. To achieve these objectives, the Government will continue to implement prudent fiscal, monetary, and credit policies and put in place appropriate incentives that will increase private sector initiatives in the economy.

a. Structural measures

With a view to promoting industrial activity, the Government has adopted an investment code, which became effective in January 1989. The new code applies to all sectors, encourages a labor-intensive production process and provides specific incentives for export-oriented activities. Procedures for project approval under the new code have been streamlined and the National Investment Commission is now required to announce its decision within 90 days, as opposed to six months under the previous code.

In the area of pricing policies, following the liberalization of prices of most domestically manufactured goods in 1987, the authorities have decided to reduce from nine to three the number of locally manufactured products still subject to administrative price control. In addition, the prices of two thirds of the manufactured goods that are imported will be decontrolled in 1989 and the remaining one third in

1990. In order to better assess price trends, the Government will improve data collection for the compilation of the consumer price index by implementing the recommendations made in this area by a Fund technical assistance mission.

The Government will pursue a cereals policy aimed at increasing agricultural output by means of adequate remuneration of producers and an effective marketing policy favoring private sector involvement. Following the elimination of the monopoly exercised by SONIMEX and the CSA over the purchase and marketing of local rice, the role of the CSA will be progressively reduced to that of collection of rice paddy and distribution of food aid in remote regions with no private sector presence. As part of the scaling down of the CSA, all its rice mills and part of its fleet of trucks were sold in early 1989, with a further reduction in the fleet slated for the latter part of the year. Producer prices of cereals, which were adjusted in January 1989, will be further increased at the start of the next crop year in July. Retail prices will be also increased, especially the price of rice, in order to reduce losses incurred by SONIMEX arising from the excess of the purchase price from CSA over the wholesale price at which SONIMEX is allowed to sell the rice. Moreover, the sale price of wheat received as food aid has been raised as a means of encouraging the consumption of traditional cereals, which has been declining.

Regarding the reform of the public enterprise sector, priority will be given to the strengthening of SNIM, given the serious financial difficulties that the enterprise is currently facing. SNIM will put in place reforms to increase productivity and reduce costs with the support of a World Bank structural adjustment program for the public enterprise sector. This would pave the way for obtaining the refinancing and/or cancellation of SNIM's debt, the service of which absorbs approximately 40 percent of the company's earnings. The rehabilitation of SONELEC will be pursued and the automatic annual rate increase called for in the financing arrangements will be implemented in 1989. Other public enterprises to be rehabilitated include the petroleum product marketing board, the Post and Telecommunications Office (OPT), and the Port Authority in Nouakchott, whose management is to be strengthened. The fish marketing board (SMCP) will limit its activity to marketing and hence will put up its fleet of 17 boats for sale by June 30, 1989. Since in recent years the imports of SONIMEX have increased much more rapidly than suggested by domestic demand, the government will review the company's operations to ensure that they are consistent with its balance of payments objectives.

In the area of bank reorganization, the Government will complete the restructuring process by the end of 1989. In this process, rebuilding the capital of the banks, clearing the rediscount lines at the Central Bank, and writing-off nonrecoverable loans will be financed by a new issue of treasury bills amounting to UM 3.5 billion and by use of the counterpart funds of the World Bank's structural adjustment credit. 1/ Measures also will be taken to accelerate the recovery of nonperforming loans in order to reduce the interest costs of the restructuring operations to the Treasury.

b. Financial policies

The budgetary targets for 1989 are consistent with the targets set in the policy framework paper. The surplus on the operations of the Treasury is targeted at UM 3.2 billion, equivalent to 3.8 percent of GDP. It will enable the Treasury, in particular, to meet the rapidly increasing amortization payments on the debt that will not be rescheduled at the next Paris Club meetings. The consolidated cash deficit (excluding grants) will be limited to 12.4 percent of GDP, taking into account the cost of restructuring public enterprises and the banking system, estimated to reach UM 6.2 billion (7.5 percent of GDP) during 1989. When these operations are excluded, the consolidated overall deficit falls by about one fifth to 4.9 percent of GDP. 2/ Measures are taken under the 1989 budget to increase budgetary revenue about twice as much as GDP growth, while current expenditure (excluding interest payments) will increase only two thirds as much as GDP growth.

On the revenue side, the deductibility of the minimum lump-sum tax (IMF) from the tax on industrial and commercial profits is limited to 50 percent instead of 100 percent previously. Tax rates on petroleum products have been raised and the proceeds incorporated into the budget. The specific consumption tax on rice has been transformed into an ad valorem customs tax at a rate of 45 percent and the specific consumption tax on sugar has also been transformed into an ad valorem tax at rates varying between 18 percent and 35 percent. SNIM will be required to pay its arrears on the wage and salary tax (ITS). The reduction of exemptions under the new investment code and tariff reforms, combined with an increase in the CIF value of imports emanating

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1/ The counterpart funds from the World Bank SAC will be used in part to clear external arrears that may have been accumulated by the commercial banks.

2/ The restructuring of the public enterprise sector will be financed by use of counterpart funds from the structural adjustment credits extended by the World Bank and the African Development Bank to Mauritania. The amount of expenditure in 1989 is estimated at UM 1.7 billion and will be scaled down in case of any shortfall in this lending. The restructuring of the banking system involves cleaning up the balance sheets of the banks and, in this process, the Treasury will issue bills estimated at UM 3.5 billion in 1989 to the Central Bank, in exchange for discounted nonperforming loans owed by the commercial banks. Counterpart funds from the structural adjustment credits of about UM 1 billion will also be used for the restructuring of the banking system.

from the flexible exchange rate policy, i also expected to result in an increase in the Government's revenues. Overall total revenue are expected to increase by UM 3.2 billion (3.9 percent of GDP), of which discretionary fiscal measures will account for UM 1.8 billion, or 56 percent of the increase, as discussed in details in the Government's letter of request (paragraph 21).

Total expenditure and net lending will rise to 36.9 percent of GDP, including exceptional outlays related to the restructuring of public enterprises and the banking system. Excluding these operations, total expenditure and net lending will decline by 0.5 percent of GDP, to 29.5 percent of GDP. The decline is explained by a fall in current expenditure, as a share of GDP, reflecting the Government's decision to contain outlays on subsidies and transfers, as well as expenditure on military personnel, at their 1988 levels in nominal terms. Taking into account the recruitment during late 1988 in the priority social sectors of education and health, outlays on wages and salaries will rise by 6 percent which, given the projected rate of inflation, implies a reduction by about 1 percent in real terms. Expenditure on materials and supplies will increase by 14 percent in order to support the efficiency of the civil service staff.

Consistent with a scaling down of the three-year public investment program, capital outlays will be equivalent to about 8 percent of GDP in 1989, unchanged from the 1988 level. About two thirds of these investments will be financed from abroad, mainly through external grants. The overall consolidated cash deficit will amount to UM 4.6 billion. However, the central government financing requirements will amount to UM 11.7 billion, taking into account amortization payments falling due in 1989 (UM 5.6 billion) and the repayment of external arrears (UM 1.6 billion). Before rescheduling, a financing gap estimated at UM 3.8 billion will arise, which could be covered by rescheduling on highly concessional terms requested from Paris Club members and other bilateral creditors.

The Government intends to continue to conduct a prudent monetary policy during the program. As the restructuring of the banking system is likely to result in the revamping of the banks' balance sheets, the Government will control the expansion of net domestic assets rather than domestic credit as in past programs. Net domestic assets, which were estimated at UM 26.93 billion at the end of 1988, will increase by 1.4 billion during 1989 (Table 6). Net borrowing by the Treasury from the banking system will increase by UM 3.3 billion during the year, taking into account the use of SAC counterpart funds earlier in the year, the issue of Treasury bonds amounting to UM 3.5 billion, and any debt relief obtained to finance the external gap that may be larger than the financing requirements of the budget. Excluding the restructuring operations, the Central Bank net claims outstanding on the Government will be reduced by nearly 23 percent. Following the increase by about 13 percent in 1988, credit to the private sector will rise by 6.3 percent which, taken together with the reduction in nonperforming

Table 6. Mauritania: Monetary Survey, 1985-89

(In billions of ouguiyas; end of period)

	1986	1987	1988					1989			
	Dec.	Dec.	February		June		Dec. 1/	March	June	Sept.	Dec.
			Prog.	Act.	Prog.	Act.		Program			
Net foreign assets	-9.20	-7.78	-8.30	-9.48	-7.89	-11.05	-8.96	-8.70	-8.90	-8.80	-8.74
Central Bank	-4.64	-3.97	...	-5.06	-4.39	-6.20	-5.56	-5.30	-5.70	-5.60	-5.54
Deposit money banks	-4.56	3.80	...	-4.42	-3.50	-4.85	-3.40	-3.40	-3.20	-3.20	-3.20
Domestic assets (net)	24.24	25.29	...	27.63	...	29.06	26.93	27.10	27.63	27.85	28.33
Domestic credit	20.65	22.04	22.45	23.40	22.85	22.97	25.92	31.04	30.92	31.02	30.54
Claims on Government (net) 2/	(4.70)	(4.48)	(4.70)	(4.56)	(4.64)	(4.64)	(5.32)	(10.15)	(9.65)	(9.45)	(8.65)
Claims on the economy 3/	(15.95)	(17.55)	(17.75)	(18.84)	(18.15)	(18.33)	(20.60)	(20.90)	(21.27)	(21.57)	(21.90)
Other items (net)	3.59	3.25	...	4.23	...	6.10	1.01	-3.94	-3.28	-3.17	-2.21
Money and quasi-money	15.04	17.51	17.20	18.15	17.77	18.01	17.97	18.40	18.73	19.05	19.59
Money	11.57	13.27	13.20	13.91	13.60	13.85	13.99	...	...	...	...
Quasi money	3.47	4.24	4.00	4.24	4.17	4.17	3.97	...	...	...	...
Memorandum items:											
Claims on Government											
Excluding restructuring operations (net)	4.70	4.48	4.70	4.56	4.64	4.64	4.39	4.89	4.39	4.19	3.39

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.

assets, will provide adequate liquidity to the bank to increase credit to the economy. These factors will enable the Government to meet its objective of containing inflation by keeping broad money expansion below the projected rate of growth of nominal GDP.

In consultation with Fund staff, the authorities have simplified the interest rate structure, which continues to take into account the underlying inflation rate. The Central Bank intends to introduce reserve requirements at the end of the year concurrently with the creation an interbank money market. Hence, consistent with an appropriate discount rate policy, the commercial banks will be expected to fund themselves on the money market before having recourse to the rediscount window of the Central Bank, which will be used only as a last resort. Following completion of the banking system restructuring, the Central Bank intends to start implementing measures that will ultimately permit indirect control over credit expansion and give the commercial banks greater responsibility in setting market-related interest rates on deposits and loans.

c. External sector

The external current account deficit is projected to be reduced to SDR 105 million from SDR 132 million in 1988. Export earnings are expected to grow by about 5.4 percent, reflecting a rise in unit value by 7.8 percent that will more than offset an estimated decline of 2.2 percent in volume. Imports will grow by about 3 percent, with a rise in volume of 1.2 percent in spite of a decline of 2.6 percent in the volume of project-related imports, which is consistent with the scaling down of the public investment program. The service account is projected to improve, owing to higher fishing royalties and lower service payments by the fishing sector; in addition, payments for project-related studies will be reduced in line with the lower public investment program. The capital account will record a net outflow projected at SDR 25.5 million, reflecting heavy external debt amortization payments. The overall balance of payments, before rescheduling, is projected to record a deficit of SDR 58.0 million (7.5 percent of GDP). Taking into account the Government's gross official reserve target of 1.3 months of imports, net purchases from the Fund and the clearing of accumulated external arrears, a financing gap estimated at SDR 70 million emerges. The gap could be covered by debt rescheduling on very concessional terms (including previously rescheduled debt) from the Paris Club members and other bilateral creditors.

The Government will rely on the financial policies described earlier to achieve its balance of payments objectives during 1989. These demand management policies will be supplemented by the implementation of a flexible exchange rate policy that will support measures taken by the Government to reduce trade restrictions, including in particular the easing of requirements for granting the exporter/-importer card and the elimination of the import authorization and the import license issued by the Ministry of Commerce.

Following these reforms, Mauritania will still maintain discretionary controls on imports and the sale of foreign exchange for invisibles, including travel expenses and remittances abroad by foreigners working in Mauritania. However, bonfide requests for higher amounts for invisibles are granted on a case-by-case basis. 1/

The Government is also determined to strengthen its debt management system so as to avoid further accumulation of arrears on external debt. The Government's demand management policies are designed to bring about an improvement in the external position and the related financing requirements, thereby reducing the external debt service ratio, before rescheduling, from 54 percent in 1988 to 29 percent of exports of goods and services by 1993 (Appendix Table IV). In addition, the Government has also put in place a committee responsible for external debt management and monitoring to ensure a timely servicing of the debt. In this light, appropriate training is being provided to the relevant staff at the Central Bank and Ministry of Finance, and a computerized debt management system is to be set up, before the end of 1989, with World Bank-financed technical assistance.

V. Benchmarks and Performance Criteria

The proposed benchmarks and performance criteria for purposes of monitoring the program are shown in Table 7. The ceilings at end-March, end-June, end-September, and end-December 1989 on the expansion of net domestic assets and credit to the Government, the limits on concessional loans and the nonaccumulation of domestic and external arrears, and the maximum level of net external liabilities of the Central Bank have been established as quantitative benchmarks. In addition, the quantitative benchmarks for end-September 1989 will also constitute performance criteria.

Furthermore, the following will constitute structural benchmarks under the program: (i) completion of measures that will lead in 1990 to the integration of the minimum lump-sum tax (IMF) and the turnover tax (TCA); (ii) implementation of measures for the reform of the cereal marketing system and, in particular, a further reduction in the CSA fleet of trucks; (iii) the elimination of price controls on two thirds of imported industrial and commercial products that are subject to the maximum profit mark-up; (iv) a modification of data collection on retail prices of goods included in the CPI to reflect actual prices instead of

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1/ For a complete description of Mauritania's exchange system, see the 1988 Annual Report on Exchange Arrangements and Exchange Restrictions.

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

Performance criteria and quantitative benchmarks	Stock at Dec. 31, 1988	Maximum cumulative change from Dec. 31, 1988 to June 30, 1989 Benchmarks	Sept. 29, 1989 Perf. crit.	Dec. 29, 1989 Benchmarks
		(In millions of ouguiyas)		
Domestic sector				
Net domestic assets 1/	26,929	700	900	1,400
Net credit to Government 1/	5,325	4,320	4,120	3,320
Accumulation of domestic arrears	—	—	—	—
		(In millions of SDRs)		
External sector				
External arrears on government debt	18.7	—	—	-18.7 3/
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—
Contracting or guaranteeing non-concessional debt by the Government in the 1 to 15 year maturity range during period 2/	—	—	—	—
Quantitative benchmark	Stock at Dec. 31, 1988	Maximum stock at the end of June 30, 1989 Benchmarks	Sept. 29, 1989 Benchmarks	Dec. 29, 1989 Benchmarks
		(In millions of ouguiyas)		
External sector				
Net foreign liabilities of Central Bank	5,562	5,900	5,800	5,700

1/ Net credit to Government includes issues of treasury bonds amounting to UM 3.46 billion to be effected before March 31, 1989 in the context of the banking system restructuring, as well as counterpart funds from World Bank program loans deposited at the Central Bank. It is assumed that the counterpart funds that amounted to UM 0.86 billion at December 31, 1988 were utilized by March 31, 1989. Net credit to Government excludes credit from the Treasury to the private sector. The program also assumes that Paris Club rescheduling will permit the Government to reduce its recourse to bank credit by UM 200 million in the third quarter and UM 800 million in the fourth quarter. In the event that bill issues differ from what is assumed in the program, and the difference in the amount is fully reflected in the central bank's nonperforming old loans to domestic commercial banks, the ceiling on net credit to Government will be adjusted accordingly. In case the counterpart fund deposits are higher than the amount programmed, net credit to the Government will be reduced correspondingly. In case the Paris Club rescheduling provides relief larger than programmed, net credit to the Government will be reduced accordingly.

2/ Excludes possible Paris Club rescheduling.

3/ To be rescheduled at the forthcoming Paris Club expected before the end of 1989.

official prices; (v) the implementation of measures to improve the coordination and management of the external debt as described in details in the authorities' letter of request (Attachment Paragraph 13); (vi) the restructuring of the banking system, including implementation of the recommendations of the audit report regarding personnel reduction, increases in capital, the issuance of treasury bills to cancel Central Bank refinancing, opening the banks' capital to the private sector and strengthening the management of the new banks; and (vi) the payment by SNIM of all its arrears on the withholding tax on wages and salaries for 1987 and 1988 (UM 518 million). Structural benchmark (iv) shall also constitute a performance criterion.

To secure the objectives and targets of the 1989 program, the Government has implemented a set of measures before Board consideration of Mauritania's request for the first annual arrangement under the ESAF. They comprise: (i) an adjustment of the exchange rate by 5 percent against the currency basket of the ouguiya; (ii) setting up a committee to monitor implementation of the adjustment program and initial measures to reinforce the debt monitoring system; (iii) easing the conditions for obtaining the importer/exporter card and elimination of the authorization for import and import license issued by the Ministry of Commerce; (iv) sale of the state-owned rice mills to the private sector; (v) reduction by two thirds of the number of domestically manufactured goods under price control in the form of maximum mark-up; and (vi) collection by the Treasury of the withholding tax on SNIM wages and salaries for the first three months of 1989.

The standard clause regarding the exchange and payment system shall also constitute a performance criterion. The disbursement of the second loan under the first annual ESAF arrangement will also be subject to a mid-term review with the Fund, to be completed by October 31, 1989 (Appendix Table V). The review will emphasize in particular the progress made by the iron ore company to remain current on its 1989 liability with regard to the tax on wages and salaries (ITS), the strengthening of the debt management system, and implementation of a flexible exchange rate policy.

VI. Staff Appraisal

Mauritania pursued its adjustment and structural reform program during the period 1987/88, with the objectives of further reducing financial imbalances and alleviating structural impediments to sustainable growth. This program was supported by a stand-by arrangement and a loan for the second annual arrangement under the structural adjustment facility. The results achieved by the Government were mixed. The financial position improved, credit policy was restrained, the rate of inflation was lowered, interest rate policy resulted in real positive rates on key deposits, and the real effective exchange rate depreciated further. The surplus in treasury operations was lower than targeted; although the benchmark on the banking system's net claims on the Government was met, the ceiling on domestic credit was exceeded, owing to a larger-than-programmed credit expansion to the private sector. The Government continued to experience difficulties in the external sector in 1988, with a larger current account deficit than programmed and the accumulation of new arrears on external debt. The continued weakness in the external position was due in part to slippages in the implementation of structural reform policies.

The adjustment and structural reform program adopted by the Government for the 1989-91 period aims at strengthening the external position to a sustainable level and achieving a durable rate of economic growth under conditions of internal stability. To these ends, the Government recognizes the need to contain aggregate demand, particularly public sector expenditures, and implement measures that will restore efficient production in the manufacturing sector through the rehabilitation of public enterprises, while simultaneously taking steps to free the initiatives of the private sector from cumbersome administrative regulations and institute a more competitive environment.

The staff endorses the fiscal, monetary, and exchange rate policies adopted by the Government and finds them appropriate for achieving the Government's objective of bringing the external current account deficit to a level that, starting in 1992, can be financed without recourse to exceptional assistance. In light of Mauritania's limited absorptive capacity, the traditionally long delays required to complete feasibility studies for project, the experience with large projects that increased the country's debt without generating any significant returns on the investment, the staff welcomes the Government's decision to improve the efficiency of the investment program through better project selection that can add to productive capacity and help achieve the growth objective with a lower level of investment outlays. Furthermore, the staff supports the Government's decision to finance the lower level of public investments mainly by grants and external borrowing on very concessional terms.

As a result of these policy decisions, the ratio of Mauritania's external debt to GDP will fall by 16 percentage points between 1988 and 1993. In addition and taking into account the measures being implemented to encourage exports, the debt service ratio, before rescheduling, will decline by nearly one half to 29 percent of exports of goods and nonfactor services by 1993. In addition to meeting its debt service obligations to the Fund, as it has always done in the past, the Government has appropriately targeted an increase of SDR 32 million in gross international reserves during 1992-93, an amount that will help the Government plan for adverse contingencies. The staff also believes that the reserve accumulation provided for under the program will enable Mauritania to maintain orderly relations with its creditors after the expiration of the three-year ESAF arrangement. The authorities' decision to set up a committee to monitor the external debt and oversee its computerized management will further enhance the country's capacity to manage the debt effectively and discharge all payment obligations (including those of the Fund) a timely manner.

The staff believes that the Government has adopted appropriate incentive measures, including reform policies in the agricultural and fishing sectors, a new investment code, and a customs tariff which, together with measures taken to liberalize price controls and reduce trade restrictions, will encourage the private sector to increase its participation in all aspects of economic activities. The Government's emphasis on a rapid completion of the banking system restructuring is appropriate and will adequately support the productive activities of the private sector. The staff endorses that the strategy and policies adopted by the Government for the medium term that will help achieve its objectives for a real GDP growth rate of about 3.5 percent during 1989-91, combined with a decline in the rate of inflation to some 4.5 percent by 1991.

In the staff's view the measures that the Government is implementing in 1989 in the fiscal and monetary areas, together with structural reforms to strengthen the productive capacity in the public enterprise sector and to encourage private sector participation in economic activities, are appropriate to achieve the Government's external target of reducing the current account deficit by 4 percentage points of GDP to 13.6 percent, and containing inflation despite extensive price liberalization and adjustment in administered prices.

The Government's decision to significantly increase the surplus of treasury operations and reduce the overall consolidated deficit in central government operations by about one fourth will help contain aggregate demand, especially imports. The restructuring operations which are expected to be fully financed by use of counterpart funds from World Bank structural adjustment credits (SAC) and treasury bills issued by the Government will not increase domestic liquidity. The Government, the Central Bank, and the money deposit banks are jointly determined to ensure that a large part of nonperforming loans being assumed by the Treasury will be recovered, by means such as judiciary disposition of debtors' assets, so as to retire part of the treasury bills during the period of the ESAF arrangement. The restructuring of the banking system will also have a favorable impact on government operations by ensuring that the Government can collect tax revenue paid with bank checks. The Government has adopted effective revenue measures and is determined to recover withholding taxes that the mining company has failed to transfer to the Treasury. However, the brunt of the fiscal adjustment is being borne by expenditure. The rise in the wage bill is being held, for the first time, below the rate of projected inflation while military outlays, subsidies, and transfers are largely being frozen in nominal terms.

In view of the Government's commitment to fully implement its growth-oriented adjustment program, and the adoption of early measures to secure the achievement of some of the program objectives, the staff strongly endorses the updated three-year program and the detailed program proposed for 1989.

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

VII. Proposed Decisions

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

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.

B. Three-Year and First Annual Arrangements Under the ESAF

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

2. The Fund has appraised the progress in implementing the policies and reaching the objectives of the program supported by the first annual arrangement and notes the updated policy framework paper set forth in EBD/89/116.

3. The Fund approves the arrangements set forth in EBS/89/83.

Nouakchott, April 17, 1989

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

Dear Mr. Camdessus:

1. In the 12 months ended on May 30, 1988, the Government implemented an economic and financial program supported by a stand-by arrangement by the International Monetary Fund, approved on May 4, 1987. The results obtained during 1987 are quite close to the objectives set by the Government in most areas of macroeconomic management, with the exception of difficulties relating to servicing the external debt. As it implemented the program supported by the stand-by arrangement, the Government continued its structural and financial reform efforts aimed at reducing the obstacles to economic growth and restoring a sustainably sound financial position in the medium term. This effort was part of a second annual program (July 1, 1987-June 30, 1988), supported under the Fund's structural adjustment facility (SAF). An assessment of these recent adjustment and structural reform efforts implemented by the Government in 1987 and 1988 is given below.

2. During the period 1987/88 real GDP grew on average by about 2.6 percent compared with a rate of growth of 4 percent recorded during the preceding two years. Value added rose in agriculture and forestry, but stagnated in mining and declined in fishing. The financial position of the Central Government weakened in 1988 as the overall consolidated deficit (on a cash basis and excluding grants) rose from 5.8 percent of GDP in 1987 to 6.4 percent. Total government revenue and grants declined by 2 percentage points of GDP to 30 percent of GDP, reflecting in part the failure of the mining company (SNIM) to transfer to the Treasury the taxes on wages and salaries (ITS) paid to its workers. Furthermore, the liquidity problems experienced by a number of commercial banks had an adverse impact on the liquidity position at the Treasury, which was unable to encash certified checks drawn on the banks for tax payments. Total expenditure and net lending stood at about 34 percent of GDP, of which interest payments accounted for about 3 percentage points. The Treasury reduced on a net basis arrears accumulated during 1987 by UM 275 million. In 1988, domestic credit rose by about 18 percent of broad money at the start of the period, reflecting largely a strong rise in credit to the economy (13 percent of broad money), while the government recourse to bank borrowing increased more moderately (5 percent). Nevertheless, the rate of expansion of broad money slowed down to about 3 percent (from 16 percent in 1987), as the banking system's net foreign asset holdings deteriorated by about

7 percent. The rate of inflation slowed to 6.3 percent compared with 8.2 percent in 1987. 1/ In the external sector, the current account deficit was reduced to a level equivalent to 17.8 percent of GDP in 1988, but the overall balance of payments deficit (SDR 49.9 million) exceeded the level recorded in 1987 owing to lower disbursements of medium- and long-term loans. Despite debt relief of SDR 29.3 million obtained in 1987 for 1988, external payments arrears amounted to SDR 9.8 million.

3. The economic and financial results achieved in 1987 and 1988 show that, in comparison with the Government's economic and financial program targets, the Treasury's operations surplus (on a cash basis) was higher than projected in 1987 (3.2 percent compared with 2.1 percent) and lower than projected in 1988 (2.1 percent compared with 2.6 percent); domestic credit ceilings were observed in 1987 but slightly exceeded in June 1988; government borrowing from the Central Bank was below the program ceilings throughout the period; the current account deficit targets (17.9 percent and 13.9 percent of GDP, respectively) were not met. The Government observed the limits imposed on the signing or guaranteeing of nonconcessional loans with 1- to 15-year maturities. Short-term noncommercial credit to the Government and the commercial banks did not increase. However, arrears on external payments not covered by the rescheduling accumulated in 1987. The relative weakness of some of the results, and in particular of the rate of economic growth, can be explained to some extent by the fact that, during 1987 and 1988, the Government was unable to introduce some of the major structural reforms agreed upon.

4. In the area of taxation, the preparation of a new customs tariff and a new investment code proved to be unexpectedly complicated and was not completed until the last quarter of 1988. The anticipated elimination of customs exemptions on imports of raw materials and intermediate goods and of exemptions on petroleum product imports granted to externally financed projects, which was initially to have taken place by the end of 1987, was not implemented until January 1989. The recommendation of Fund technical assistance missions regarding the partial deduction of the minimum lump-sum tax (IMF) (50 percent) from the business profits tax (BIC) was implemented, but the IMF has not yet been incorporated into the turnover tax (TCA). As regards the restructuring of the banking system, despite the administrative and legal progress made, the proportion of delinquent loans recovered was small, and efforts to privatize the National Bank of Mauritania (BNM), created by the merger of the International Bank of Mauritania (BIMA) and the Mauritanian Banking Company (SMB), have not yet been successful. The simplification of the interest rate structure

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1/ The consumer price index currently used underestimates inflation because it is based essentially on official prices. A reform to improve the reliability of the index will be implemented by the end of the third quarter of 1989.

is still under study. Moreover, the reform of the incentives system and institutional framework begun in 1987, involving elimination of the system of maximum margins and reduction in the number of products subject to administrative price determination (homologation des prix), was not as comprehensive as anticipated. In the international trade sector, the procedures for small- and medium-sized businesses to obtain import-export cards were simplified, but this card and the import license continue to be used for quantitative restrictions of import. The introduction of administrative reforms to strengthen the management of the external debt has not yet been completed, and as a result, external payments have frequently fallen into arrears.

5. In the agricultural sector, in June 1988 the Government issued a declaration on cereals policy encouraging the private sector to participate in the production, processing, and marketing of local cereals, with the aim of eventually ending the monopoly of SONIMEX and the Food Security Agency (CSA) in the marketing of local rice and food aid, respectively. The first stage in the implementation of this declaration was completed in November 1988, when the delivery price for rice purchased by SONIMEX from the CSA was raised as a step toward the elimination by 1990 of the cross-subsidy between the two state enterprises by 1990. The second stage, involving the sale by the CSA of its rice mills and part of its fleet of freight trucks by end-December 1988, has been delayed.

6. The Government is determined to take the steps required for a rapid implementation of the structural reforms that have fallen behind schedule under its structural adjustment program. It will adopt additional measures to create a competitive environment favoring efficient economic activity, providing the incentives needed for increasing production and, at the same time, eliminating monopoly profits and administrative rigidities.

I. Medium-Term Objectives and Policies

7. In the updated policy framework paper, the Government established the following macroeconomic objectives for the period 1989-91: to achieve an average annual real GDP growth of 3.5 percent; to reduce the inflation rate, as measured by the GDP deflator, to 4.5 percent by 1991; and to reduce the current account deficit of the balance of payments (excluding official transfers) to the equivalent of 9.8 percent of GDP in 1991, compared with 17.8 percent in 1988. On the basis of current projections, this deficit can be financed by net capital inflows, which will reduce the overall balance of payments deficit to the equivalent of 1.6 percent of GDP in 1991. Taking into account the need to strengthen gross official reserves to a level equivalent to two months of imports, a financing gap estimated at SDR 35 million will emerge. This gap can be covered essentially by exceptional aid and possible drawings under

the enhanced structural adjustment facility (ESAF). Under these circumstances, it is expected that Mauritania will be able to maintain normal relations with its creditors at the end of the ESAF arrangement.

8. To achieve its growth and adjustment objectives, the Government will increasingly rely on providing appropriate incentives to the private sector through implementation of a new agricultural policy, a new investment code, rationalization of the customs tariff, liberalization of the exchange and trade system, and rehabilitation of the public enterprise sector, including in particular the restructuring of the banking system. These reforms will be supported by exchange rate, fiscal, credit, and monetary policies that will help increase the level of public savings and contain inflationary pressures. In order to raise the level of public sector savings, the Government will maintain an appropriate revenue effort, while controlling outlays. In particular, budgetary revenue will rise from 22.1 percent of GDP in 1988 to 23.6 percent in 1991, while current budgetary expenditures will be reduced from 22.1 percent of GDP to 19.2 percent in 1991. This should enable the Government to achieve a surplus in treasury operations (on a cash basis and excluding grants) equivalent to 4.8 percent of GDP by 1991, compared with a surplus of 2.1 percent of GDP in 1988. The larger surplus will be required to meet amortization payments on nonrescheduled debt and increase local counterpart funds needed to implement the government public investment program, largely financed by grants and external borrowing on concessional terms.

III. Program for 1989

9. To ensure that the macroeconomic objectives set forth in the PFP are reached, the Government has prepared an economic and financial program for 1989 that is designed to: (i) achieve a real GDP growth rate of 3.2 percent; (ii) limit the inflation rate, as measured by the GDP deflator, to about 7 percent, taking into account the flexible exchange rate policy and lifting of controls on most import prices; and (iii) reduce the deficit of the current account of balance of payments to 13.6 percent of GDP in 1989. On the basis of official estimates of a net capital outflow (SDR 25.5 million), the overall balance of payments deficit, before debt rescheduling, will be limited to SDR 58 million. A total financing gap estimated at SDR 86.6 million will emerge, taking into account the targeted increase in gross official reserve to cover at least 1.3 months of imports and the rescheduling of arrears on debt service due in 1988. The gap could be financed through a very comprehensive debt rescheduling requested by the Government from the Paris Club and other bilateral creditors and by disbursements under the Fund's ESAF. The Government will implement demand management measures and structural reforms to achieve the targets it has set for 1989. The principal measures include: (i) a liberalization of price controls and of exchange and trade system; (ii) an appropriate and flexible exchange rate policy; and (iii) a streamlining of the tariff policy.

a. External sector policies

10. Pursuant to its declaration on the promotion of private investment, the Government seeks to create a favorable climate for economic activity by liberalizing prices and foreign trade controls in order to eliminate private rents resulting from any existing quota systems. The Government has decided in 1989 to ease further the requirements for obtaining a card needed to engage in foreign trade. The minimum turnover required will be reduced from UM 15 million to UM 9 million for corporations and from UM 12 million to UM 6 million for individual traders. The required advance payments of tax obligations under the minimum lump-sum tax (IMF) will be lowered from UM 300,000 to UM 240,000. Measures will be taken to accelerate the administrative procedures for issuing the card. The commission in charge of reviewing applications will have to issue the card within 30 days and the number of its members will be reduced from 12 to 8. The card will be eliminated by 1990. The import licensing system will be abolished in 1989 and import procedures will thus be reduced to a declaration of intent to import domiciled with the importer's bank and presented to the Central Bank for purchase of foreign exchange. As a result, the function of the Ministry of Commerce to issue import authorizations and import licences is effectively eliminated.

As for the exchange system, the Government has decided to allow exporters of manufactures to retain 25 percent of export proceeds in foreign currency, as an additional incentive for promoting non-traditional exports (gypsum, mineral water, leather goods, etc.)

11. The tariff reform, prepared with financial assistance from the World Bank, came into force with the 1989 budget. Its aim is to simplify the tariff system while reducing the level of effective protection, promoting competition, and improving the efficiency of resource allocation. On the basis of the proposed new rates, the weighted average import duties (excluding consumption taxes) will decline as follows:

- from 35 percent in 1987 to 32 percent in 1989 on consumer goods;

- from 23 percent to 9 percent on intermediate goods; and

- from 36 percent to 31 percent on capital goods.

In addition, customs duties on imported inputs have been harmonized at a moderate level.

12. The Government will rely on an appropriate exchange rate policy, and prudent fiscal and monetary policies to control aggregate demand, particularly demand for imports. The exchange rate policy will aim at maintaining the real effective exchange rate of the ouguiya at its

April 1, 1989 level and ensure the competitiveness of the export sector, in particular fish and nontraditional exports. It will be reviewed with the International Monetary Fund by October 31, 1989, as indicated in paragraph 28. This review will take into account: (i) the trend in the current account of the balance of payments and the level of net foreign assets of the Central Bank, which constitutes a quantitative benchmark under the program; (ii) progress made in liberalizing the trade system; (iii) the revenue impact of the tariff reform; and (iv) changes in the real effective exchange rate of the ouguiya.

13. The repeated delays in external debt service payments reflect the precariousness of the Government's finances, and insufficient coordination between the offices responsible for debt management at the Ministry of Economy and Finance and the Central Bank. The authorities have decided to remedy these problems by improving coordination between the various offices involved and strengthening the Directorate of Financing of the Ministry of Economy and Finance. Two employees will be added to this directorate's staff and additional equipment will be provided. Its priority task will be to keep the data on the debt up to date. As part of the administrative reform project being prepared with the World Bank, a debt management training program, with the joint participation of the technical staff of the Central Bank and the Ministry of Economy and Finance, will be set up during the first quarter of 1989, and a computerized debt management system will be started by December 31, 1989.

b. Structural measures

14. With a view to promoting a more competitive environment for industrial activity, the Government has adopted an investment code providing more limited but specific tax benefits than did the 1979 code. The new code, which entered into force on January 1, 1989, applies to all sectors, including agriculture and fisheries, and encourages in particular the use of labor-intensive techniques. To promote export-oriented activities, it includes provisions such as exemption from export taxes and duties, a reduction in the tax on services applicable to the cost of credit, and a decrease in the business profits tax rate proportional to the export share of total turnover. In order to facilitate the establishment of enterprises and investment decision making, the Government has taken all necessary steps to enable the National Investment Commission to rule on applications for benefits under the code within 90 days, compared with six months under the previous code.

15. In the area of price controls, the first phase of the Government's reform has resulted in the decontrol of the prices of some locally manufactured industrial and commercial goods. It will be followed by decontrol of the prices of two thirds of industrial and commercial imports in 1989, with the remaining one third being decontrolled in 1990. In addition, the number of locally manufactured products still subject to price approval under the system of homologation will be

reduced from nine to three. The list of basic necessities whose prices are still controlled will be reviewed with the IMF staff by June 30, 1989 with a view to preparing a timetable and the modalities for their liberalization during 1990-91. In order to improve the monitoring of price changes, the Government has decided to improve the consumer price index by implementing the recommendations of an IMF technical assistance mission by the end of June 1989.

16. In consultation with the World Bank, the Government has adopted a new food policy aimed at increasing agricultural output by providing adequate remuneration to producers, an effective marketing policy, and appropriate incentives for private sector participation in this area. To achieve these objectives, the Government has decided to eliminate the monopoly now exercised by SONIMEX and the CSA over the purchase and marketing of local cereals, especially rice. The private sector is to be authorized to purchase, process, and sell local rice on the market directly, without going through SONIMEX or the CSA. The involvement of the CSA in the cereals sector will be reduced so that it may focus on its original role, namely, to distribute food aid to isolated regions. To this end, the Government has decided that the CSA will sell its 2 rice mills and 13 of its trucks by March 31, 1989. By June 30, 1989, the CSA's fleet will be further reduced, to 47 vehicles. In order to promote the local production of rice, the Government has also decided gradually to raise the sale prices of food aid so as to bring them in line with import prices. In this connection, the sale price for wheat received as food aid was raised by approximately 5 percent. During 1988, with a view to encouraging the production of local cereals, the producer price for paddy rice was raised by about 3 percent for the 1988/89 crop year (July-June) and will be further increased before the start of 1989/90 crop season, in consultation with the World Bank. The retail price for rice was also raised (by 10 percent) in line with the Government's commitment to bring the price for local rice to a level that will eliminate the SONIMEX subsidy to the CSA by 1990.

17. As for the reform of the public enterprises, the reorganization of the National Water and Electricity Company (SONELEC), which has resulted in a significant improvement in the company's financial position, will continue. The new rate structure that entered into force in May 1988 involves increases in the rates for electrical power and water use that are differentiated by type of consumption. On the basis of monthly billings, these increases will result in combined price rises ranging from 10.2 percent to 81.2 percent. The automatic annual increases called for in SONELEC's financing arrangements will be effected in 1989, enabling the company to cover a growing share of its production costs. In addition, with a view to reducing these costs, the conversion of the Nouadhibou plant to fuel oil will be completed in 1989.

18. The rehabilitation of the Mauritanian Petroleum Products Marketing Company (SMCPP) will involve improving management and reducing staff size so that the company can adapt quickly to the new competitive environment created by the elimination in 1987 of its monopoly in the

marketing of petroleum products. On the basis of the recommendations of an audit of the company, the Government plans to undertake a program of action in consultation with the World Bank that will cover all phases of the marketing of petroleum products. The reforms planned will be implemented by end-1989 in cooperation with the World Bank as part of the sectoral adjustment program for the public enterprise sector. In this context, steps will be taken to strengthen SNIM, and ways will be sought with creditors to refinance SNIM's debt, the service of which absorbs approximately 40 percent of the company's export earnings. Management reforms in the Post and Telecommunications Office (OPT) and the Nouakchott-Friendship Port (PANPA) will also be undertaken. Moreover, the Mauritanian Fish Marketing Company (SMCP) is to limit its activities exclusively to the marketing of fish products in order to improve its financial position. It will consequently put up for sale by June 30, 1989 the 17 boats it has acquired.

19. As regards the National Import and Export Company (SONIMEX), the Government has decided to raise this company's selling price for tea from UM 638 per kilogram to UM 735 per kilogram to cover some UM 270 million in losses recorded by the company in 1988 (4 percent of its turnover). Given the importance of SONIMEX as an import monopoly, the Government will, in the first half of 1989, consider reforms to bring SONIMEX's import volume in line with estimated domestic consumption requirements. On the basis of the conclusions of this study, reforms will be proposed for implementation beginning on July 1, 1989.

20. In the area of bank reorganization, the Government has decided to complete the rehabilitation process by the end of the first half of 1989. To this end, the Treasury has been asked to contribute some UM 3.5 billion in 1989 by issuing treasury bills to reimburse the Central Bank for the rediscounts and other securities it holds on commercial banks now in difficulty and to cover some of the delinquent loans in the banks' balance sheets. Moreover, the Government intends to use a portion of the counterpart of the structural adjustment credit from the World Bank and the African Development Bank to cover the external arrears of the commercial banks and to provide new capital. 1/ To make sure that this action by the Treasury, which increases interest charges payable on the treasury bills issued, does not lead to a full-fledged write-off of the delinquent loans (estimated at some UM 12 billion in total), existing measures must be strengthened to ensure actual recovery of a significant share of all recoverable loans in 1989. Accordingly, the Central Bank will establish a recovery plan for each bank with specific quarterly objectives; these plans will be forwarded to the Fund's staff by March 31, 1989 and will be followed by monthly reports on actual collections. Measures will be taken in the personnel area to reduce bank staff size to the levels needed.

1/ The Government's participation in the restructuring of the public enterprise and banking sectors is included under net lending.

c. Financial policies

21. The budgetary targets for 1989 are consistent with the targets in the policy framework paper for the period 1989-91. The Treasury's surplus in 1989 (on a cash basis) will reach some UM 3.2 billion, or the equivalent of 3.8 percent of GDP, and will enable the Treasury in particular to meet the rapidly increasing amortization payments on the nonreschedulable debt and payments on the portion of the debt that will not be rescheduled at the next Paris Club meetings. Revenues are projected to increase by UM 3.2 billion, of which discretionary measures will yield about UM 1.8 billion (2.2 percent of GDP). The principal measures already introduced in the 1989 budget include:

(i) limiting the deductibility of the minimum lump-sum tax (IMF) from the tax on industrial and commercial profits (BIC) to 50 percent, for an estimated UM 200 million in additional revenue;

(ii) raising consumption taxes on petroleum products and incorporating formerly extrabudgetary petroleum taxes into the budget, for additional revenue estimated at UM 300 million;

(iii) introducing an ad valorem tax on sugar imports ranging from 18 to 35 percent, for UM 100 million in additional revenue;

(iv) converting the specific tax on imported rice into a customs duty at a rate of 45 percent, for an estimated UM 100 million in additional revenue;

(v) levying customs duties on petroleum products usable in externally financed projects in order to reduce diversion and exemption abuses, which could result in an increase in imports not eligible for customs duty exemptions, and which could yield an estimated gross revenue increase of UM 500 million;

(vi) collecting the arrears on tax on wages and salaries withheld at source by SNIM from its employees, for UM 518 million in additional revenue;

(vii) adopting the new investment code, which, by reducing exemptions, will broaden the revenue base for the new customs tariff; in addition, these reforms, which are taking place in a context of import liberalization, supported in particular by the implementation of a flexible exchange rate policy, are expected to bring about an increase in the c.i.f. value of imports and in revenue from import duties.

The remaining increase in revenue will be accounted for by the rise in nominal GDP.

22. Total government expenditure will increase by 22 percent to UM 30.7 million, with two thirds of this increase stemming from the restructuring of the public enterprises and banks. Current expenditure

will total UM 17.9 billion, an increase of 7.7 percent resulting from a 22 percent increase in interest payments. Government policy will be characterized by strict management of personnel expenditure. Taking into account the full-year impact in 1989 of the staffing increases in the education (by 490 employees) and health (by 212 employees) sectors that took place in late 1988, expenditure on wages and salaries will be limited to UM 4,921 million in 1989, an increase of 6 percent on the basis of no new net recruitment in 1989. The Government plans to increase budgetary outlays on equipment, maintenance, supplies, and investment in real terms, while military expenditure, subsidies, and transfers will be kept at their 1988 levels in nominal terms.

23. The Government's expenditure on investment will total UM 6.5 billion (or 7.8 percent of GDP), including UM 1.6 billion (25 percent) financed by concessional foreign loans and UM 2.3 billion by grants. The consolidated cash deficit of government operations (excluding grants) will be limited to UM 4.6 billion, or 4.9 percent of GDP, compared with a deficit of 6.4 percent in 1988. Taking into account identified net financing of UM 800 million, a financial gap of UM 3.8 billion (or 4.5 percent of GDP) arises, which could be covered by a rescheduling of the external debt service by Paris Club members and other bilateral creditors.

24. In order to achieve the program deficit target for 1989, a special effort will be required not only to improve the collection of taxes and levies, but especially to curb the rise in expenditure. Expenditure on wages and salaries will be kept within the limits mentioned above, owing in particular to the maintenance until December 31, 1989 of overall civil service staff numbers at December 31, 1988 levels (20,659 employees). Beginning in 1990, the wage bill will rise more slowly since departures from the civil service will be filled only partially by new recruitments. In this regard, the provisions of the education sector reform, as designed by the World Bank, will be strictly adhered to, notably a reduction in the number of nonteaching staff in secondary education, limiting enrollment into the Higher Institute of Science (ISS) and into the teacher training school. The appropriateness of these measures will be assessed during the midterm review of the program.

25. In the area of credit and monetary policy, the Central Bank has simplified the interest rate structure and will implement a flexible interest rate policy that will maintain positive real rates on key time and savings deposits. The Government will speed up the studies of the money market and reserve requirement so that their establishment will follow completion of the reorganization of the banking system scheduled for end-December 1989. These mechanisms will permit indirect control over credit and give the commercial banks greater responsibility in the collection of deposits. The Central Bank's rediscount rate will be determined in such a way as to encourage the commercial banks to seek financing on the money market before seeking refinancing from the Central Bank.

26. Structural policies to be implemented during 1989 are spelled out in the updated PFP and the benchmarks for monitoring their implementation during the first annual arrangement under the ESAF are shown in Table 1 and relate to: (i) elimination of import authorization and import licences and easing of the requirements for issuing the exporter/importer card; (ii) completion of the study to implement the integration of the minimum lump-sum tax (IMF) and the turnover tax (TCA), while harmonizing the current rates of the latter tax on domestic production and on imports; (iii) the second phase of the reduction of the truck fleet of the CSA, as part of the process of reducing the government role in marketing paddy rice; (iv) completion of the centralization and computerization of external debt management and monitoring; (v) elimination of price control on two thirds of all imported industrial and commercial goods; (vi) improvement in the compilation of the consumer price index; (vii) completion of the banking system restructuring and (viii) payments of all arrears on the wages and salaries taxes (ITS) owed by SNIM for 1987 and 1988.

27. For the first annual arrangement under the ESAF the quantitative benchmarks, as set forth in Table 2, comprise quarterly limits on: (i) net domestic assets of the banking system; (ii) net bank credit to the Government; (iii) the nonaccumulation of domestic and/or external payments arrears; (iv) new external loans on noncessional terms contracted or guaranteed by the Government in the maturing range of 1-15 years; and (v) net foreign liabilities of the Central Bank.

28. The quantitative performance criteria under the first annual ESAF arrangement for September 1989 also are set forth in Table 2 and include (i-iv) in paragraph 27 above. Structural benchmark (vi) in paragraph 26 above shall constitute a performance criterion. The standard clause regarding the exchange and payments system shall also constitute a performance criterion under the first annual arrangement. The disbursement of the second loan under the first annual ESAF arrangement will also be subject to a midterm review with the Fund, to be completed by end-October 1989. The midterm review shall pay a special attention to the collection by the Treasury of all payments of the ITS that have fallen due under the 1989 budget, the effective sale by the SMCP of its 17 boats, the implementation of a flexible exchange rate policy, the measures prepared by the Government to ensure that no net recruitment takes place in 1989 and that the rate of growth of the wage bill is

lower in 1990 than in 1989, and all the additional measures that may be required to achieve the objectives and targets of the first annual program.

Very truly yours,

Mohamed Ould Nany Minister of Economy and Finance	Ahmed Ould Zein Governor of the Central Bank of Mauritania

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

Policy measures	Timing
1. Elimination of import licenses and easing of the requirements for the import-export card	April 30, 1989
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
3. Further reduction in the role of the CSA in cereal marketing, as defined in paragraph 16	June 30, 1989
4. Implementation of measures to improve the coordination and management of external debt as described in paragraph 13	June 30, 1989
5. Restructuring of the banking system	June 30, 1989
6. Reduction by two thirds of imported industrial and commercial products subject to the maximum margin	June 30, 1989
7. Improvement in the methodology and procedures used in compiling the consumer price index	June 30, 1989
8. Payment of arrears on the tax on wages and salaries owed by SNIM for 1987 and 1988	December 31, 1989

Table 2. Mauritania: Quantitative Performance Criteria and Benchmarks for the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989

Performance criteria and quantitative benchmarks	Stock at Dec. 31, 1988	Maximum cumulative change from Dec. 31, 1988 to June 29, 1989 Benchmarks	Sept. 29, 1989 Perf. crit.	Dec. 31, 1989 Benchmarks
		(In millions of ouguiyas)		
Domestic sector				
Net domestic assets 1/	26,929	700	900	1,400
Net credit to Government 1/	5,325	4,320	4,120	3,320
Accumulation of domestic arrears	...	—	—	—
		(In millions of SDRs)		
External sector				
External arrears on government debt	18.7	—	—	-18.7
Increase in non-trade-related short-term debt of the Government and the commercial banks	—	—	—	—
Contracting or guaranteeing non-concessional debt by the Government in the 1 to 15 year maturity range during period 2/	—	—	—	—
Quantitative benchmark	Stock at Dec. 31, 1988	Maximum stock at the end of June 29, 1989 Benchmarks	Sept. 29, 1989 Benchmarks	Dec. 31, 1989 Benchmarks
		(In millions of ouguiyas)		
External sector				
Net foreign liabilities of Central Bank	5,562	5,900	5,800	5,700

1/ Net credit to Government includes issues of treasury bonds amounting to UM 3.46 billion to be effected before March 31, 1989 in the context of the banking system restructuring, as well as counterpart funds from World Bank program loans deposited at the Central Bank. It is assumed that the counterpart funds that amounted to UM 0.86 billion at December 31, 1988 were utilized by March 31, 1989. Net credit to Government excludes credit from the Treasury to the private sector. The program also assumes that Paris Club rescheduling will permit the Government to reduce its recourse to bank credit by UM 200 million in the third quarter and UM 800 million in the fourth quarter. In the event that bill issues differ from what is assumed in the program, and the difference in the amount is fully reflected in the central bank's nonperforming old loans to domestic commercial banks, the ceiling on net credit to Government will be adjusted accordingly. In case the counterpart fund deposits are higher than the amount programmed, net credit to the Government will be reduced correspondingly. In case the Paris Club rescheduling is larger than programmed, net credit to the Government will be reduced accordingly.

2/ Excludes possible Paris Club rescheduling.

Mauritania - Enhanced Structural Adjustment Facility:
Three-year and First Annual Arrangements

Attached hereto is a letter of request dated April --, 1989, from the Minister of Economy and Finance and the Governor of the Central Bank of Mauritania requesting from the International Monetary Fund a three-year arrangement under the enhanced structural adjustment facility and the first annual arrangement, thereunder and setting forth

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

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

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

1. (a) For a period of three years from May ---, 1989, Mauritania will have the right to obtain loans from the Fund under the enhanced structural adjustment facility, in a total amount equivalent to SDR 50.85 million. Of this amount, the equivalent of SDR 6.78 million shall be provided from the structural adjustment facility within the Special Disbursement Account, and the equivalent of SDR 44.07 million shall be provided from the the Enhanced Structural Adjustment Facility Trust, subject to any changes in the amount of access to the structural adjustment facility.

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

(c) Under the first annual arrangement:

(i) the first loan, in an amount equivalent to SDR 8.475 million, will be available May 15, 1989 at the request of Mauritania; and

(ii) the second loan, in an amount equivalent to SDR 8.475 million, will be available on November 15, 1989, at the request of Mauritania subject to paragraph 2 below.

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

(a) if the Managing Director finds that the data at the end of September 1989 indicate that:

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

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

(iii) the limit on total external payments arrears, or

(iv) the limit on new external loans on nonconcessional terms contracted or guaranteed by the Government in the maturity ranges of 1-15 years, or

(v) the structural performance criterion on the modifications of price data criterion for compilation of the consumer price index,

referred in paragraphs 27 and 28 and specified in Table 2 annexed to the attached letter of request is not observed, or

(b) if Mauritania

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

(ii) introduced multiple currency practices, or

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

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

(c) Until the Fund has determined that the mid-term review of Mauritania's program referred to in paragraph 28 of the attached letter of request has been completed.

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

3. Before approving the second annual arrangement, the Fund will appraise the progress of Mauritania in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, taking into account primarily:

(a) the indicators described in paragraph 26 and specified on Table 1 annexed to the attached letter of request;

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

(c) introduction of bilateral agreements which are inconsistent with Article VIII; and

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

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

4. In accordance with paragraph 3 of the Government's letter of April--, 1989, Mauritania will provide the Fund with such information as the Fund requests in connection with the progress of Mauritania in implementing the policies and reaching the objectives supported by these arrangements.

5. In accordance with paragraph 4 of the Government's letter of April --, 1989, during the period of the first annual arrangement, Mauritania will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government whenever the Managing Director requests such a consultation. Moreover, after the period of the first annual arrangement and while Mauritania has outstanding financial obligations to the Fund arising from loans under that arrangement, Mauritania will consult with the Fund from time to time, at the initiative of the Government or whenevr the Managing Director requests consultation on Mauritania's economic and financial policies. These consultations may include correspondence and visits of Fund staff or of representatives of Mauritania to the Fund.

Table I. Mauritania: Assumptions Underlying the Medium-Term Balance of Payments Projections, 1986-93

	1986	1987		1988	1989	1990	1991	1992	1993
	Act.	Prog.	Act.	Prel.	Projections				
	(Annual percentage changes)								
Total exports, f.o.b.									
Value (in SDRs)	-3.5	-2.0	-12.2	5.4	5.4	4.9	6.5	5.7	5.7
Volume	0.8	5.0	0.3	-1.6	-2.2	2.7	3.1	2.1	2.1
Unit value (in SDRs)	-4.3	-6.7	-12.7	7.1	7.8	2.1	3.4	3.5	3.6
Of which:									
Iron ore									
Value (in SDRs)	(-17.4)	(-2.4)	(-19.8)	(8.6)	(6.7)	(2.7)	(3.4)	(3.2)	(3.2)
Volume	(-4.3)	(7.0)	(0.8)	(11.1)	(-2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Unit value (in SDRs)	(-14.5)	(-8.8)	(-20.4)	(-2.2)	(8.9)	(0.7)	(1.4)	(1.2)	(1.2)
Fish									
Value (in SDRs)	(5.5)	(-2.1)	(-11.4)	(2.4)	(6.2)	(4.1)	(5.2)	(6.2)	(6.2)
Volume	(4.4)	(3.5)	(-1.8)	(-7.9)	(-1.2)	(1.6)	(2.0)	(2.2)	(2.2)
Unit value (in SDRs)	(1.1)	(-5.5)	(-9.7)	(11.2)	(7.5)	(2.5)	(3.7)	(3.9)	(3.9)
Total imports, f.o.b.									
Value (in SDRs)	-10.0	-6.0	-10.5	2.1	3.0	3.4	5.4	5.5	5.8
Volume	-4.4	-7.7	-11.9	0.5	1.2	2.2	1.8	2.2	2.4
Unit value (in SDRs)	-5.9	1.9	1.5	1.6	1.8	1.2	3.5	3.2	3.3
Of which:									
Foodstuffs (incl. food aid)									
Value (in SDRs)	(-24.3)	(-10.0)	(10.4)	(12.5)	(2.9)	(-5.7)	(7.7)	(6.5)	(6.6)
Volume	(1.9)	(-4.1)	(10.8)	(-0.6)	(2.1)	(-1.3)	(1.7)	(1.8)	(1.9)
Unit value (in SDRs)	(-25.8)	(-6.2)	(-0.4)	(13.1)	(0.7)	(-4.5)	(6.0)	(4.6)	(4.6)
Other consumer goods									
Value (in SDRs)	(-5.4)	(-7.4)	(-19.3)	(16.6)	(5.2)	(5.1)	(6.2)	(6.1)	(6.1)
Volume	(-7.8)	(-9.8)	(-21.4)	(17.9)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Unit value (in SDRs)	(2.6)	(2.6)	(2.6)	(-1.1)	(2.2)	(2.1)	(3.1)	(3.0)	(3.0)
Petroleum products									
Value (in SDRs)	(-42.6)	(23.6)	(9.5)	(-25.1)	(10.7)	(5.1)	(6.3)	(6.5)	(6.7)
Volume	(-7.8)	(-9.8)	(-20.7)	(19.7)	(2.7)	(3.1)	(3.2)	(3.4)	(3.6)
Unit value (in SDRs)	(-41.4)	(18.8)	(38.2)	(-6.7)	(7.8)	(2.0)	(3.0)	(3.0)	(3.0)
Project-related imports									
Value (in SDRs)	(2.2)	(5.9)	(-33.0)	(-6.6)	(-0.5)	(7.3)	(0.7)	(5.8)	(5.9)
Volume	(-0.4)	(3.2)	(-34.7)	(-5.6)	(-2.6)	(5.2)	(-2.4)	(2.7)	(2.8)
Unit value (in SDRs)	(2.6)	(2.6)	(2.6)	(-1.1)	(2.2)	(2.1)	(3.1)	(3.0)	(3.0)
Terms of trade	1.7	-8.4	-13.8	5.5	5.9	1.0	-0.2	0.3	0.3

Source: Staff estimates.

Table II. Mauritania: Treasury Operations, 1985–93 1/

	1985	1986	1987		1988	1989	1990	1991	1992	1993
			Prog.	Act.	Prel.	Projections				
					(In millions of ouguiyas)					
Revenue and grants	13,105	14,962	16,548	17,335	22,315	21,652	22,446	24,358	26,165	28,075
Budgetary revenue	12,301	13,696	15,798	15,782	16,685	19,826	21,376	23,188	24,895	26,725
Budgetary grants	61	—	400	119	4,357 2/	856	—	—	—	—
Special accounts	743	1,266	350	1,434	1,274	970	1,070	1,170	1,270	1,350
Expenditure and net lending	13,210	14,326	15,133	17,271	18,753	24,250	20,183	20,341	20,979	21,893
Budgetary expenditure	12,347	13,428	14,933	14,214	15,043	17,095	17,733	18,431	19,104	20,138
Of which: wages and salaries	(3,636)	(3,894)	(4,230)	(4,263)	(4,642)	(4,921)	(5,196)	(5,966)	(5,712)	(5,998)
interest due	(1,554)	(2,280)	(2,440)	(2,047)	(2,168)	(2,650)	(2,685)	(2,656)	(2,558)	(2,475)
investment expenditure	(706)	(658)	(888)	(760)	(820)	(1,556)	(1,734)	(1,961)	2,258)	(2,610)
Special accounts	687	698	—	1,037	1,054	800	900	1,000	1,100	1,180
Net lending	176	200	200	2,120	2,648	6,355	1,550	910	775	575
Of which: restructuring	(—)	(—)	(—)	(1,913)	(2,623)	(6,155)	(1,330)	(660)	(500)	(300)
Surplus or deficit (-) (commitment basis)	-105	636	1,415	64	3,562 2/	-2,598	2,263	4,017	5,186	6,182
Change in payments arrears (increase +)	6,887	617	—	218	-275	-358	—	—	—	—
External	(6,187)	(—)	(—)	615	-275	-358	—	—	—	—
Domestic	(700)	(617)	(—)	-397	—	—	—	—	—	—
Surplus or deficit (cash basis)	-6,992	1,253	1,415	282	3,289	-2,956	2,263	4,017	5,186	6,182
Financing	6,992	-1,253	-1,415	-282	-3,289	-824	-3,508	-4,773	-3,439	-3,947
Foreign borrowing (net)	-2,499	-5,867	-5,612	-2,906	-5,663	-5,144	-3,208	-4,273	-3,439	-3,947
Drawings 4/	—	—	—	(2,117)	(1,485)	(1,993)	(2,973)	(2,837)	(3,482)	(3,011)
Amortization	(-2,501)	(-5,867)	(-5,612)	(5,023)	(-8,645)2/	(-5,559)	(-6,182)	(-7,110)	(-6,920)	(-6,958)
Arrears	(—)	(—)	(—)	(—)	(1,497)	(-1,578)	(—)	(—)	(—)	(—)
Domestic (net)	-1,087	-585	-295	-441	801	4,320	-300	-500	—	—
Banking system	(-530)	(-271)	(—)	(-424)	(883)	(4,320)	(-300)	(-500)	(—)	(—)
Other	(-557)	(-314)	(-295)	(-18)	(-801)	(—)	(—)	(—)	(—)	(—)
Exceptional debt relief and exceptional assistance	10,578	5,199	...	3,065	1,573	...	...	...	—	—
Rescheduling	8,128	5,199	...	3,065	1,469	...	...	...	—	—
Interest	(1,055)	(812)	(...)	(533)	(276)	(...)	(...)	(—)	(—)	(—)
Principal	(1,550)	(4,387)	(...)	(2,532)	(1,193)	(...)	(...)	(—)	(—)	(—)
Arrears	2,450	—	200	—	104	...	...	...	...	...
Exceptional assistance	2,450	—	200	—	104	...	...	...	...	...
Financing gap	—	—	4,292	—	—	3,780	1,245	757	-1,747	-2,235
Of which: possible debt relief	(—)	(—)	(4,292)	(—)	(—)	(4,760)				
Memorandum items:										
Surplus or deficit, excluding restructuring operations										
Commitment basis	-105	636	...	1,977	1,829 3/	3,557	3,593	4,677	5,686	6,482
Cash basis	-6,992	1,253	...	2,195	1,554 3/	3,199	3,593	4,677	5,686	6,482
					(In percent of GDP)					
Budgetary revenue	22.5	21.8	24.0	22.8	22.1	23.9	23.5	23.6	23.5	23.4
Budgetary expenditure	22.6	21.4	22.7	20.5	19.9	20.6	19.5	18.8	18.0	17.6
Treasury surplus or deficit (-)										
On a commitment basis	-0.2	1.0	2.1	-0.1	4.7	-3.1	2.5	4.1	4.9	5.4
Excluding restructuring operations	-0.2	1.0	2.1	2.9	2.4 3/	4.3	4.0	4.8	5.4	5.7
On a cash basis	-12.7	2.0	2.1	0.4	4.4	-3.6	2.5	4.1	4.9	5.4
Excluding restructuring operations	-12.7	2.0	2.1	3.2	2.1 3/	3.8	4.0	4.8	5.4	5.7

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

1/ Excluding most foreign-financed government operations.
2/ Including debt cancellation by the Federal Republic of Germany amounting to UM 4,357 million.
3/ Excluding debt cancellation.
4/ Drawings on budgetary loans only.

Table III. Mauritania: Indicators of Fund Credit, 1989-2000

(In percent)

	1989 Prog.	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
		Projections										
Outstanding Fund credit/GDP 1/	7.8	8.2	8.6	7.5	6.6	5.8	4.8	3.5	2.3	1.4	0.6	0.2
Outstanding Fund credit/quota	177.9	194.9	216.5	198.9	186.0	173.4	151.1	118.6	82.6	52.6	25.1	7.6
Debt service to the Fund/current account receipts 2/												
Baseline scenario	2.0	2.6	2.0	1.2	0.8	0.7	1.2	1.6	1.7	1.4	1.2	0.7
Scenario I 3/	2.0	2.7	2.1	1.2	0.8	0.8	1.3	1.7	1.8	1.5	1.3	0.8
Scenario II 4/	2.0	2.8	2.2	1.3	0.9	0.8	1.3	1.8	1.9	1.5	1.3	0.8
Debt service to the Fund/exports of goods and services												
Baseline scenario	2.4	3.1	2.4	1.3	1.0	0.9	1.4	1.9	2.0	1.6	1.4	0.8
Scenario I 3/	2.4	3.2	2.5	1.4	1.0	0.9	1.5	2.1	2.2	1.7	1.5	0.9
Scenario II 4/	2.4	3.3	2.6	1.5	1.0	0.9	1.5	2.1	2.2	1.7	1.5	0.9

Sources: IMF, Treasurer's Department; and staff projections.

1/ Baseline scenario.
2/ Including net official transfers.
3/ With U.S. dollar price of iron ore falling by 10 percent in 1990, and volume of iron ore stable at 1990 level until 1995 and falling by 10 percent in 1996.
4/ With U.S. dollar price of fish exports falling by 10 percent in 1990, and increasing at the same rate as inflation in industrial countries thereafter.

Table IV. Mauritania: Medium-Term External Debt Projection, 1984-93

	1984	1985	1986	1987	1988 Est.	1989 Proj.	1990 Proj.	1991 Proj.	1992 Proj.	1993 Proj.
					(In millions of SDRs)					
Total debt service due	117.1	112.7	159.1	154.6	200.0	152.7	135.6	148.2	144.3	139.0
Principal due	69.4	62.0	100.4	95.9	149.8	103.6	88.8	101.2	98.2	93.5
On contracted loans	69.4	62.0	100.4	95.9	149.8 1/	103.6	88.8	98.7	91.6	85.0
On new loans	—	—	—	—	—	—	—	2.5	5.7	6.8
On financing of the gap 2/	—	—	—	—	—	—	—	—	0.8	1.7
Interest due (without IMF)	47.7	50.7	58.7	58.7	50.3	49.1	46.9	47.0	46.1	45.6
Scheduled debt service	47.7	45.0	50.3	50.2	44.2	41.0	36.3	32.4	27.8	24.0
On new loans	—	—	—	—	—	1.3	2.9	5.3	7.3	9.4
On financing of the gap 2/	—	—	—	—	—	—	—	1.1	2.3	3.1
On short-term credit	...	5.7	8.4	8.5	6.0	6.8	7.6	8.1	8.6	9.0
Repurchases due to the Fund	9.0	12.4	9.7	4.9	3.5	7.4	11.2	9.6	5.9	4.4
Charges in the Fund	4.4	3.5	2.7	2.7	2.8	2.2	1.7	1.0	0.4	0.4
Disbursements of medium- and longer-term loans	108.7	115.8	95.7	103.8	71.1	74.6	97.3	106.5	108.0	110.2
Project loans	103.5	115.8	95.7	83.8	52.9	46.4	58.7	69.6	73.5	76.1
Quasi grants	...	34.6	29.2	13.8	11.8	16.7	25.8	26.1	27.6	29.2
Loans	103.5	81.2	66.5	69.9	41.1	29.7	33.0	43.4	45.9	46.9
Program loans	5.2	—	—	20.0	18.2	28.2	38.6	36.9	34.5	34.1
Debt outstanding at the end of the year	1,436.9	1,344.6	1,365.4	1,378.9	1,378.7	1,455.5	1,503.7	1,548.4	1,586.8	1,615.0
Medium- and long-term loans	1,237.7	1,249.5	1,230.1	1,219.8	1,209.2	1,285.2	1,318.6	1,348.0	1,385.3	1,410.9
Contracted loans	1,237.7	1,249.5	1,230.1	1,219.8	1,138.2	1,069.8	990.2	894.7	800.9	705.0
New loans	—	—	—	—	71.1	145.7	243.1	349.5	457.5	567.7
Financing of the gap	—	—	—	—	—	69.7	85.4	103.7	126.9	138.2
Fund resources	30.3	27.6	36.3	50.2	50.8	60.3	66.1	73.4	67.4	63.0
Short-term credit	68.7	67.4	98.9	100.0	100.0	110.0	119.0	127.0	134.0	141.0
Arrears	100.2	—	—	8.8	18.7	—	—	—	—	—
					(As percentage of exports of goods and services)					
Total debt service	38.3	31.1	43.5	45.0	54.2	40.1	35.2	35.4	31.9	28.8
Interest and charges	15.3	13.1	15.3	17.0	13.9	12.7	11.5	10.7	9.8	9.2
Of which: Fund charges	1.3	0.8	0.7	0.7	0.7	0.5	0.4	0.2	0.1	0.1
Principal and repurchases	23.0	18.0	28.2	28.0	40.2	27.4	23.7	24.8	22.0	19.9
Of which: Fund repurchases	2.6	3.0	2.3	1.4	0.9	1.8	2.7	2.1	1.3	0.9
After debt relief	29.7	-7.4	25.1	28.3	46.5	40.1	35.2	35.4	31.9	28.8
					(As percentage of GDP)					
Total disbursed debt outstanding	...	191.0	190.0	190.4	184.9	187.7	187.0	181.4	175.8	169.2
Of which: Fund credit	...	3.9	5.0	6.9	6.8	7.8	8.2	8.6	7.5	6.6
Debt service	...	16.0	22.1	21.4	26.8	19.7	16.9	17.4	16.0	14.6
Fund credit as percent of quota	...	81.5	99.8	141.1	142.5	177.9	194.9	216.5	198.9	186.0
					(In percent)					
Memorandum items:										
Average interest rates										
On disbursed debt under commitments after end-1988	...	...	...	...	...	1.7	1.7	1.9	1.9	1.9
On rescheduled debt and financing of the gap	...	...	...	...	3.5	3.5	3.5	3.5	3.5	3.5

1/ Including counter-entry for German debt cancellation related grant.
2/ Assumes repayment terms of 5 percent within the first two years after the closing of the gap and for the remaining part a grace period of five years, after which 19 percent per year have to be repaid.

Table V. Mauritania: Proposed Schedule of Disbursements Under ESAF Arrangement

Amount	Availability date	Conditions necessary for disbursement 1/
8.475 million	May 15, 1989	Executive Board approval of the ESAF arrangement and the first annual arrangement thereunder.
8.475 million	After November 14, 1989	Observance of the performance criteria for September 29, 1989, and completion of the semiannual review under the arrangement
8.475 million	After March 14, 1990	Executive Board approval of the second annual arrangement
8.475 million	After September 14, 1990	Observance of the performance criteria for June 29, 1990, and completion of the semiannual review under the arrangement.
8.475 million	After March 14, 1991	Executive Board approval of the third annual arrangement.
8.475 million	After September 14, 1991	Observance of the performance criteria for June 30, 1991, and completion of the semiannual review under the arrangement.

Source: IMF.

1/ Other than the generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

MAURITANIA - Basic Data

Area, population, and GDP per capita

Area		1.0 million square kilometers
Resident population:	Total (1987)	1.86 million
	Growth rate	2.6 percent
GDP per capita (1987)		SDR 389

	1985	1986	1987	1988
GDP (at 1982 market prices)				
Total (in millions of ouguiyas)	39,931	41,203	43,260	44,244
Annual rate of growth	2.9	5.4	2.8	2.5
In percent of total				
Agriculture	20.1	20.8	21.1	21.0
Fishing	8.0	8.3	7.9	7.1
Mining	14.9	14.2	13.4	13.6
Manufacturing	5.7	5.6	5.5	5.4
Government	12.3	12.5	13.2	13.1
Gross fixed investment	24.6	21.7	19.9	16.4
Prices (percent change)				
GDP deflator	15.4	7.9	7.3	6.6
Consumer price index	13.6	7.8	8.2	6.3
Central government finance	(In millions of ouguiyas)			
Recurrent revenue	13,044	14,962	17,216	17,959
Foreign grants	5,737	3,347	4,884	8,953
Total expenditure	21,235	19,865	23,348	25,143
Recurrent	14,820	84,654	15,592	16,571
Development	6,415	5,211	7,756	8,572
Overall deficit (-) (commitment	-2,454	-1,556	-1,248	1,769
Changes in arrears (decrease (-))	-6,887	617	218	-275
Overall deficit (-) (cash basis)	-9,341	-939	-1,030	1,494
Foreign borrowing (net)	-150	-3,675	-1,594	-3,870
Domestic borrowing	-1,087	-585	-442	803
Of which: from banking system	(-530)	(-271)	(-424)	(883)
External debt relief and exceptional assistance	10,578	5,199	3,065	1,573

MAURITANIA - Basic Data (continued)

	1985	1986	1987	1988
Money and credit		(Percent change)		
Net domestic assets	19.1	6.6	4.3	6.8
Domestic credit	-2.9	13.5	6.7	13.6
Government	-4.8	0.2	-4.7	17.6
Private sector	1.9	18.2	10.1	12.6
Money and quasi-money	18.3	15.4	16.4	2.6
Balance of payments		(In millions of SDRs)		
Exports, f.o.b.	371.9	358.7	315.1	332.0
Imports, f.o.b.	-319.5	-287.5	-257.2	-262.5
Trade balance	52.4	71.2	57.9	69.5
Services and private transfers (net)	-237.1	-233.0	-214.0	-201.8
Subtotal	-184.7	-161.8	-156.1	-132.3
Public transfers	83.7	64.3	71.1	127.4
Current account	-101.0	-97.5	-85.0	-4.9
Capital account	68.2	34.8	36.8	-44.9
Disbursements	115.8	95.7	103.8	71.1
Amortization	-62.0	-100.4	-95.9	-149.8
Other capital 1/	10.1	37.7	26.9	32.4
Overall balance 1/	-32.8	-62.7	-48.2	-49.8
Current account deficit as percent of GDP	-14.4	-13.6	-11.7	-0.7
Gross official foreign reserves	46.6	47.0	58.0	48.3
In months of imports of goods and services	1.1	1.2	1.6	1.3
External public debt				
Debt outstanding	1,344.6	1,362.9	1,376.5	1,376.2
Debt service (in percent of goods and services)				
Excluding the Fund	23.7	36.2	41.0	51.1
Including the Fund	27.6	40.0	43.1	52.8

1/ Including private and short-term capital, valuation adjustments, and errors and omissions.
2/ Before debt relief.

MAURITANIA - Basic Data (continued)

IMF data

Date of membership	
Quota	SDR 33.9 million
Exchange rate (as of December 31, 1988)	
U.S. dollar/Local currency	US$1 = UM 75.26
SDR/Local currency equivalent	SDR = UM 101.15

	As of February 28, 1989 (In millions of SDRs)
Total outstanding purchases	33.3
Under tranche policies	33.3
Ordinary	(32.3)
Supplementary	(1.1)
SAF	17.0
Compensatory financing	--
Total Fund currency holdings (in percent of quota)	198.1
Net cumulative SDR allocation	9.7
Holdings of SDRs	0.1
Trust Fund loans outstanding	1.3

Social indicators
(In percent unless otherwise indicated)

	1975	1982-86
Population and vital statistics		
Total population (thousands)	1,369	1,860
Urban population	20	36
Population growth rate	2.3	2.6
Life expectancy at birth (year)	41	47
Crude birth rate (per thousand)	47	47
Crude death rate (per thousand)	23	19
Infant mortality rate (per thousand)	154	123
Labor force		
Total labor force (thousands)	472	607
Female	21	21
Agriculture	77	69
Industry	7	9

MAURITANIA - Basic Data (concluded)

	1975	1980-87
Education		
Enrollment		
Primary: Total	19	37
Male	24	45
Female	13	29
Secondary: Total	4	12
Male	7	19
Female	1	6
Pupil teacher ratio		
Primary	35	51
Secondary	25	...
Food, health and nutrition		
Per capita supply of:		
Calories (per day)	1820	2071
Proteins (grams per day)	67	65
Population per physician (thousands)	18	11
Population per hospital bed (thousands)	2.9	1.3

MAURITANIA--Statistical Issues

1. Outstanding statistical issues

a. Prices

- Recommendations of the December 1985 technical assistance mission have not yet been implemented. Further, technical assistance could be useful in aiding the authorities to implement the recommendations.

b. National accounts

- The authorities are aware of the need to improve the coverage and currentness of the data. An expert, sent by France under its bilateral long-term technical assistance program, is currently reviewing the methodology and procedures used in compiling national accounts data.

c. Government finance

No government finance data reported to the Bureau of Statistics.

d. Monetary accounts

The authorities are currently restructuring their banking system, a process expected to be completed by the end of June 1989. This will result in a complete revamping of monetary accounts as banks are being merged, nonperforming loans written off, a new Banking Law implemented, and new regulations and accounting practices established. Technical assistance would be useful to ensure that the accounts are properly drawn up.

e. External debt

Administrative weakness and lack of adequate coordinations have led to frequent delays in Mauritania meeting external debt service obligations. The authorities are exploring the possibility of putting in place a computerized system to strengthen debt management. Technical assistance could help the authorities in improving debt monitoring capabilities.

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

The following table shows the currentness and coverage of data published in the country paper for Mauritania in the April 1989 issue of IFS. The data are based on reports sent to the Fund's Bureau of

Statistics by the Central Bank of Mauritania, which during the past year have been provided on a very irregular basis; the currentness of the data needs also to be improved.

	Status of IFS Data		Latest Data in April 1989
Real Sector	- National Accounts		1984
	- Prices		September 1988
	- Production		n.a.
	- Employment		n.a.
	- Earnings		n.a.
Government Finance	- Deficit/surplus		n.a.
	- Financing		n.a.
	- Debt		n.a.
Monetary Accounts	- Monetary Authorities		December 1988
	- Deposit Money Banks		December 1988
Interest Rates	- Discount Rate		June 1988
	- Bank Lending/Deposit Rates		June 1988
	- Bond Yields		n.a.
External Sector	- Merchandise Trade:	Value	June 1987
		Exports	Q2 1987
		Imports	August 1988
		Prices	n.a.
	- Balance of Payments		1986
	- International Reserves		September 1988
	- Exchange Rates		December 1988

MAURITANIA - Relations with the Fund

(As of February 28, 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: 67.17 million (198.13 percent of quota)
(c) Fund credit:

	Million	Percent
General Resource Account	33.26	98.1
credit tranche	32.20	95.0
supplementary financing	1.06	3.1
SAF	16.95	50.0

(d) Reserve tranche position: None

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

Type	Date of Approval	Duration	Amount	Utilization
(a) Current arrangement:				
SAF				16.95 million
(b) Previous arrangements:				
SBA	June 5, 1981	10 months	25.8 million	25.8 million
SBA	April 12, 1985	12 months	12.0 million	12.0 million
SBA	April 21, 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	10.17 million	

MAURITANIA - Relations with the Fund (continued)

IV. SDR Department

(a) Net cumulative allocation: 9.72 million
(b) Holdings: 0.12 million (1.3 percent of allocation)

V. Administered Accounts

(a) Trust Fund loan:	
(i) Disbursed:	12.70 million
(ii) Outstanding:	1.25 million
(b) SFF Subsidy Account:	2.30 million

VI. Financial Obligations to the Fund:

	Overdue Financial Obligations 02/28/89	Principal and Interest Due			
		1989 March-Dec.	1990	1991	1992
Principal					
- Repurchases	--	6.8	11.2	9.6	4.6
- Trust Fund repayments	--	0.8	0.4	0.1	--
	--	7.6	11.6	9.7	4.6
Charges and Interest including SDR, Trust Fund, and SAF	--	2.7	2.8	2.1	1.4
Total	--	10.3	14.4	11.8	6.0

(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.

MAURITANIA - Relations with the Fund (continued)

VIII. Last Article IV Consultation, Review Under the Stand-By Arrangement, and Request for Arrangements Under the Structural Adjustment Facility

The staff held discussions with the authorities on the 1987 Article IV consultation, the first review under the stand-by arrangement, and the negotiations for the medium-term policy framework paper (PFP) for the three-year period July 1987-June 1990 and for the second annual program under the structural adjustment facility (SAF) during the period August 1-20, 1987.

The staff report (EBS/87/218) and the report on recent economic developments (SM/87/252) were considered by the Executive Board on November 6, 1987. The decisions adopted were as follows:

A. 1987 Consultation

1. The Fund takes this decision in concluding the 1987 Article XIV consultation with Mauritania and in the light of the 1987 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Mauritania maintains the restrictive exchange measures described in EBS/87/218, in accordance with Article XIV, Section 2, and none of these measures is subject to approval under Article VIII.

B. Review Under Stand-By Arrangement

1. Mauritania has consulted with the Fund in accordance with paragraph 4(d) of the stand-by arrangement for Mauritania (EBS/87/73, Supplement 1) and paragraph 3 of the letter from the Minister of Economy and Finance and the Governor of the Central Bank of Mauritania dated February 24, 1987, annexed thereto, in order to review progress in the implementation of the program and establish performance criteria on total net domestic credit of the banking system for the remainder of the program period.

2. The letter dated October 2, 1987 from the Minister of Economy and Finance and the Governor of the Central Bank of Mauritania shall be attached to the stand-by arrangement for Mauritania, and the letter dated February 24, 1987 and its annexed memorandum shall be read as supplemented by the letter dated October 2, 1987.

3. Accordingly, the reference in sub-paragraph 4 (a) (i) of the stand-by arrangement to paragraph 15 of the annex to the letter dated February 24, 1987 relating to the limit on total net domestic credit of the banking system, shall comprehend a reference to paragraph 13 of the letter dated October 2, 1987.

MAURITANIA - Relations with the Fund (continued)

4. The Fund decides that the review contemplated in subparagraph 4 (d) of the stand-by arrangement for Mauritania is completed.

C. Structural Adjustment Facility

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

2. The Fund has appraised the progress in implementing the policies and reaching the objectives of the program supported by the first annual arrangement, and notes the updated policy framework paper (EBD/87/262).

3. The Fund approves the arrangement set forth in EBS/87/218.

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.

External debt consultant: May-October 1983.

External debt advisor: November 1985 to November 1988.

(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 1986-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.

MAURITANIA - Relations with the Fund (concluded)

(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.

X. Resident Representative: None

Financial Relations of The World Bank Group with Mauritania

(As of January 31, 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:

	Amount (less cancellations) (In millions of U.S. dollars)			
	Committed		Disbursed	
	IBRD	IDA	IBRD	IDA
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 Enterprise		16.40		12.52
Structural Adjustment 1/		42.40		25.49
Development Management		10.00		0.00
Technical Assistance		4.60		1.48
Total	146.0	196.01	146.0	146.95
Repayments	93.0	4.01		
Debt outstanding	53.0	148.12		

4. IFC: In 1985 the IFC financed an edible-oil refinery.

5. Status of Bank Group Dialogue and Operations

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 Assistance Project to the Rural Sector (FY84). Development of small-

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

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.