

EBS/86/192

CONFIDENTIAL

August 19, 1986

To: Members of the Executive Board

From: *The Acting Secretary*

Subject: Mauritania - Staff Report for the 1986 Article IV Consultation,
Review Under Stand-By Arrangement, and Request for Arrangements
Under the Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Mauritania, its review under its stand-by arrangement and a request for arrangements under the structural adjustment facility (SAF). A draft decision appears on pages 32 and 33.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Sacerdoti (ext. 8514), Mr. Fassassi (ext. 8392), or Mr. Schoofs (ext. 8363) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

MAURITANIA

Staff Report for the 1986 Article IV Consultation, Review
Under Stand-By Arrangement and Request for Arrangements
Under the Structural Adjustment Facility

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

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

Approved by A.D. Ouattara and Eduard Brau

August 15, 1986

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I. Introduction

A staff mission consisting of Messrs. Sacerdoti (Head-AFR), Fassassi (AFR), Greene (AFR), Schoofs (ETR) and Mrs. Klotz (secretary-AFR) visited Nouakchott during the period June 12-27, 1986 to conduct the 1986 Article IV consultation discussions and the first review under the 12-month stand-by arrangement which ends in April 1987. Concurrently, discussions were conducted on a medium-term policy framework for the three-year period July 1986 - June 1989 ^{1/}, and on an economic and financial annual program for the period July 1, 1986-June 30, 1987 that could be supported by a disbursement under the Structural Adjustment Facility (SAF) in an amount equivalent to SDR 6.8 million (20.0 percent of quota). Policy discussions were held principally with Mr. Mohamed Salem Ould Lekhal, Minister of Economy and Finance, Mr. Dieng Boubou Farba, Governor of the Central Bank of Mauritania, and Mr. Thiam Samba, Secretary of State in charge of Budget.

In accordance with the stand-by arrangement, the first review focused on the outcome of the debt rescheduling of a recent Paris Club meeting, the implementation of the financial program in the first five months of 1986 and the policies and performance criteria for the second semester. A letter from the Secretary of State in charge of the Budget and the Governor of the Central Bank of Mauritania summarizing developments in the first five months of 1986 and policies for the second half of the year is included in Appendix I. A letter of request for a three-year arrangement under the Fund's structural adjustment facility (SAF) and the first annual arrangement thereunder is attached to the proposed decision; a medium-term policy framework paper for the period July 1, 1986 to June 30, 1989 and the memorandum on economic and financial policies for the first year are included in Annex I and II, respectively, of the proposed decision.

The 12-month stand-by arrangement for Mauritania, approved by the Fund on April 21, 1986, is for an amount of SDR 12 million equivalent to 35.4 percent of Mauritania's quota of SDR 33.9 million (EBS/86/70). To date, Mauritania has made the initial purchase under the arrangement equivalent to SDR 1.2 million. The second installment scheduled to be made upon observance of the performance criteria for end-April has not yet been effected because the performance criteria on total domestic credit and net credit to Government were not met at end-April 1986 as explained in Section II below; if the end of June performance criteria are met, the purchase will be effected in the month of August. The third, fourth and fifth purchases will be made upon observance of the performance criteria for end-June, end-September and end-December 1986, respectively, and are conditional on the completion of the present review. As of end-June 1986, Mauritania's total use of Fund credit

^{1/} A Bank staff member, Mr. R. Vaurs, was in Nouakchott during the second half of the mission's stay and collaborated closely with the mission in the discussions for the medium-term policy framework.

amounted to SDR 25.2 million (74.3 percent of quota), all under tranche policies. If all scheduled repurchases and all scheduled purchases under the current stand-by arrangement are made, Mauritania's outstanding use of Fund credit will reach the equivalent of 89.7 percent of quota by end-April 1987 (Table 1).

The last Article IV consultation discussions were held in Nouakchott during the period of June 27-July 11, 1985. The staff report for the consultation (EBS/85/239) and the report on recent economic developments (SM/85/270) were considered by the Executive Board on November 5, 1985. On that occasion, Directors commended the Mauritanian authorities for the strong adjustment measures implemented since early 1985 under the Fund-supported program. Directors observed however, that Mauritania's internal and external imbalances remained very large and would require the continuation of firm adjustment policies for a number of years. They urged in particular the authorities to strengthen tax collection, to reduce further the civil service wage bill in real terms and to step up the process of rehabilitation of the public enterprise sector.

Fund collaboration with the World Bank is very close. The Bank assistance to Mauritania focuses on public enterprise rehabilitation, irrigation, small scale industry development, and public sector management improvement, in addition to support for basic infrastructure. The Bank is at an advanced stage of preparation of a Structural Adjustment Loan. The Fund and Bank staff have been in close contact, to ensure full consistency in the formulation of structural reforms and macroeconomic objectives between the Fund programs and Bank loans.

Mauritania continues to avail itself of the transitional arrangements of Article XIV. Summaries of Mauritania's relations with the Fund and the World Bank Group are provided in Appendices III and IV, respectively. Basic data are in Appendix V and a note on statistical issues is included in Appendix VI.

II. Background and Recent Economic Developments

1. Background

After many years of generally inadequate economic policies and unfavorable exogenous factors, Mauritania is now in the process of pursuing a comprehensive adjustment effort aimed at eliminating the internal and external imbalances built up during the 1970's and early 1980's. Despite these efforts Mauritania is expected to face economic and financial difficulties for a number of years because of the magnitude of past internal and external imbalances, and the difficult physical environment.

In the period up to 1984 Mauritania's economic and financial structure deteriorated sharply as a result of persistent drought and

Table 1. Mauritania: Fund Position During the Stand-By Arrangement Period

	Outstanding at beginning of arrangement	1986				1987	Total
		April	May- Aug.	Sept- Nov.	Dec. 86- Feb. 87	March April	
(In millions of SDRs)							
Transactions under tranche policies (net)	--	<u>0.4</u>	<u>0.5</u>	<u>0.1</u>	<u>1.6</u>	<u>0.8</u>	<u>3.5</u>
Purchases	--	<u>1.2</u>	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>12.0</u>
Ordinary resources	--	<u>1.2</u> ^{1/}	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>2.7</u>	<u>12.0</u>
Borrowed resources	--	--	--	--	--	--	--
Repurchases	--	<u>0.8</u>	<u>2.2</u>	<u>2.6</u>	<u>1.1</u>	<u>1.9</u>	<u>8.5</u>
Ordinary resources	--	--	--	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>	<u>4.6</u>
Borrowed resources	--	<u>0.8</u>	<u>0.2</u>	<u>1.7</u>	<u>0.2</u>	<u>1.0</u>	<u>3.9</u>
Transactions under special facilities (net)	--	--	--	6.8	--	--	--
Total Fund credit outstanding (end of period)	<u>26.9</u>	<u>27.3</u>	<u>27.9</u>	<u>34.8</u>	<u>36.4</u>	<u>37.2</u>	
Under tranche policies	26.9	27.3	27.9	28.0	29.6	30.4	
Under special facilities	--	--	--	6.8	6.8	6.8	
(As percent of quota)							
Total Fund credit outstanding (end of period)	<u>79.4</u>	<u>80.7</u>	<u>82.2</u>	<u>102.6</u>	<u>107.4</u>	<u>109.8</u>	
Under tranche policies	79.4	80.7	82.2	82.5	87.3	89.7	
Special facilities	--	--	--	20.1	20.1	20.1	

Source: IMF, Treasurer's Department.

^{1/} Initial purchase on the stand-by arrangement becoming effective.

worsened terms of trade, the impact of which were exacerbated by inappropriate policies, including expansionary fiscal and credit policy, inappropriate pricing policies, unfavorable performance of public enterprises, an increasing overvaluation of the currency, and an excessively large and unproductive public investment program, which led to an unsustainable debt burden.

Owing to adverse climatic conditions together with inadequate producer prices, the traditional production of cereals on nonirrigated land was reduced from about 100,000 tons in late 1960's to less than 30,000 tons during the 1984/85 (June-May) crop year. In the mining sector, until recently the leading sector of the economy, iron ore production required new and costly investments as easily exploitable mines were being depleted; copper production ceased in 1978. Attempts by the Government to set up viable manufacturing enterprises failed, and many Government-owned industries like the oil and sugar refineries had to be closed down. In the fishing sector, although the authorities adopted a new policy in 1979 aimed at increasing their control of fishing activities in Mauritania's coastal waters, the net foreign exchange receipts from fishing remained small and the value added by the sector remained low. As a result of these structural problems, GDP grew at an average annual rate of only about 1 percent over the period 1981-84 in spite of high investment ratio which reached 47.1 percent of GDP in 1982, reflecting the very low rate of economic return.

Along with the stagnation of the production, there emerged large fiscal and balance of payments imbalances. By 1984, the Government's consolidated overall fiscal deficit (on a commitment basis and including external grants) was equivalent to 11 percent of GDP (Table 2). Excluding external grants, the deficit amounted to 25 percent of GDP. This large fiscal imbalance, coupled with the deterioration of the terms of trade and the negative savings of the rest of the economy, resulted in an even larger balance of payments imbalance. By 1984, the deficit of the current account (including public transfers) was equivalent to 22 percent of GDP. Excluding public transfers, the deficit amounted to 36 percent of GDP. As a result of these large deficits, domestic and external arrears were accumulated and amounted at end-1984 to UM 0.7 billion and UM 7.7 billion (SDR 105 million) respectively. By end-1984, the outstanding foreign debt was about US\$1.4 billion, equivalent to 174 percent of GDP.

2. The process of adjustment, 1985-86

To reduce the major imbalances and effectively address structural problems facing the Mauritanian economy, early in 1985 the Government embarked on a comprehensive adjustment program, which stressed both demand management and substantial structural adjustment measures. This program was supported by a 12-month stand-by arrangement approved by the Executive Board in April 1985. The adjustment effort was continued and strengthened in the framework of a new program for 1986, which is supported by the current stand-by arrangement.

Table 2. Mauritania: Selected Economic and Financial Indicators, 1982-89

	1982	1983	1984	1985		1986		1987	1988	1989
		Actual		Prog. 1/	Prel.	Prog.	Proj.		Projections	
(Annual percentage changes; unless otherwise specified)										
National income and prices										
GDP at constant prices	-2.2	6.6	-0.5	3.0	3.1	4.0	5.2	4.3	4.3	5.2
GDP deflator	9.9	4.0	11.2	12.0	12.2	6.0	7.3	5.5	5.0	5.0
Consumer price index	8.4	4.9	8.0	12.0	10.5	7.0	7.0	6.0	5.0	5.0
External sector										
Exports, f.o.b. (in SDRs)	-5.3	35.7	-2.8	13.7	29.7	3.2	0.1	3.4	5.9	15.3
Imports, f.o.b. (in SDRs)	24.0	-11.5	-13.1	-11.7	-3.5	-5.6	-15.2	0.5	6.8	10.6
Export volume	-7.8	42.3	-5.4	5.5	14.4	1.5	5.4	2.5	4.2	13.4
Import volume	22.9	-11.9	-11.0	-11.3	-1.4	-2.1	-9.4	-0.9	3.6	7.3
Terms of trade	1.8	-5.0	5.2	1.7	15.9	5.5	1.6	-0.5	-1.5	-1.4
Nominal effective exchange rate (depreciation -) 2/	3.9	5.6	-8.8	...	-21.3	...	...	...	...	...
Real effective exchange rate (depreciation -) 2/	8.4	5.8	-3.5	...	-17.0	...	...	...	...	...
Consolidated government operations										
Revenue	8.2	23.9	15.2	20.9	19.5	18.6	29.6	8.1	9.4	10.7
Revenue and grants	1.2	7.0	30.8	31.9	13.4	18.7	20.6	4.1	7.3	10.2
Total expenditure and net lending	22.8	7.8	10.3	18.9	-0.9	14.5	8.2	1.5	1.0	5.5
Money and credit										
Domestic credit	21.3	10.0	9.3	5.2	2.1	5.5	5.9	5.9	5.9	5.9
Credit to the Government	(13.1)	(39.6)	(-2.4)	(-)	(-10.8)	(-)	(-)	(-)	(-)	(-)
Credit to the economy	(23.9)	(1.5)	(13.9)	(7.0)	(6.4)	(7.1)	(7.6)	(8.0)	(7.5)	(7.5)
Money and quasi-money	-2.0	9.1	9.0	9.2	24.1	(9.0)	(9.0)	(9.5)	(9.0)	(9.0)
Velocity (GDP relative to M2)	4.2	4.3	4.2	4.3	3.9	4.0	3.6	4.0	4.1	4.2
Interest rate	9.0	9.0	9.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
(In percent of GDP)										
Consolidated government deficit 3/ (surplus +)										
Excluding grants	-23.4	-24.7	-24.5	-20.5	-17.1	-11.7	-10.8	-8.3	-5.7	-4.2
Including grants	-11.5	-16.1	-10.9	-3.5	-4.9	-3.0	-1.0	--	2.0	3.3
Change in payments arrears (increase +)	1.3	1.0	1.4	-12.5	-9.0	--	--	--	--	--
Consolidated government deficit (cash basis) (surplus +)	-10.2	-15.0	-9.5	-16.0	-13.9	-3.0	-1.0	--	2.0	3.3
Foreign financing (net)	13.9	11.7	7.3	-2.0	-1.3	-3.5	-8.2	-5.6	-7.3	-6.4
Domestic financing (net)	-3.7	3.3	2.2	--	-1.1	-0.8	-0.7	--	--	--
External debt relief and exceptional assistance	--	--	--	--	16.4	7.3	9.9	...	...	...
Financing gap (surplus +)	--	--	--	18.0	--	7.3	--	5.6	5.3	3.1
budgetary deficit 4/ (surplus +)	-3.6	-4.7	-1.8	-0.1	-0.4	1.5	2.7	3.6	5.0	6.3
Gross domestic investment	47.1	17.9	25.2	25.2	23.9	24.1	21.5	20.7	22.6	19.9
Gross domestic savings	0.1	-12.1	-1.9	2.5	9.0	14.3	12.5	14.1	16.7	18.1
Resource gap	-47.0	-30.0	-27.1	-22.7	-14.9	-9.8	-8.0	-6.6	-5.8	-1.8
Current account deficit (before debt relief)										
Excluding official transfers	-54.4	-39.2	-36.2	-31.6	-24.5	-19.3	-19.6	-16.5	-14.4	-9.3
Including official transfers	-43.1	-29.2	-22.4	-14.1	-10.6	-9.5	-7.7	-6.1	-4.8	-0.3
External debt (outstanding)	154.9	167.5	189.7	242.5	193.9	223.9	204.5	198.0	187.4	171.1
Debt service ratio 5/	29.7	30.3	38.4	36.5	30.1	52.4	43.4	37.4	38.2	33.8
Of which: on the use of Fund resources	2.4	1.8	3.5	...	3.6	3.0	3.0	1.8	1.4	1.8
(In millions of SDRs; unless otherwise specified)										
Overall balance of payments										
Before debt relief	-110.8	-83.6	-103.2	-71.8	-35.4	-80.1	-74.3	-40.9	-25.2	-27.8
After debt relief	-86.2	-57.5	-73.9	...	86.4	21.3	27.7	-37.3	...	...
Gross official reserves (months of imports of goods and nonfactor services)	2.7	2.3	1.8	2.0	1.2	1.9	1.6	2.0	2.3	2.1
Net foreign assets	-77.0	-111.8	-142.8	-145.5	-115.0	-91.9	-103.8	-84.2	-65.9	-60.4
External payments arrears (outstanding)	36.5	55.4	104.8	--	--	--	--	--	--	--

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

1/ As indicated in EBS/85/41.

2/ End-December to end-December.

3/ On a commitment basis, including central government operations, development expenditures financed directly through external aid, and interest charges to be refinanced or rescheduled.

4/ Deficit on treasury operations, on a commitment basis.

5/ As a percentage of exports of goods and services.

The performance under the 1985 program was favorable, all the programmed targets and performance criteria were met and the broader aspects of the policy effort have been met.

Owing in part to favorable rainfalls and in part to more appropriate pricing and marketing policies, agricultural production increased sharply in 1985; the higher supply of food relieved the inflationary pressures resulting from the sharp devaluation of the ouguiya. The real GDP growth rate was 3.1 percent in 1985 following a negative rate of -0.5 percent in 1984.

To remove the obstacle to efficient resource allocation, price liberalization policies were initiated under the 1985 program and continued in 1986. In 1985, cereal prices were raised by 20-40 percent, both at the producer and consumer levels, in order to enhance incentives to producers, reduce the price disparity with Senegal, and discourage the consumption of imported cereals. Measures were adopted to increase the flexibility of the country's pricing and marketing framework. Substantial progress was achieved in the rehabilitation of some key public enterprises. To enlarge the resource base and promote sustained economic growth and domestic savings in the medium term, the investment priorities were redefined and the selection of new projects based on economic criteria, particularly on the need to generate foreign exchange earnings.

Substantial progress was achieved in 1985 in reducing the internal and external imbalances, as mentioned in EBS/86/70 of March 21, 1986. The domestic savings ratio increased sharply from a negative 1.9 percent to 9 percent in 1985 owing to an improvement in Treasury operations and higher savings in the fishing and mining sector, reflecting larger exports and improved profitability. The deficit of Treasury operations on a commitment basis, including grants and before debt relief, was reduced to UM 210 million in 1985 from UM 829 million in 1984 (Appendix II, Table 1). This result fell somewhat short of the deficit programmed of UM 38 million or of the surplus of UM 107 million which was estimated in EBS/86/70. This was mainly due to higher expenditure on external debt service for the government than previously estimated. ^{1/} The consolidated government overall deficit on a commitment basis, including grants and before debt relief, was reduced from 10.9 percent of GDP in 1984 to 4.9 percent in 1985, compared with 4.0 percent in the revised program. Excluding grants, the overall deficit declined from 24.5 percent of GDP in 1984 to 17.1 percent of GDP in 1985 (Appendix II, Table 2). The investment budget was reduced in close collaboration with the World Bank, with expenditure reoriented to quick-yielding projects and rehabilitation of existing infrastructure. The improved fiscal performance led to a reduction in net credit to the Government, while total domestic credit increased by only 2.1 percent, compared with the 5 percent programmed. In view of the sharp reduction in net external

^{1/} Total debt service in the balance of payments was instead close to program estimate.

liabilities of the banking system, however, broad money increased in 1985 by 24 percent, well above the 14 percent quota projected during the mid-term review of the program.

The tight financial policies and the flexible exchange rate policy --the ouguiya was depreciated in real effective terms by 21 percent between January 1985 and January 1986-- , contributed, together with a major improvement in the terms of the trade, to the substantial cut in the external current account deficit in 1985; the deficit declined from 22.4 percent of GDP in 1984 to 10.6 percent of GDP (including official transfers). This improvement was even better than was estimated last March at the time of the presentation of the new stand-by arrangement (See EBS/76/70). In volume terms, exports increased by 14 percent and imports declined by 1.4 percent (Table 2). Substantial debt relief was obtained from the Paris Club and other official creditors; external arrears outstanding at end-1984 were eliminated in the course of 1985.

For 1986, the objective of the program is to reduce further the external current account deficit, through a further reduction of fiscal imbalance and the intensification of structural reforms initiated in 1985. The program aims at a reduction of the current account of the balance of payments including official transfers to 9.5 percent of GDP in 1986 and at an increase in gross reserves by SDR 15 million. (Excluding official transfers the deficit is targeted to decline from 25 percent of GDP in 1985 to 19.3 percent of GDP). The overall fiscal deficit on a commitment basis, including grants and before debt relief, is targeted to decline from 4.9 percent of GDP in 1985 to 3 percent in 1986. Excluding official transfers, the deficit is targeted to decline from 17.1 percent of GDP to 11.7 percent. Concomitantly, Treasury operations are programmed to move from a deficit of UM 210 million (0.4 percent of GDP) in 1985 to a surplus of UM 900 million in 1986 (1.5 percent of GDP), through tax measures and a containment of current expenditures. For 1986, wage expenditures are to be stabilized in real terms, the size of the civil service, excluding the ministries of Education and Health will be frozen at its end-January 1986 level, while any increase in recruitment in these two ministries will have to be offset by savings in wages and benefits.

Structural measures include the rationalization of the investment program, further increases in cereal prices both at the producer and retail level, price liberalization, the rehabilitation of the electricity and water company, the reorganization of the petroleum distribution company, a reform of energy pricing and the restructuring of the banking system. In 1986, exchange rate policy is to be geared to preserve competitiveness of exports and import sustaining activities so as to contribute to the attainment of the current account deficit target and the targeted increase in reserves of SDR 15 million. A summary of the principal policy measures of the 1986 program and their implementation is contained in Table 3.

Table 3. Mauritania: Summary of Principal Policy Measures of the 1986 Program and their Implementation

A. Fiscal Policy

The fiscal deficit on a commitment basis (including grants and before debt relief) to be reduced from 4.9 percent of GDP in 1985 to 3.0 percent of GDP in 1986; excluding grants, from 17.1 percent of GDP in 1985 to 11.7 percent. Increase of minimum profit tax, of the tax rates on high salaries and wages and reduction of customs duty and excise exemptions especially for petroleum products. No increase in the wage bill in real terms. No recruitment except for the Ministries Education and Health, where it is to be offset by savings in personnel costs.

Tax measures implemented. Commitment on expenditure reaffirmed. Overall budgetary performance on track.

B. Monetary and Credit Policies

1. Domestic bank credit increase of 5.5 percent, credit to the non government sector to grow by 7.1 percent with no increase in net credit to the Government.

Domestic credit and net credit to the nongovernment sector are allowed to increase at a slightly higher rate (5.9 percent and 7.6 percent, respectively) with no increase in net credit to the Government.

2. Initiate banking system rehabilitation (i) increase collection of nonperforming credits and improve credit risk assessments; (ii) improve bank profitability through reduction of operating costs; (iii) prepare plan for restructuring the banking sector.

Implementation as envisaged. Recovery of nonperforming loans accelerated. Restructuring of commercial banks underway as scheduled.

C. Pricing and marketing policies

1. Reduction of the list of goods subject to price controls to 13 basic commodities.

Implemented

2. Increase in official prices for agricultural prices at the level of production and commercialization.

Implemented

3. Limit the free distribution of cereal grains to 50,000 tons in 1986; promotion of "food for work"; establishment of Common Fund for food aid sales proceeds.

Implementation as envisaged.

D. Public enterprises

1. Strengthening the rehabilitation of three key public enterprises; emergency measures to improve SONELEC's financial situation.

Implemented as envisaged; electricity tariffs have been raised and SONELEC is allowed to cut its services to customers in arrears.

2. Initiating the rehabilitation of the petroleum marketing company (SMCPP).

Implementation as envisaged.

E. Public investment program

1. The public investment program for 1986 will be implemented within the framework set by the medium-term recovery program and in consultation with the World Bank. The financing mix calls for a minimum 50 percent grants content.

Implemented as envisaged; grant content will exceed the 50 percent envisaged.

F. External sector policies

1. Continuation of a flexible exchange rate policy.

Implemented as envisaged.

2. Negotiations of external debt relief from Paris Club and other official creditors.

Paris Club Agreed Minutes signed on May 16, 1986; negotiations on bilateral agreements with Paris Club creditors and other official creditors are underway.

In support of its adjustment program, Mauritania obtained in May 1986 considerable external debt relief. Paris Club creditors agreed to provide Mauritania with 100 percent effective debt relief in 1986. Other official bilateral creditors are expected to agree to rescheduling terms similar to those granted by Paris Club members. Overall the total debt relief that Mauritania expects to receive, upon conclusion of the bilateral agreements with official creditors, amounts to about SDR 105 million, somewhat more than envisaged under the program.

3. Developments during the first five months of 1986

The Mauritanian authorities have implemented all the measures envisaged under the program for the first half of 1986 and considerable progress has been made toward achieving the targets and objectives for 1986.

Economic and financial developments in the first five months of 1986 have been satisfactory. The annual rate of inflation in this period was about 7 percent, in line with the program objective. The information obtained indicates that the 1986 cereal harvest has been favorable as a result of good rains; production is expected to amount to 66,000 tons compared with 30,000 tons in 1985. Because of the favorable cereal harvest and the unexpectedly good performance of the fishing sector, the GDP growth is expected to reach 5.2 percent in 1986 compared with 4 percent programmed. As envisaged during the program, cereal prices were further increased at the level of production and commercialization, to provide adequate incentives, and measures were taken to increase the flexibility of the country's pricing and marketing framework. In particular, in March 1986 the list of goods produced locally and subject to price controls was reduced to eight commodities.

With regard to budgetary developments in the first five months of the year, current revenue increased by 23 percent over the same period of the previous year, although somewhat less rapidly than envisaged under the program, because of delays in the collection of the proceeds of new tax measures (see Section III). Budgetary expenditure increased by 11 percent over the corresponding period of 1986, and were in line with the program, despite the fact that interest payments were higher than programmed. While personnel expenditure increased somewhat faster than programmed, expenditure for materials were lower. No recruitment has been effected in the first half of the year, and departures since January have amounted to 104, of which 68 for the period February-May 1986.

In 1986, interest and amortization due by the Government are projected to be higher than programmed and to be only partially offset by higher than projected rescheduling of government debt service. This results from higher than expected charges related to rescheduling, and from maturities coming due at end-1985 which were settled in early 1986, as well as from higher than initially projected debt service payment not

eligible to rescheduling; this latter factor results from a review of national data and revised exchange rate projections. For these reasons, in the first five months of the year cash payments on both interest and amortization were higher than envisaged. As a result, the Treasury increased its recourse on the banking system by UM 530 million at end-April 1986, above the ceiling allowed under the program. 1/

Credit to the economy surged in the first five months on account of credit to the fishing export corporation (SMCP) and the iron company SNIM which faced temporary financial difficulties after experiencing some technical problems early in the year. Credit expansion was also boosted by higher than expected interest on non performing credits which are capitalized and included in claims on economy. As a result, the performance criteria for end-April for net credit to Government and total credit were not met by a substantial margin (Table 4). There are indications that these ceilings will be met for end-June, which is the second test date under the program, as outstanding credit to the economy was reduced by substantial repayments by SMCP and SNIM in June.

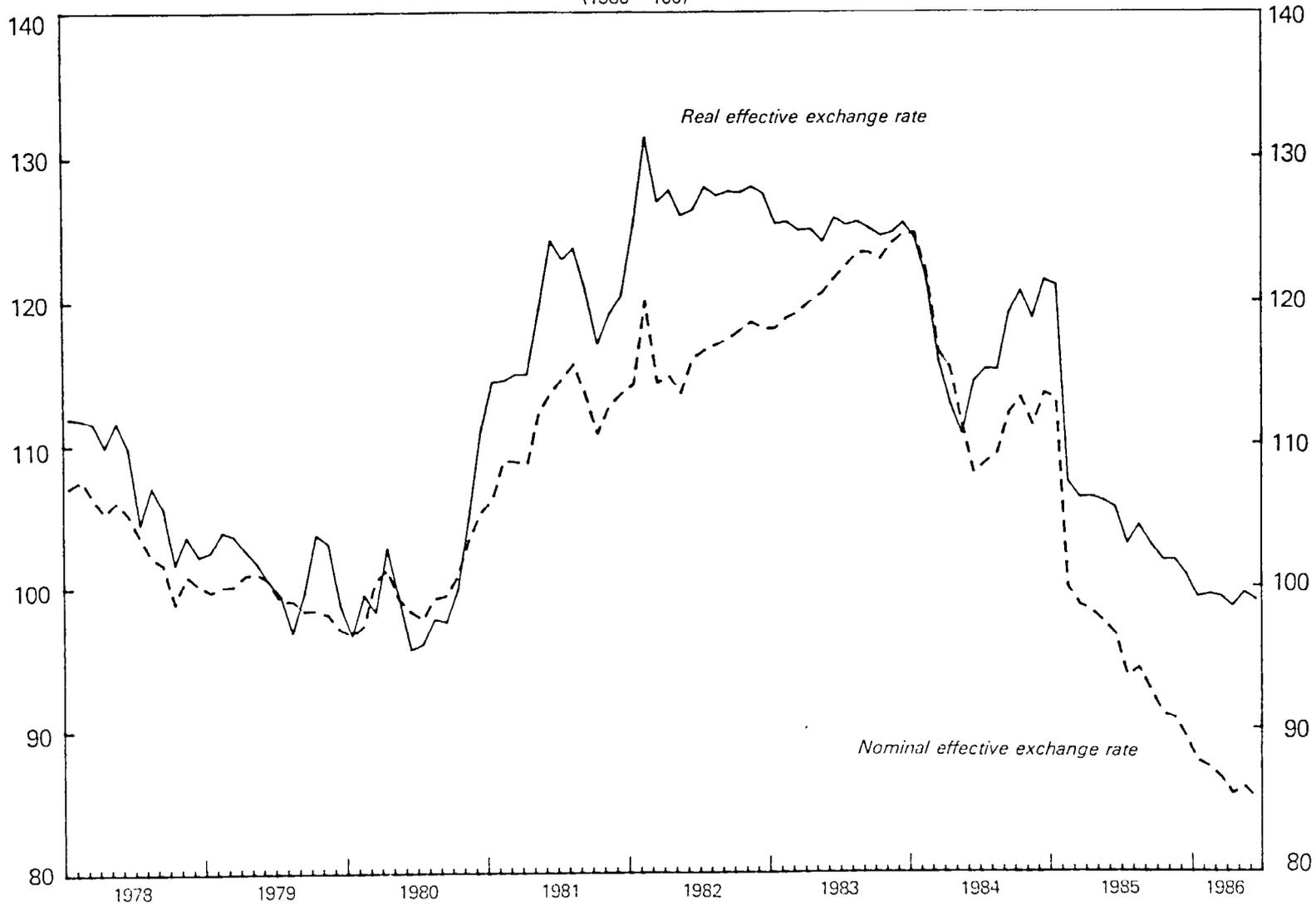
On the external side, during the first five months of 1986 exports increased at a higher rate than expected, due almost entirely to a sharper increase in exports of fish; export of iron ore, after slowing down during the first quarter of 1986 due to technical production difficulties of SNIM, resumed a steady pace in May 1986, and is now following a trend consistent with the programmed level for 1986. Imports of cereals are expected to be somewhat lower than programmed because the food import company SONIMEX reduced its import of rice due to higher cereal production and large stocks. On the basis of these developments during the first five months of the year, the 1986 outlook for the current account of the balance of payments appears better than above. In the period January-July 1986, the Mauritanian ouguiya has been depreciated by an additional 4 percent in nominal terms, and by about 2.5 percent in real terms, bringing the cumulative real depreciation from the January 1985 level to about 24.5 percent (Chart).

III. Report on discussions

The discussions with the authorities covered recent economic and financial developments in conjunction with the Article IV Consultation and the review of the stand-by arrangement. In addition, the medium term economic prospects and the outlook for the process of structural reform were also discussed.

1/ The expansion was within the statutory limit of the Central Bank, as a reduction of outstanding credit to the Treasury at end 1985 had created room under the existing facility.

CHART
MAURITANIA
NOMINAL AND REAL EFFECTIVE EXCHANGE RATES, 1978-JUNE 1986
(Period average)
(1980 = 100)



Sources: IMF data fund, and staff estimates.



Table 4. Mauritania: Quantitative Performance Criteria under Stand-By Arrangement, 1986

(End of period)

	1986				
	Cumulative change from end-December 1985 to end-				
	April		June	September	December
	Ceiling	Actual	Ceiling	Ceiling	Ceiling
	(In millions of ouguiyas)				
Net domestic credit	282	1,862	482	1,000	1,200
Net credit to Government	--	529	--	--	--
Domestic arrears of the Government	--	--	--	--	--
	(In millions of SDRs)				
New nonconcessional foreign borrowing contracted or guaranteed by the Government with 0-15 years' maturity <u>1/</u>	--	--	--	--	--
New short-term external borrowing contracted by commercial banks, other than trade credits	--	--	--	--	--
External payments arrears of Central Government	--	--	--	--	--
External arrears on guaranteed commercial credit	--	--	--	--	--

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

1/ Excluding debt rescheduling.

1. The real sector and public enterprise rehabilitation

Extensive discussion took place on agricultural policy, including food aid policy, production and commercialization. The Mauritanian representatives noted that the good 1985/86 cereal crop, coupled with the ample cereal stock available at end-1985 because of the substantial shipments of aid and commercial imports both in 1984 and 1985, should make it possible in 1986 to reduce the recourse to food aid and to curtail cereal imports. The amount of food aid being distributed freely is expected to be reduced from the level of 66,000 tons in 1985 to about 50,000 tons in 1986, as a result of the efforts to allocate more food aid to food-for-work programs, to stimulate self reliance and to slow migration to the urban centers; in the first six months of the year free distribution had amounted to 27,000 tons. The sale of food aid had declined substantially in 1985 as a result inter alia of the 50 percent price increase introduced in early 1985; it was noted that the price increase had resulted in less cereal being diverted to livestock feed, and had led to more reliance on domestic production. As the main part of the 1986 cereal shipment of food aid is earmarked for sale, the representatives were concerned that the objective for free food aid distribution may be difficult to reach unless the donors would agree to some reallocation.

With regard to agricultural production and commercialization in the south the Mauritanian authorities noted that although the Food Security Agency (Commissariat à la Sécurité Alimentaire CSA) has the monopoly of cereal collection and commercialization, in practice an important part of the crops are marketed through private channels, and the agency is the purchaser of last resort. The authorities agree about the importance of giving a larger role both in marketing and rice processing to the private sector; to that end certain rice mills presently managed by CSA are being transferred to the private sector. Additional reforms are scheduled to be introduced on the basis of the results of a study financed by the World Bank on cereal production and marketing, to be completed in the coming months.

With regard to developments in the fishing sector, the authorities noted with satisfaction the increase in deep sea fish catch in the first five months of 1986 which, was in part related to the enlargement of the fishing fleet. They noted that fishing activity is adequately profitable, thereby inducing new investment in ships. At the same time, the authorities were concerned that the sizable freezing plants on shore are underutilized as the bulk of the fishing fleet is composed by tankers freezing the catch on board, which is more cost effective. In their effort to increase the value added of fishing activity, in conformity with the new fishing policy, the authorities intend not only to stimulate the use of onshore freezing facilities, but also to develop more sophisticated forms of fish processing on shore. The authorities also stressed that they intend to gradually phase out the fishing licenses, presently granted to a certain number of foreign companies; the aim is to expand further the role of joint ventures between

nationals and foreign companies and of the fully owned Mauritanian companies which already carry out the bulk of the fishing activity.

Developments in the iron ore sector in 1985 and the first part of 1986 were also relatively favorable. The representatives of SNIM, the iron ore company, noted that the level of production in 1985 has remained at the peak level of 9.5 million tons reached in 1984, and a further increase in production and exports to about 10.5 million tons was likely to be achieved in 1986. They stated that SNIM had no difficulty in securing the sale of its output, because of its proximity to Europe, the close relations with European customers, and the specific qualities of its iron which was well suited to existing furnaces. Mainly because of the specificities of Mauritania's iron ore the authorities were confident that the entry into operation in the near future of the huge Brazilian mine of Carajas would not hurt SNIM sales. With regard to the medium-term prospect, they considered that the production volume could achieve the range of 12 to 14 million tons per year owing to the enrichment process which has been put in place for the new Guelbs mine and the large supply of iron available for enrichment. Although the operation of the new mine are more expensive than that of the old Kedia mine, now close to depletion, the SNIM representatives felt that mining operations would continue to be profitable, as the large investments of the last two decades have been already fully amortized.

In the area of public enterprise rehabilitation where a comprehensive effort is underway with World Bank assistance, discussions focused on the actions to improve the performance of the water and electricity company SONELEC, and the reorganization of the petroleum distribution company SMCPP. SONELEC had been able to increase its collection rate from 45 percent in 1985 to 60 percent in the first semester of 1986 as it has been authorized to cut distribution to customers in arrears; further increases in the collection rate were expected for the second half of the year. Billing operations were also being improved with World Bank assistance. It was noted that the Government had settled its outstanding arrears and that budgetary appropriation for 1986 had been set at a level adequate to avoid the incurrence of arrears. Despite these factors, the company needs a significant infusion of resources to finance its operation, given the large debt service and the high cost of electricity producing operations; the situation was expected to improve in the medium-term with the scheduled replacement of existing high cost gasoil powered plants. After the departure of the mission, a decision was taken to increase electricity tariffs by 15 percent, which is scheduled to be implemented in mid-August. An increase of the capital of the company is envisaged to take place toward the end of the year, using a part of the proceeds of the World Bank structural adjustment credit.

The authorities noted that a technical and financial audit of the petroleum distribution company is under way. The audit will serve as a basis for a full review of the petroleum distribution costs and price

structure, with a view to promote the development of the productive sector of the economy, and in particular of the fishery sector; a new petroleum price structure is scheduled to be established by the end of the year.

The authorities reiterated their commitment to the privatization of non strategic public enterprises. The livestock commercialization company is being dismantled and companies taken over by the National Development Fund are gradually being sold to the private sector.

2. Fiscal policy and investment program

The discussions centered on the need to achieve over the next three years a substantial decline in the overall fiscal deficit in order to support the external adjustment and increase the domestic financing of investment. The outcome for the year 1985, the budgetary developments in the first part of 1986 and the outlook for the year as a whole in relation to program objectives were extensively discussed.

The final outcome for 1985 showed that treasury operations recorded a deficit of UM 210 million, higher than the UM 38 million targeted exclusively on the account of higher outlays on interest on external debt. Concomitantly, the overall fiscal deficit on a commitment basis, including grants, was reduced from UM 5.0 billion (10.9 percent of GDP) in 1984 to UM 2.6 billion (4.9 percent of GDP) in 1985 compared with UM 2.1 billion (4.0 percent of GDP) in the revised program.

Commenting on the budgetary developments in the first five months of 1986, the authorities explained that the total expenditure were higher than envisaged under the program mainly because of larger than envisaged debt service. The somewhat higher than programmed level of personnel expenditure resulted from not having taken appropriate account of the full impact on 1986 of the recruiting made during the last months of 1985. However they were confident that for the year 1986 as a whole both total personnel expenditure and expenditures for the ministries of Education and Health will remain within the limits of the program, because of continuing tight restraint, including limits to recruitment. With regard to the outlays on debt service, which are now expected to exceed program projection by about UM 1.4 billion on a full year basis, the authorities stated that that they will be compensated for by the increased revenue from higher fish export and from the windfall revenues from the lower price of petroleum imports which will be absorbed by the Government through transfers from the oil distributing state company. They were confident that the revenue objectives will be achieved for the other taxes; they explained that the somewhat lower than programmed increases in tax revenues in the first five months of the year was due to delays in collecting the revenues resulting from the new tax measures introduced early in 1986.

Given the need to offset the higher outlays on external debt than originally forecast, part of which are for principal repayments, the

surplus on treasury operations is now targeted to reach UM 1,600 million for 1986 (2.7 percent of GDP) instead of UM 900 million initially programmed (1.5 percent of GDP). Extrabudgetary investment expenditure (counterpart of external grants and loans disbursed outside the Treasury) are now expected to be somewhat higher than programmed, but with a higher grant financing content. As a result of developments in Treasury and extrabudgetary operations, the consolidated government deficit including grants is now projected to decline to 1 percent of GDP in 1986, compared with a program target of 3 percent of GDP. Excluding grants, the consolidated government deficit is projected to decline to 10.8 percent of GDP compared with 11.7 percent programmed.

With regard to the efforts underway to increase the tax base, the Mauritanian representatives indicated that a source of revenue growth was the reduction of custom duty and excise exemptions which were extremely widespread in Mauritania. Measures to reduce exemptions to the agricultural sector had already been taken under the 1986 Budget Law and administrative measures had been adopted to reduce fraud in claiming exemptions. In addition, a survey of exemptions had been carried out in the first part of the year to lay the basis for a comprehensive reform. The representatives noted that, although the review of the investment code carried out with World Bank assistance would be completed only toward the end of the year, fiscal measures modifying the exemptions under the code would be introduced already under the 1987 Budget Law so as to be effective by the beginning of 1987. With regard to the possibility to enlarge the revenue from income and profit taxes, the Mauritanian representatives said that efforts should be concentrated on centralizing information on taxpayers available in different government departments and the Central Bank; this was likely to improve substantially the coverage of these taxes.

With regard to the public sector investment program for 1986, the authorities stated that its amount is now projected to be higher than the initial estimate of UM 11.4 billion, mainly on account of larger investment both of the government and of public enterprises, and of the depreciation of the exchange rate. The authorities noted that the share of grants in the financing of government investment will be higher than in 1985 and will exceed the 50 percent envisaged under the program. The amount of grants for government investment is projected at UM 3 billion, compared with UM 2 billion initially projected. The preparation of a comprehensive investment budget for 1987 is well underway, with FAD technical assistance, and its finalization is expected by next October.

The authorities further indicated that a Common Fund for counterpart of sales of food aid was being established, and that to date UM 1.3 billion are available in the Fund; four projects included in the Investment Program have been selected to be financed by the Fund.

3. Credit policy and banking reform

The Mauritanian representatives explained that the expansion of credit to the economy in 1985 had been well below program targets and

was very limited, especially since a part of the credit expansion indicated in the monetary statistics represent the capitalization of interest of non performing loans, most of which have been uncollectable for years. The representatives explained that this was mainly the result of the decline in the indebtedness toward the banking system of the major public enterprises, reflecting the improvement of their profitability and higher export proceeds. With regards to the concerns expressed by the staff representatives about the large increase in domestic credit in the first four months of 1986, the Mauritanian representatives noted that this partly reflected further capitalization of interest on non performing loans and partly exceptional short term financing need of SNIM, in connection with technical delays in iron ore exports, and of the fish export companies. During the month of June however, large repatriation of export proceeds had led to a significant reduction in domestic credit outstanding.

The Mauritanian representatives stressed that, in line with commitments under the program, substantial measures had been taken in the first part of the year toward the rehabilitation of the banking system, whose functioning is hampered by inadequate management, resulting in a large amount of non performing loans. The actions taken aimed at accelerating the collection of non performing loans and at strengthening Central Bank supervision of banks. At the same time, steps have been taken to lay the basis for a comprehensive restructuring of the banking system which will involve larger foreign and private sector participation in the existing banks. A list of the borrowers in arrears to their banks had been made public in May; these borrowers have been barred from any use of banking facilities, including the purchase of foreign exchange and guarantees for bidding on government contracts, until they had concluded rescheduling agreements with banks and made the first down payment required by the agreement. These agreements have to be registered with a Special Court and have legal force. Although the full impact of these measures will be felt only in the coming months, the amounts recovered on non performing credits have increased significantly in the first five months of 1986. At the same time, the Central Bank supervision of commercial banks has been tightened; banks in delays in transmitting their monthly statement of accounts have been barred from access to Central Bank refinancing and more frequent and rigorous controls of the quality of risks have been introduced. The regulation on Central Bank prior authorization for loans exceeding UM 2 millions is being strictly enforced. Measures have also been taken to strengthen bank profit margins so as to enable them to make more adequate provisions for non performing loans; these include higher commissions and a reduction in interest rate on sight deposits. Despite these measures the authorities acknowledge that the rehabilitation of the banking system will require a long effort and will necessitate a fundamental change in managerial and control procedures, including more rigorous accounting system and risk evaluation.

To lay the basis of a comprehensive restructuring plans of each bank, an analysis of the individual banks' net worth and losses is being carried out by a team of World Bank financial consultants and was completed in July. These restructuring plans will have to involve a strengthening of the banks capital base, including adequate loan loss provisions, through larger private and foreign participation. It has been agreed that the Government will reduce its equity participation in the banks, whenever possible, and that it will cover its obligations for the banks recapitalization in part through the assumption of the outstanding refinancing by the Central Bank and in part by using some of the proceeds of a World Bank Structural Adjustment loan under negotiation. Discussion with foreign partners are underway and some agreements are expected to be concluded by the end of 1986.

4. External policies

The discussions centered on the balance of payments outlook for 1986, on import and exchange control and on the exchange rate policy. The authorities considered that the program's balance of payments targets and in particular the reduction in the current account deficit (including public transfers) to 9.5 percent of GDP were likely to be exceeded in light of the favorable outlook for fish export both regarding volume and unit prices, the reduction in the import price of petroleum and somewhat lower non petroleum imports.

On the export side, in 1986 the expansion of exports in SDR terms appears now lower than programmed, (0.1 percent instead of 3.2 percent), but from a higher base, as a result of the upward revision of 1985 exports (Table 2 and Appendix II, Table 4). Iron ore exports in SDR terms are now projected to decline by 6.4 percent, compared with a program increase of 6.3 percent, because of a projected decline in prices in SDRs of 15 percent; unit prices in dollars are expected to decline by 5 percent, instead of an increase of 4 percent programmed. On the other hand, fish exports appear more buoyant than expected under the program, and are projected to increase by 4.5 percent in SDRs, compared with a decline of 2 percent envisaged under the program. In 1986, total imports are now projected to decline by 15.2 percent in SDRs, compared with a 5.6 percent decline under the program, as a result of lower petroleum prices, and sharply lower cereal imports in volume both under food aid and under commercial imports. In all, the increase in the trade surplus is now expected to be substantially larger than programmed.

With higher than programmed outlays for interest payments and somewhat higher public transfers because of larger projected aid, the current account deficit is now projected at SDR 53 million or 7.7 percent of GDP, compared with a deficit of SDR 63 million or 9.5 percent of GDP programmed. As the capital account deficit is projected to be somewhat above the program level, the overall balance of payments for 1986 is projected at SDR 74 million, (after taking into account envisaged disbursements under the Structural Adjustment Credit

of the World Bank) compared with SDR 80 million under the program. The overall deficit will be financed by the envisaged debt rescheduling, the proposed drawing under the SAF (SDR 6.8 million) and by about SDR 10 million of other exceptional assistance already committed; this should permit to achieve the targeted reconstitution of gross reserves of SDR 15 million.

The authorities acknowledged that the difficult balance of payments prospects for the medium term, with the continuing need for exceptional assistance, require the continuation of a flexible exchange rate policy; the Governor of the Central Bank reaffirmed his commitment to improve further the competitiveness of the external sector by taking appropriate exchange rate actions.

The present structure of the protective system was also discussed. The authorities recognize the need for a review of the tariff system in order to rationalize it; they noted in particular that the existing large protection provided to the local industries was inappropriate as it did not foster efficiency. A review of the tariff system will take place in the coming months with World Bank assistance.

Mauritania continues to maintain discretionary controls on imports and on the sale of foreign exchange for invisibles, including travel expenses and remittances abroad by foreigners working in Mauritania, but exceptions are granted to the limits in bona fide cases. The authorities noted that allowances are granted liberally for travel to neighboring countries. Import licenses are issued on the basis of the projected need established at the beginning of the year, and the authorities stated that the system is administered relatively liberally, with a number of licenses never fully used. Approval of the licences by the Central Bank is required; it has been withheld in specific cases prior to 1985 when expansion of imports of certain nonessential goods was considered excessive.

IV. The Medium Term Outlook

The Fund staff, in cooperation with the World Bank, has reviewed the medium term outlook and scenario for the balance of payments for the period 1986-1992. Like the scenario presented in the program paper EBS/86/70, this scenario is based on the assumption of a continuation of the current adjustment policies, the implementation of 1985-88 recovery program, and a return to more normal weather conditions. It is consistent with the objective to achieve balance of the payments viability by the end of the 1980's (Appendix II, Table 4). Growth of real GDP is projected to average to 3 percent per annual over the forecast period, slightly higher than the projected population growth. Investment is expected to average about 21 percent of GDP during the period 1986-92, that is about the same as during 1984-85 and sharply down from average 34 percent of GDP during the period 1979-83. Domestic savings, which have become substantially positive in 1985, are expected

to increase significantly in 1986 to about 12.5 percent of GDP, and to about 18 percent by 1989, so as to cover more than 60 percent of investment expenditure by the late 1980's. This development is projected to result from an increasing Treasury surplus and rising surpluses in the two main export sectors, fishing and mining; it will require persistent restraint in fiscal and monetary policy and a competitive exchange rate.

The assumptions and policy mentioned above would enable Mauritania to eliminate the current account deficit (including official transfers) by 1989, and to achieve some surpluses thereafter. In the period 1986-92, exports are projected to increase by 5.6 percent in SDR terms on average and by 5 percent in volume, with an acceleration in 1989 due to the entry to operation of a copper mine. While iron exports are projected to remain stable in value in light of the expected weakness in international prices, fish exports are expected to increase by about 8 percent in value and 5 percent in volume in view of the intended expansion of the fishing fleet (Appendix II, Table 5). The net contribution of the fishing sector to the current account will increase more than recorded fish exports, because payments for imported services and remittances to foreign partners are projected to decrease as a percentage of exports, as the national fleet and on shore facilities are developed, in line with government policies. With the continuation of supply side and structural adjustment policies and an increase in agricultural production, the rise in import volume would be contained to less than 3 percent a year during the period 1987-92. In SDR terms imports are projected to increase by about 5.5 percent per year, with a sharp increase in 1988 owing to imports related to a copper project. This scenario differs from the one presented in EBS/86/70 as export prices of iron ore in SDRs are now projected to decline by 1 percent a year, versus an increase of 4 percent in the previous scenario. This would be offset by somewhat higher fish exports, and lower payments for petroleum imports reflecting the decline in international prices.

Disbursements of medium and long term loans are expected to increase in 1987-88 mainly because of envisaged disbursements under the World Bank Structural Adjustment Credit, but may decline thereafter. A large amount of direct investment related to the copper project is expected to take place in 1988. Gross reserves are programmed to increase from an amount equivalent to 1.2 months of imports of goods and nonfactor services at end-1985 to 2.1 months at end-1989. As a result of these developments the financing gap is projected to decline gradually and to be almost eliminated by 1990. A small financing gap would reappear in 1991 and 1992 due to a sharp increase in scheduled principal repayments, resulting from the 1985 and 1986 rescheduling. The closing of the financing gaps will require further debt rescheduling, but on a declining scale, and some exceptional assistance.

The debt outlook would improve noticeably during the period. The debt service ratio would decline from 43.4 percent of exports of goods and services in 1986 to 31 percent in 1992 and the stock of outstanding

disbursed debt is projected to remain broadly stable (Appendix II, Table 6). Charges and repurchases from the Fund as a ratio of exports of goods and services would decline from 3 percent in 1986 to 1.8 percent in 1989. Outstanding Fund credit, on the basis of disbursements projected by the end of the current stand-by arrangement, would decline from 5.3 percent of GDP at end-1985 to 0.5 percent of GDP at end-1992. In the past Mauritania has serviced timely its obligation to the Fund also in the presence of severe balance of payments difficulties. The programmed improvement in the overall balance of payments and the targeted increase in reserves should ensure that promptness of payment is maintained.

While this scenario represents a plausible outcome, it is very sensitive to the external environment. For example, should the iron ore prices decline by 2 percent per year more rapidly, the balance of the payment gap would widen by about SDR 10 million by 1990. A two percent lower rate of increase of fish export would result in a larger gap of about SDR 20 million by 1990.

V. The Financial Program for the Second Half of 1986

The authorities, mindful of the magnitude of the remaining imbalances despite the substantial adjustment achieved so far, are strongly committed to continue the adjustment effort as indicated in the memorandum on the economic and financial policy attached to the letter of intent of the Minister and the Governor of the Central Bank of February 4, 1986. In particular, during the remaining of 1986, the Government will continue to adjust the exchange rate to maintain the competitiveness of Mauritania's exports.

On the budgetary front, the Government will take steps for a reduction in customs duty exemptions and excise tax exemptions effective at the time of the 1987 Budget Law. It will also intensify its efforts to broaden the effective tax base by a better use of available information on potential taxpayers. On the expenditure side, the Government will ensure that the policy of restraint is continued.

The Government is now finalizing legal and technical procedures for a consolidated account of Government operations, including central government and public enterprises investment, to be attached to the 1987 Budget Law. In the area of public enterprise restructuring, the Government will intensify the financial and technical rehabilitation of SONELEC; to that end, electricity tariffs will be increased in August by 15 percent, and further improvements will be achieved in bills collection. With regard to banking system rehabilitation, the policy of accelerating collections of nonperforming loans, initiated during the first half of the year, will be continued. In addition, during the remaining of 1986, the audit of the banks will be completed and discussions with foreign shareholders to recapitalize the banks will

continue with the objective to reach an agreement in the next few months.

Overall bank credit, which equaled UM 20,170 million at end-December 1985, will not increase by more than UM 1,000 million between end-December 1985 and end-September 1986, and by more than UM 1,200 million between end-December 1985 and end-December 1986; net credit to the Government at end-September and end-December 1986 will not exceed the end-December 1985 level of UM 4,485 million. These ceilings, which are performance criteria, are consistent with an increase in total bank credit of less than 6 percent for 1986 as a whole, and an increase in credit to the economy of 7.6 percent. The December ceiling on total credit is slightly higher than the indicative target set out in the memorandum of February 4, 1986, which implied a growth of credit to the economy of 7.1 percent in the year as a whole. The change is motivated by the higher level of economic activity which is now projected in particular in the fishing and agricultural sectors. With these credit ceilings, the expansion of money and quasi-money is projected to reach 9 percent as a whole, somewhat below the expansion of nominal GDP.

VI. Request for Arrangements Under the Structural Adjustment Facility

In the letter of request (attached to the proposed decision) to the Managing Director, the Secretary of State in charge of the budget and the Governor of the Central Bank of Mauritania have requested a three-year arrangement under the Fund's Structural Adjustment Facility (SAF) and the first annual arrangement thereunder. The first loan under the SAF, in an amount equivalent to about SDR 6.78 million (20 percent of quota), will become available upon approval of these requests. The letter of request is accompanied by a medium-term policy framework paper for the period from July 1, 1986 to June 30, 1989 and by a memorandum on economic and financial policies for the July 1986-June 1987 period which the authorities will be implementing with the support of the proposed first disbursement under the SAF. As indicated in the memorandum, the annual program incorporates the objectives and measures for the second half of 1986 discussed in the request for the stand-by arrangement (presented in EBS/86/70), as supplemented by the letter of June 26, 1986 contained in Appendix I.

The policy package that Mauritania will be implementing under the SAF was developed by the authorities in close collaboration with the staffs of the Fund and the World Bank. The authorities are in the process of negotiating with the World Bank a structural adjustment credit to be financed by funds from IDA, and from the Bank's Special Facility for Sub-Saharan Africa. In the context of this credit, the authorities are formulating major policy actions with respect to (i) improved management of the economy and administrative reforms; (ii) banking sector reform; (iii) food policy; (iv) energy policy; (v) development of the fishing sector; (vi) promotion of the private sector. Along with discussions with the Bank staff the authorities have

worked closely with the Fund staff to formulate appropriate policies in the area of (i) central government operations; (ii) domestic credit and interest rate policy; (iii) exchange rate policy. To ensure an effectively coordinated policy package, there have been several joint or overlapping Bank-Fund missions to Mauritania over the last six months. The policy framework paper for the SAF draws heavily upon the policies formulated in the context of the 1985-88 Recovery Program, the present stand-by arrangement, and the request for a SAC.

1. Macroeconomic objectives, July 1986 - June 1989

The main objectives of the three-year program are: (a) to achieve an annual rate of growth of real GDP of about 4 percent per year assuming the continuation of normal weather conditions; (b) to reduce the rate of inflation from 7 percent in 1986 to 5 percent in 1988 and 1989; (c) to reduce further the deficit of the current account of the balance of payments so as to achieve equilibrium by 1989 including official transfers; excluding such transfers the targeted current account is about 9 percent of GDP. The decline of the current deficit will result in a reduction in the need for exceptional assistance, including debt relief, from about SDR 125 million in 1986 to about SDR 30 million in 1989; the debt service ratio would decline as mentioned above. The closing of the financing gap will require further debt rescheduling in addition to possible further disbursements under the Fund Structural Adjustment Facility and the Bank's Structural Adjustment Credit. However, the rescheduling needed will gradually decline, and new foreign borrowing will be serviced on schedule.

The external objectives are consistent with an investment-GDP ratio of about 22 percent on average during the period 1986-89, and a further increase of the domestic savings ratio from 12.5 percent in 1986 to 18 percent in 1989, as discussed in Section IV. The growth in overall GDP would stem from the development of agriculture based on flood recession along the Senegal River and on irrigation, better integration of the fisheries activity, promotion of livestock and light industry and of new activities such as copper mining. Over a longer time period, however, GDP growth may not exceed 3 percent, due to the difficult physical environment.

Specific macroeconomic objectives have been established for 1987, in the context of the first annual program under the SAF arrangement. The GDP growth rate is projected at 4 percent, and the rate of inflation is targeted to decline to about 6 percent. The current account deficit of the balance of payments including official transfers is targeted to be reduced to about 6 percent of GDP, from 7.7 percent of GDP projected for 1986. This improvement would result from further expansion of fish exports in SDR terms and a containment in the import volume of foodstuffs and project related equipment goods (See Appendix II, Table 5). As a result of these developments, the overall balance of payments deficit is projected to decline to about SDR 40 million after taking into account envisaged disbursements under the Structural

Adjustment Credit of the World Bank. With some further increase of external reserves to about 2 months of imports, the financing gap would amount to about SDR 57 million. This could be covered by further debt relief, possible disbursements under the Structural Adjustment Facility and some exceptional assistance.

2. The policy measures

The policies to be pursued to achieve the above objectives comprise adequately restrictive budgetary and credit policies, the maintenance of an appropriate exchange rate, improved management of public finances including public investment and structural measures directed to improve resource allocations. These latter measures include agricultural reforms, intensification of the process of public enterprise rehabilitation, the reorganization of the banking sector, promotion of fishery and light industry, and a reform of the pricing and regulatory framework. A summary of the main policies objectives, related specific actions and their timing is contained in Table 5.

a. Financial policies

Budgetary policies will aim at the reduction of the consolidated government deficit from 4.9 percent of GDP in 1985 to equilibrium in 1988, and at a surplus to be achieved in 1989; this will permit to increase the share of public investment financed by budgetary resources to more than 20 percent by 1989. To improve the allocation of expenditure, the government will continue to maintain a strict control of recruitment, the civil service will be reorganized with World Bank assistance and a comprehensive census of personnel will be completed. A rigorous system of public investment selection, programming and monitoring, which is being put in place with Fund assistance, should lead to improvement in project productivity. The share of grants in the external financing of public investment is to be maintained above 50 percent in order to contain the debt service burden. The revenue base will be strengthened through a reduction of custom duty exemptions, a reform of taxation of the fishing sector and a better assessment of income taxes. The improvement in the government financial situation will enable credit expansion to be exclusively directed to the productive sectors of the economy; credit policy will be directed at containing the rate of inflation and maintaining aggregate demand in line with available resources.

A framework of fiscal and monetary targets for the period mid-1986 to mid-1987, which is the first year under the SAF, has been established. The consolidated budget deficit including grants would almost disappear, compared with a projected deficit of 1 percent of GDP in 1986. For the Treasury operations in 1987 the broad objective is to achieve a surplus of about UM 2400 million, (3.6 percent of GDP), compared with a targeted surplus of UM 1600 millions in 1986 (2.7 percent of GDP). The increase in the surplus between 1986 and 1987 would stem from continuous buoyancy of export taxes in line with the

Table 5. Mauritania - Summary and Timetable of Implementation of Policies Under the Structural Adjustment Facility, July 1986 - June 1989

Policy areas	Objectives and Actions	Timetable
1. <u>Fiscal management</u>		
a. Budget planning.	Monitoring of 1986 investment budget. Preparation of consolidated budgets from 1987 onward.	1987 investment budget to be adopted before end-1986.
b. Personnel expenditures.	Rise in the wage bill limited to 7% in 1986. Freeze of recruitment in 1986 (excluding for Education and Health Ministries). Strict control of recruitment in 1987-88.	Annual targets.
c. Material and supplies.	Rise in real terms with a higher increase for health and road maintenance.	Annual targets.
d. Administrative reforms.	Improved civil service management, audit of payroll, reallocation of personnel, restructuring of careers, restructuring of Ministry of Economy and Finance.	Audit of payroll by early 1987. Phasing of other actions to be defined before end-1986.
e. Consolidated Government budget.	Elimination of the deficit on a commitment basis by 1988 and achievement of a surplus by 1989.	Annual targets.
2. <u>Tax reform</u>		
a. Customs duty and excise exemptions.	Review of current system and initial reductions.	Review to be completed by end-1986. Measures to be introduced in 1987 Budget.
b. Income tax and tax on business profits.	Review of current system and improvement in tax administration and collection.	1986 and 1987.
c. Tax on mining and fisheries.	Completion of a comprehensive review with World Bank assistance.	Review to be completed by end-1986. Implementation in 1987.
3. <u>Agricultural policy</u>		
a. Use of food aid.	Increase food aid used for food for work programs: limit on food for free distribution. Establishment of a Common Fund to coordinate proceeds of food aid sales.	To be implemented in 1986.
b. Management of food aid agency.	Improved management, programming and budgeting capability.	Implementation starting in 1986.
c. Pricing and marketing.	Establishment of a new price adjustment mechanism with World Bank assistance. Review of marketing arrangements.	Review of pricing mechanism to be completed by end-1986 - 1987.
d. Agricultural credit.	Transfer of farm credit responsibilities to the Fonds National de Développement	1987
e. Subsidies	Elimination of fertilizer subsidies.	1986
f. Irrigation.	Preparation of a master plan for the Senegal Valley.	1987
4. <u>Other production sectors</u>		
a. Fisheries promotion.	Action program to be defined using studies financed by Kuwait Fund.	Action program to be defined before end-1986. Implementation 87-88.
b. Investment Code.	Implementation of recommendations made by the technical assistance projects financed by the World Bank.	Review to be completed by end-1986. Implementation early 1987.
c. Assistance to small enterprises.	Revision of incentives to focus on small enterprises and foreign exchange savings ventures.	Study to be completed by early 1987. Implementation in 1987.
5. <u>Public enterprise rehabilitation</u>		
a. Electrical company	Establishment of a new structure of electricity tariffs: improvement in collection and billing procedures.	New tariff structure to be introduced in 1987. Operational improvements in 1986.
b. Petroleum distribution company	Technical and financial audits; establishment of a new price structure of petroleum products.	Audits to be completed in 1986. New price structure by end-1986.

Table 5. Mauritania - Summary and Timetable of Implementation of Policies Under the Structural Adjustment Facility, July 1986 - June 1989 (concluded)

<u>Policy areas</u>	<u>Objectives and Actions</u>	<u>Timetable</u>
c. Postal Telecommunications company, Mining and harbor companies.	Reinforcement of their efficiency and financial position.	Further progress to be achieved during entire program period.
d. Urban transportation, pharmaceutical and construction companies.	Financial and technical audits.	Audits to be completed early 1987.
e. Liquidation and privatization	Implementation of World Bank recommendations	1986 and 1987.
<u>6. Banking system rehabilitation</u>		
a. Non-performing credits.	Measures to improve collection of credits in arrears. Establishment of rescheduling agreement.	1986
b. Improvement in profitability and management.	Cut in operating costs; increase in charges; reforms of accounting and risk assessment.	1986-87
c. Reinforcement of capital structure.	Transfer to the Government of the Central Bank participation in commercial banks.	1986.
	Negotiations with foreign partners for recapitalization of banks. Appointment of high level expert to coordinate capital restructuring.	1986-87.
d. Legal and administrative reform.	Revision of banking law. Changes in refinancing instruments; reinforcement of banks' supervision; establishment of new accounting plan.	1987
<u>7. Pricing policy</u>	Reduction of the number of prices subject to administrative controls. Preparation of a comprehensive study for reform the price control system with World Bank assistance.	Study to be completed early in 1987.
<u>8. Monetary and credit policy</u>	Allocation of credit to support productive sectors. Contribution to the containment of inflation. Maintenance of positive real interest rates.	Annual targets
<u>9. External policies</u>		
a. Exchange rate.	Maintenance of adequate competitiveness of the export and import substitution sector.	Further adjustment implemented in 1986. Frequent reviews thereafter.
b. External borrowing	Decrease in the external debt service ratio. Limit to the use of nonconcessional borrowing.	Annual targets
c. Tariff system	Preparation of a study to reform the tariff structure with World Bank assistance.	Study to be completed in 1987.

projected performance of the fishing sector, and the reduction in custom duty exemptions; on the expenditure side the increase in the wage bill will be maintained in line with the projected rate of inflation, while expenditure for defense outlays and subsidies and transfers will remain stable in nominal terms. Credit to the government will remain unchanged from its end-1985 level. The expansion of credit to the economy is targeted at about 8 percent in the period mid-1986-mid-1987. As the projected increase of international reserves will be broadly offset by the strengthening of the capital base of the banking system, the increase in money and quasi-money is projected at about 9.5 percent, somewhat lower than the projected increase of nominal GDP.

b. External policies

The authorities have reaffirmed their commitments to a flexible exchange rate policy, aimed at ensuring the competitiveness of the export sector and promote import substitution. In order to encourage viable projects, and correct for existing distortions, the system of tariffs and quantitative restrictions will be restructured starting in 1987 with World Bank assistance. The authorities will continue to pursue a cautious external borrowing policy, in view of the high level of outstanding debt; the government will not contract or guarantee nonconcessional loans with less than 15 years maturity.

c. Policies affecting resource allocation

In the area of agricultural policy, the authorities are committed to increase the participation of the private sector in food processing, distribution and marketing, which will involve a change in the role of the public agencies operating in the sectors. Following the substantial increase in producer and retail prices of cereals in 1985 and 1986, a mechanism for the adjustment of prices in relation to production and import costs will be established by end-1986 with World Bank assistance. The increased allocation of food aid to finance agricultural projects will be a major instrument to promote production; in this connection the administrative and programming capability of the government food security agency will be strengthened.

In the fishery sector, a comprehensive strategy to increase the contribution of this sector to the national economy will be elaborated on the basis of a study to be completed with foreign assistance in the coming months. An action program will be presented at a sectoral donor group meeting in early 1987.

During the program period, the rehabilitation of public enterprises will focus on the strengthening of the electricity's company, on the reorganization of the petroleum distribution company and of the other companies involved in the energy sector, and on the restructuring of the public enterprises in the transportation and construction sectors. A new scheme for the establishment of electricity tariffs will be introduced in early 1987 with World Bank assistance with the purpose to

better reflect actual costs. In the energy sector, the focus will be on redefining the role of the public enterprises involved so as to improve efficiency; the price structure of petroleum prices will be revised before the end of 1986. The banking sector reorganization is expected to be finalized in 1987; it will include the restructuring and recapitalization of banks with enlarged foreign participation, substantially strengthened management and accounting system and a better system of Central Bank control; a new accounting plan and banking law will be introduced in 1987.

Measures to promote the development of the small private enterprise sector will include the revision of the investment code with World Bank assistance which is to be implemented in 1987, further liberalization of the price system, and the reform of the tariff system with the view to preventing monopoly positions and increasing efficiency; this reform will be based on a World Bank study expected to be completed in early 1987.

d. Benchmarks under the SAF

The Mauritanian authorities will be monitoring the implementation of the adjustment effort with reference to two sets of benchmarks, namely one relating to certain quantitative indicators of performance and another related to the adoption of certain policy actions (Table 6).

The quantitative benchmarks cover quarterly targets for (a) total domestic credit; (b) net credit to the government; (c) nonconcessional foreign borrowing contracted and/or guaranteed by the Government with less than 15 year maturity; (d) external arrears; (e) annual target for the Treasury surplus. The benchmarks for the adoption of specific policy actions cover: (a) the reduction of the custom duty exemptions and the introduction of a new investment code; (b) the reform of the system for establishing agricultural prices; (c) measures for public enterprises, including the establishment of a new structure of electricity and energy tariffs; (d) measures concerning the reform of the banking system.

VII. Staff Appraisal

In an effort to deal with the country's severe imbalances, the Mauritanian government embarked in 1985 and 1986 on a comprehensive recovery program supported by two successive one year stand-by arrangements and extensive assistance from the World Bank and a large group of donors. In particular, it has taken a number of decisive supply side measures, including a depreciation of the real exchange rate, increases in the prices of cereals at the producer and consumer levels, price liberalization, increases in interest rates, public enterprise rehabilitation and a major rationalization of the investment program to support directly productive activities. It has also contained domestic demand through a tightening of budgetary policies, a

Table 6. Mauritania: Benchmarks for the First Year Under the Structural Adjustment Facility, July 1986 - June 1987

A. <u>Quantitative Benchmarks</u>	1986		1987	
	Sept.	Dec.	March	June
	(In millions of ouguiyas)			
Net domestic credit <u>1/</u>	1,000	1,200	1,700	2,000
Net credit to the Government <u>1/</u>	--	--	--	--
	(In millions of SDRs)			
New noncessional foreign borrowing contracted or guaranteed by the Government with 0-15 years' maturity <u>1/</u> <u>2/</u>	--	--	--	--
External payments arrears	--	--	--	--
	(In millions of ouguiyas)			
Target for Treasury surplus		1,600	...	2,000 <u>3/</u>

B. Benchmarks of Policy Implementation

<u>Actions</u>	<u>Timetable</u>
1. <u>Fiscal policy and Investment Program</u>	
- Reduction of the custom duty exemptions	Before end-1986
- Preparation of a new investment code	Before June 1987
2. <u>Agricultural policy</u>	
- Reform of the system of agricultural prices and incentives	Early 1987
3. <u>Public enterprises</u>	
- Introduction of a new structure of electricity tariffs and of petroleum prices.	Early 1987
- Further progress in the rehabilitation of SONELEC and reorganization of SMCPP	During period program
4. <u>Restructuring of the banking system</u>	
- Intensification of recovery of nonperforming loan	During program period
- Improvement in management and risk assessment, and increase in profitability	During program period
- Reorganization and recapitalization of individual banks with foreign participation	Initial agreements before end-1986
- Strengthening of Central Bank supervision, preparation of a new accounting plan and banking law	During program period

1/ Cumulative change from end-December 1985.

2/ Excluding debt rescheduling.

3/ In the July 1986 - June 1987 period.

containment of the overall investment effort, and restrictive credit policies. As a result of these measures and of a significant improvement of the terms of trade the external current account deficit (including public transfers) declined from about 22 percent of GDP in 1984 to 11 percent of GDP in 1985; for 1986 a further improvement of the current account deficit to somewhat less than 8 percent of GDP or less than the program target is projected. This adjustment is supported by a substantial increase in the savings ratio, resulting from the improvement of the Treasury situation and higher profitability of the export sector. The 1986 financing gap is now covered and the implementation of the Fund supported financial program for 1986 remains on track; an excessive credit expansion in the first four months of the year has been corrected in May and June, so that all end-June quantitative criteria are expected to be met.

Despite the improvement achieved in the fiscal and external positions in 1985 and so far in 1986, Mauritania is expected to face continuing financial and economic difficulties for a number of years. The production base remains limited in view of the difficult physical environment, and is very vulnerable to exogenous factors. The balance of payments and the budget face a large debt service burden, despite the relief provided by certain official creditors, so that a return to domestic and external financial equilibrium will require a sustained and extensive adjustment effort. The share of total investment covered by domestic resources remain modest, and will have to increase substantially if the debt service is to be gradually reduced. Although significant improvement has been achieved in the management of certain public enterprises, the financial position of the electricity company remains weak. Private sector activity in agriculture and light industry is still hampered by administrative rigidities and the fishing sector contribution to the national economy still remains substantially short of its potential. In order to deal with these difficulties, the Mauritanian government is firmly committed to pursue over the years ahead the reforms and adjustment effort outlined in the 1985-88 Recovery Program adopted last year and further elaborated in the Policy Framework Paper with Fund and World Bank assistance and in support of which resources under the Structural Adjustment Facility are being requested.

In the budgetary area, the staff welcomes the decisive actions adopted in 1985 and so far in 1986 to improve the Treasury situation and to achieve a reduction in the consolidated government deficit. In the years ahead, this effort will have to be sustained so as to provide domestic resources for investment financing within the overall fiscal target. Some room exists to increase the tax base, through the reduction of the custom duties and other tax exemptions, but the scope of increasing revenue is limited if sufficient stimulus is to be provided to private sector activity: continued emphasis will therefore have to be placed on the containment of public expenditure through a strict limitation of the growth of personnel, and the freeze of military outlays and subsidies and transfers. A major effort has been conducted to institute a centralized investment budget by 1987 to enable a

rigorous selection, programming and monitoring of public investments. As the administrative mechanism for the implementation of the investment budget has been put in place, it is now necessary that it will be effectively managed. The shift in the composition of investment external financing toward grants that has been recorded in 1986 is welcome, and it is important that it will be maintained in the future.

An important element of the 1985 and 1986 programs was the increase of the incentive to agricultural production, through higher producer prices. The productive effort in this sector can be strengthened by the substantial resources deriving from food aid which are available for project financing. It is therefore important that in the period ahead the planning and organizational capability of the state food agency be improved. At the same time, the mobilization of private initiative in the agricultural sector should be intensified, and the role of public sector agencies reviewed. Other areas in which the private sector can play a larger and beneficial role are fishery and light industry. It is therefore welcome that the authorities are conducting a full review of the appropriate strategy to promote the maximum contribution of the fishery sector to national value added and that they are ready to revise the present system of incentives and controls for light manufacturing. More efficient provision of basic services, especially in the energy sector, is essential for the development of the economy. The staff welcomes the steps underway to rehabilitate the electricity company and the commitment of the authorities to introduce in the coming months a structure of energy and electricity prices more consonant to the need of the production sector.

The commitment to a flexible exchange rate policy is a positive element in ensuring the strengthening of the export and import substitution sector. The expansion of productive activity needs an efficient banking system, able to mobilize resources and channel them effectively. Significant steps for rehabilitating the banking system are underway, and a reinforcement of the commercial banks with larger foreign participation is presently under negotiation. It is essential that the restructuring of banks be accompanied by a substantial strengthening of internal controls and procedures to ensure that the mismanagement of the past does not repeat itself.

The medium-term external objectives, which are to be supported by the policies outlined in the Policy Framework paper, entail gradually reduced reliance on exceptional financing, balance of payments viability by 1990 and a reduced debt service burden. To achieve the intended objectives, these policies will have to be pursued rigorously and with determination, taking into account the difficult physical environment that confronts Mauritania and the uncertainties regarding the projections on external demand and prices. During the period of adjustment it will be necessary that adequate exceptional financing, including debt relief, be granted to Mauritania by its partners.

It is the staff's view that the firm commitment of the Mauritanian authorities to carry out a sustained effort of economic restructuring and the positive results achieved so far in the adjustment process are worthy of the Fund support. Accordingly, the staff recommends approval by the Executive Board of the proposed decisions on the completion of the review and the request for arrangements under the Structural Adjustment Facility.

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

VIII. Proposed Decisions

In view of the above, the following draft decisions are proposed for adoption by the Executive Board:

A. 1986 Consultation

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Section 2 in concluding the 1986 Article XIV consultation with Mauritania and in the light of the 1986 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund welcomes the elimination of exchange restrictions evidenced by the accumulation of external payments arrears.

B. Review Under the Stand-By Arrangement

1. Mauritania has consulted with the Fund in accordance with paragraph 4 of the stand-by arrangement for Mauritania (EBS/86/70, Supplement 1) and paragraph 4 of the letter of the Minister of Economy and Finance and the Governor of the Central Bank of Mauritania dated February 4, 1986, annexed thereto, in order to review policies and establish performance criteria for the second semester of 1986.

2. The letter dated June 26, 1986 from the Secretary of State in charge of the Budget and the Governor of the Central Bank of Mauritania (Appendix I) shall be attached to the stand-by arrangement for Mauritania, and the letter dated February 4, 1986 shall be read as supplemented by the letter of June 26, 1986.

3. Mauritania will not make purchases under the arrangement that would increase the Fund's holdings of Mauritania's currency in the

credit tranches beyond 25 percent of quota during any period in which the data at the end of the preceding period indicate that the limit on total net domestic credit of the banking system specified in paragraph 7 of the letter of June 26, 1986 has not been observed;

4. In view of the understandings reached with Mauritania in the context of this review, the Fund decides that the review is completed and that Mauritania may proceed to make purchases under the arrangement.

C. Structural Adjustment Facility

1. The Government of Mauritania has requested a three-year structural adjustment arrangement, and the first annual arrangement thereunder, under the Structural Adjustment Facility.

2. The Fund approves the arrangements set forth in EBS/86/192.

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

Attached hereto is a letter with an annexed Policy Framework Paper and an annexed Memorandum of Economic and Financial Policies dated June 26, 1986 from the Secretary of State in charge of the Budget of Mauritania, and the Governor of the Central Bank of Mauritania, requesting from the Fund a three-year structural adjustment arrangement 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 International Monetary Fund grants the requested arrangements in accordance with the following provisions and subject to the Regulations for the administration of the Structural Adjustment Facility:

1. For a period of three years from , 1986 Mauritania will have the right to obtain three successive loans from the Fund under the Structural Adjustment Facility in a total amount equivalent to SDR 15.933 million.

2. The first loan, in an amount equivalent to SDR 6.78 million, is available for disbursement at the request of Mauritania.

3. The second and third loans will be available upon approval by the Fund of the corresponding annual arrangements and will be disbursed at the request of Mauritania. The amount of the second loan will be equivalent to SDR 4.5765 million, and the amount of the third loan will be equivalent to SDR 4.5765 million.

4. 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 paragraphs 5 and 11 of the Memorandum of Economic and Financial Policies,

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

(c) introduction or modification of multiple currency practices,

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

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

5. In accordance with paragraph 3 of the attached letter, Mauritania will provide the Fund with such information as the Fund requests in connection with the progress of Mauritania in implementing the policies and reaching the objectives supported by the first annual arrangement.

6. In accordance with paragraph 4 of the attached letter, Mauritania will consult with the Managing Director on the adoption of any measures that may be appropriate at the initiative of the Government *or whenever the Managing Director requests consultation* because he considers that consultation on the program is desirable. These consultations may include correspondence and visits of officials of the Fund to Mauritania or of representatives of Mauritania to the Fund.

Mauritania - Letter of Transmittal, Request for Three-Year Arrangement
under the SAF and the First Arrangement Thereunder

Nouakchott,
June 26, 1986

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
700 19th Street, N.W. Washington, D.C. 20431

Dear Mr. De Larosière:

1. The attached Policy Framework Paper has been prepared in collaboration with the staffs of the Fund and the World Bank. It describes the major economic problems and challenges facing Mauritania; the objectives of a three-year medium-term program, the priorities and the broad thrust of macroeconomic and structural adjustment policies and the likely external financing requirements together with the available sources of such financing.

The authorities of the Islamic Republic of Mauritania will remain in close contact with the staffs of the Fund and the World Bank on developments and progress in implementing these policies, and the Policy Framework Paper will be updated annually as the program is implemented.

2. The attached Memorandum of Economic and Financial Policies pursuant to the policy framework described above sets out the objectives and policies for which balance of payments assistance is needed that the authorities of the Islamic Republic of Mauritania intend to pursue for the period July 1, 1986 to June 30, 1989, and the objectives and policies for the first year of this period. In support of these objectives and policies, the Islamic Republic of Mauritania hereby requests a structural adjustment arrangement from the Fund for a period of three years in the amounts that will be available to it under the Fund's Structural Adjustment Facility, and requests the first annual arrangement thereunder.

3. Mauritania will provide the Fund with such information as the Fund requests in connection with its progress in implementing the policies and achieving the objectives of the program.

4. The Government believes that the policies set forth in the attached Memorandum are adequate to achieve the objectives of its program but will take any further measures that may become appropriate for this purpose. The Government will consult with the Managing Director on the adoption of any measures that may be appropriate, at the

initiative of the Government of Mauritania or whenever the Managing Director requests such consultation.

Sincerely yours

The Secretary of State
in charge of the Budget

The Governor of the Central Bank
of Mauritania

s/s

Thiam Samba

Dieng Boubou Farba

Annexes: (1) Policy Framework Paper
(2) Memorandum of Economic and Financial Policies

MAURITANIA

Policy Framework Paper, 1986-89

I. Economic Background

1. In the last fifteen years Mauritania's economic development has been uneven and has been marked by major financial imbalances. The most serious problem has been the persistent series of droughts, which has led to a rapid process of desertification; as a result, the country has become structurally dependent on food aid. At the same time, the iron ore mining sector, which was a main source of growth in the early 1970s, was affected by the crisis in the world steel market in the second part of the decade and, as a result, the mining industry's share in GDP declined sharply. During this period, the country implemented a large public investment program financed almost entirely with external borrowing; the program channeled resources toward low-yielding projects and led to a large external debt and debt service. Domestic demand was sustained by an excessive growth of public expenditures, contributing to large balance of payments deficits. Price distortions and a restraining regulatory framework discouraged the development of viable small-scale private activity in the secondary sector, while, at the same time, hampering agricultural development.

2. Faced with growing economic and financial imbalances, the Government pursued corrective financial policies during the 1979-81 period in the framework of a program supported by Fund resources; as a result, a return to balance of payments equilibrium was achieved, thanks also to better rain conditions and a rapid growth in the fisheries sector's exports. Investment policies continued, however, to be ambitious (with fixed investment exceeding 30 percent of GDP over the 1981-84 period), and measures to correct structural imbalances remained inadequate. With a resumption of expansionary budgetary and monetary policies in 1982-83 and a growing overvaluation of the exchange rate, the balance of payments deteriorated sharply. By 1983, the Government's consolidated fiscal deficit, excluding external grants, was equivalent to 25 percent of GDP, and the current account deficit of the balance of payments (excluding grants) to 39 percent. Although in 1984 the Government tightened fiscal and monetary policies and started the rehabilitation of public enterprises, the adjustment effort did not adequately address the major supply-side problems -- in particular, price and exchange rate distortions. Despite an improvement in the current account, in 1984 the overall balance of payments deficit rose, and external arrears increased markedly to reach about SDR 105 million by end 1984. As a result of these trends, coupled with a population growth rate of 2.7 percent per annum, per capita income remained no higher in real terms than a decade before.

3. Because of its natural disadvantages, its history and its geopolitical situation, Mauritania has benefitted from a high level of foreign assistance, which has not been always used productively and has allowed delays in the introduction of the inevitable structural reforms of the economy. As noted above, the need for adjustment was accentuated by weak overall economic policies which resulted in poor management of public enterprises, inappropriate sectoral strategies, and selection of projects with low and even negative rates of return.

4. Against this background, since early 1985, the Government has embarked on a comprehensive adjustment effort. This effort has been supported by two successive one-year stand-by arrangements from the Fund; the latest, for an amount equivalent to SDR 12 million (35.4 percent of quota), expires on April 26, 1987. The major adjustment measures implemented so far have been: (i) substantial devaluation of the ouguiya and adoption of a flexible exchange rate policy; (ii) increase in official prices for basic foodstuffs, utilities and petroleum products, and the gradual decontrol of other prices; (iii) improvement in tax administration, together with stronger controls over current outlays, scaling down of public investment expenditures, and improvement in decision-making; (iv) intensification of the reform of public enterprises; and (v) increase in interest rates and implementation of restrictive credit policies, in particular vis-a-vis the Government. All the measures envisaged under the 1985 stabilization program have been implemented; the targeted substantial reduction of both external and fiscal imbalances achieved; and all the performance criteria through end-December 1985 observed. Similarly, all the measures envisaged under the first phase of the 1986 stabilization program in the area of agricultural prices, public investment, public finance, and banking sector were adopted as scheduled.

5. The Government is aware of the challenges posed by the country's poor resource endowment and harsh natural environment. It is determined, however, to implement all necessary measures to take full advantage of the potentialities which exist and to develop human resources. A first set of medium-term policy reforms was designed as part of an Economic and Financial Recovery Program for the 1985-88 period, formulated with assistance from the World Bank. This Program includes appropriate macro-economic objectives, together with structural policy measures and a public investment program. The contents of the Recovery Program have been extensively explained to the population in order to justify the magnitude of the austerity measures that have to be implemented. Based on this Program, the Government is negotiating specific measures with the donor countries. The donors, as a group, have extensively supported this adjustment effort. In the context of the Consultative Group in November 1985, they have pledged to maintain their past high level of support. In particular, they have granted debt relief and exceptional assistance amounting to SDR 160 million in 1985, which allowed the elimination of payments arrears. Debt relief for 1986 is projected to amount to about SDR 105 million. Debt rescheduling was

negotiated in two Paris Club meetings (April 1985 and May 1986) and through bilateral agreements.

6. The World Bank, in addition to supporting public enterprise rehabilitation, is assisting in the reform of the agricultural sector and in developing small-scale enterprise. A structural adjustment credit of US\$35 million and a new technical assistance project are currently under preparation to support the Government's structural reform efforts.

II. The Medium-Term Economic Framework

7. The broad objectives of the Recovery Program are: (i) to maintain an annual rate of growth of real GDP higher than population growth and reduce the rate of inflation; (ii) to improve the productivity of public investment, promote the efficiency of public enterprises, and stimulate the development of fisheries, the rural sector and small enterprises; and (iii) to increase the public and private savings rate so as to reduce reliance on foreign resources for financing investments and to reduce the current account deficits and achieve significant progress toward viability of the balance of payments. To achieve these objectives, structural policy reforms will continue during the 1986-89 period; these reforms are described in Section III.

Economic prospects

8. The Government has discussed the macroeconomic scenario attached to the Recovery Program with the Fund and the Bank staffs. The projections for 1986-89 are considered reasonable. The implementation of the restructuring measures are expected to increase GDP by 4 percent p.a. over the program period a rate which seems quite realistic if allowance is made for recovery from the climate-induced record low agricultural production of 1983-84. However, it must be recognized that over a longer time, the GDP growth rate may not exceed 2.5-3 percent, due to limited availability of natural resources, slow progress in water management and slow reconstitution of the livestock herd decimated by the drought. The expected recovery in GDP growth will be based on better integration of fisheries activities; development of agriculture based on flood recession and irrigation; and the promotion of new activities such as copper mining. The rehabilitation of the public sector and the restructuring of the incentive system and the banking system should allow a relatively rapid expansion of the still poorly developed private sector.

9. Investment efficiency will be improved through better programming and selection of high-return projects, which will lead to a decline in the ratio of public investment to GDP from 32 percent over 1982-84 to an average of 20 percent over 1985-89. This will require a significant change in public sector management. The size of public investment will be calibrated so as to limit new borrowing and reduce gradually the amount of disbursed debt in proportion to GDP. Starting in 1986, particular attention will be given to development projects financed both through "food for work" programs and through the proceeds from the sales

of food aid. A public investment program for 1985-88 consistent with these objectives has been prepared in consultation with the Bank.

10. The effort to mobilize domestic savings will be reinforced, the purpose being to increase the proportion of public investment financed domestically to more than 15 percent in 1989. This objective should be attained by achieving in 1989 a significant surplus in Treasury operations and by raising the profit margins of public enterprises. The consolidated budget deficit, including grants, will be reduced from 4.9 percent of GDP in 1985 to equilibrium in 1988 and a small surplus will be achieved in 1989. Moreover, actions will be taken to promote private savings.

Social impact

11. These austerity measures will demand sacrifices from the Mauritanian population. Moreover, the reform of the public sector will have a negative impact on employment in that sector. Budgetary austerity and the increase in prices and in charges for public services will affect the low income groups of the urban population, whose essential needs are currently inadequately met.

12. The Government will have limited resources to alleviate the negative social consequences of the recovery program. Nevertheless, some measures are expected to provide countervailing effects. Higher employment should result from the greater participation of Mauritanian citizens in the sectors promoted by the recovery program. Food policy, with its combination of remunerative producer prices and better criteria for free distribution and food-for-work projects, should start a process of promoting production and income for rural families, thereby helping reduce the exodus to urban areas. Strengthened income tax collection should promote a more equitable sharing of social costs and will be accompanied by a more important budgetary effort regarding social expenditures for essential needs.

III. The Policy Reforms

Administrative reform

13. The Government, aware of the inadequacy of the administration to discharge the tasks required by the Recovery Program, has started an administrative reform with the multiple objectives of strengthening economic management, improving operating procedures and rationalizing civil service organization. The reforms will take several years to complete but, in close cooperation with the World Bank, priority measures will be implemented over the next four years. Emphasis will be put on improving budgetary and programming procedures in the area of public finance. This will require a restructuring of the Ministry of Economy and Finance, which will take effect in 1987. The reform will be expanded to other key ministries starting with Rural Development. Central governmental functions will be reviewed to strengthen the inter-ministerial coordinating process and the efficiency of legislative procedures. A coordinating unit will supervise the implementation of the reform.

14. A prerequisite for strengthening the efficiency of the administration is improving civil service management. The first steps will be to carry out an audit of the payroll and an analysis of the wage and benefits structure to be completed by the mid of 1987. Personnel and financial management will be computerized and coordinated in 1987, and the Ministry in charge of the civil service will be strengthened to provide it with human resources planning capabilities. Together with the reorganization of the main ministerial departments, public service regulations will be more clearly defined, promotion rules clarified, and training and career planning strengthened before 1988. Efforts will be undertaken to reallocate personnel to the most essential positions, while eliminating redundancies.

Public finance management

15. There is now room to increase tax revenues through improved tax collection and a reduction in the large number of present exemptions, while a comprehensive fiscal reform is completed. The Government has already taken steps to that end. Additional reforms under study will focus on: (i) the complete review of the system of customs and tax exemptions, including those under the Investment Code; (ii) the improvement of the income tax base; and (iii) reform of the tax on the fishing and mining sectors to enlarge revenue while preserving competitiveness. These reforms, which are expected to be implemented beginning in 1987, should increase the buoyancy of tax revenues in relation to economic activity. In the medium and long-term, however, revenue expansion will depend on the growth of the economy.

16. The Government will continue to pursue restrictive expenditure policies, especially as regards wages and salaries, defense outlays, and subsidies and transfers. This will permit allocating a larger share of expenditures to the material and maintenance budget. Road maintenance, health and primary and technical education will receive priority. The staffing of the civil service will be strictly controlled in the period 1986-1989, and additional recruitment will have to be offset through the containment of wages, so as to maintain the wage bill unchanged in real terms, in conformity with the objectives of the recovery program. Subsidies, transfers and military outlays will be frozen in nominal terms. These policies will be reinforced by the administrative reform.

17. The Government intends to reorganize the investment programming process. To that end, a consolidated operations account will be implemented starting in 1987 with the technical assistance of the IMF; it will include a comprehensive public investment budget, including all the sources of financing. The Government expects through a rigorous system of project selection, programming and monitoring, to achieve a substantial improvement in project productivity.

Public enterprise rehabilitation

18. The Government is committed to improving the efficiency of the public enterprise sector in order to maximize the benefits from the

substantial investments that have already taken place. A program of public enterprise rehabilitation was introduced at the end of 1983 with the assistance of the World Bank. The enterprises whose restructuring is the most advanced are the electricity and water company, the port of Nouakchott, the post and telecommunications authority, the iron ore mining company, and the rural development agency. The Government will extend the scope of the rehabilitation program to other enterprises, starting in 1986 with those in the energy sector. Energy pricing and marketing will receive particular attention. At the same time, the Government has decided not to increase the number of public enterprises, to dissolve non-viable ones, and to privatize certain others. The Government has also put into effect a procedure for the settlement of reciprocal claims and debts between the State and the enterprises on the one hand, and between enterprises on the other. It will monitor the settlement of these debts. This first phase of the public sector rehabilitation program will be completed by the end of 1989.

The banking sector reform and credit policy

19. An essential task for the rehabilitation of the Mauritanian economy is the reform of the banking system whose efficient functioning is hampered by weak management, resulting in a large amount of non-performing loans representing about 60 percent of total bank assets. An important aspect of the new policy in this field will be the reduction of the Government equity participation in banks whenever required to establish independent and viable commercial banks with local or foreign private participation. At an initial stage, the participation of certain international institutions could be necessary. To achieve these objectives, preliminary actions have already been taken or will be adopted before the end of 1986 in close cooperation with the Fund, the Bank and the Arab Monetary Fund.

20. The Government is currently implementing measures to: (i) accelerate the recovery of frozen credits; (ii) stop the increase of banks' operating costs and strengthen profit margins; (iii) improve Central Bank control over commercial bank policies and strengthen its own organization and procedures; (iv) transfer the Central Bank's participations to the State; and (v) assess realistically the commercial banks' net worth and losses in order to prepare viable individual restructuring plans.

21. Agreements on restructuring plans for each bank -- through the increase of the participation of foreign and private shareholders -- are expected to be concluded in 1987. Returning the banks to a viable position and increasing the foreign participation in their capital will require a significant improvement of their balance sheets. To that end, it will be necessary that the Government assesses the State's financial obligations as shareholder, as owner of indebted companies, and as guarantor of non-performing credits. Its financial obligations could be covered by the cancellation of outstanding refinancing of banks by the Central Bank and by the proceeds of foreign aid, such as part of the adjustment credit currently being negotiated with the World Bank.

22. Concomitantly with the above financial and legal actions, the Government will proceed to reform the legal and administrative rules governing the banking system. It is expected that an agreement on the principle of the reform will be reached before March 1987, and its implementation will take place before the end of 1987.

23. Monetary and credit policy will be directed at containing the rate of inflation and maintaining aggregate demand in line with available resources and promoting private savings. In the allocation of credit, priority will be given to the sectors which are to be promoted under the Recovery Program. Credit accorded to the Government will not increase in view of the targeted improvement in its financial position. Interest rates are at present positive in real terms and their level and structure will continue to be adjusted so as to promote savings and ensure an efficient distribution of financial resources. Measures will be taken to stimulate workers' remittances from abroad.

Promotion of domestic production

24. One of the principal objectives of the structural adjustment strategy is to provide appropriate incentives for, and remove impediments to, the development of priority sectors, such as agriculture and fisheries. To stimulate agricultural production and processing and reduce the present dependence on food aid and imports, official producer and consumer prices have been increased significantly since 1985. A larger role is being given to the private sector in supplying the necessary inputs to the agricultural sector and to increase its role in all forms of production, servicing and maintenance activities. The policies that are being pursued to this end include the rationalization and strengthening of public services in which the Government has an irreplaceable role, the increased participation of farmers and herders in water and pasture management, and the encouragement of private sector involvement in food processing, distribution and marketing through changes in the incentive system. Following the reform of the banking system, a decentralization of farm credit system will be started.

25. A major instrument for promoting domestic production will be the increased allocation of food aid to finance projects that foster production, while containing the free distribution of food; this will require a strengthening of the administrative and programming capability of the Government food security agency (C.S.A.) and the full use of the Common Fund created in 1986. This Fund will coordinate the use of the proceeds from the food aid sales in agreement with the main donors. By October 1986, the Government will establish a coherent framework to set and review official agricultural prices with a view to encouraging agricultural production, and to avoid recourse to subsidies. The role of public agencies in food distribution will be subject to a comprehensive review. Over the long term, the promotion of food production requires careful planning of irrigation development; a first step in that direction will be the preparation of a master plan on the use of water provided by the new dams on the Senegal River. This master plan will be discussed in a special sectoral group meeting of donors to be convened before July 1987.

26. The Government intends to increase the contribution of the fisheries sector to the national economy. To this end, it will reform the incentive system, so as to attract more Mauritanian private sector participation, and it will take actions directed at strengthening port and other on-shore services, modernizing the fleet, diversifying foreign partners and markets, and developing complementary services (research, surveillance, training, banking services). An action program to mobilize foreign involvement will be presented at a sectoral group donor meeting in early 1987.

27. In the industrial and handicrafts sector, steps are being taken with World Bank assistance to improve the institutional organization with a view to promoting small- and medium-scale private enterprises, including credit facilities and technical assistance better suited to their needs. The liberalization of the price system, already underway, the revision of import controls and of the Investment Code (expected to be implemented in 1987), and the maintenance of an appropriate exchange rate will be important steps to encourage private initiative in this sector.

28. The iron ore mining sector, which has been a key source of economic expansion, has succeeded thus far to maintain its present contribution to the national economy through a successful improvement in the productivity and efficiency of the state mining company. However, the recent adverse trends in world prices will keep heavy pressure on the company to continue improving its performance.

Human resource development

29. The Mauritanian population has limited access to basic social services such as primary education and preventive health care. The trends in key social indicators such as literacy, infant mortality, and nutritional balance will have to be improved through a better-targeted use of public resources and greater population participation in social service delivery, in particular through food-for-work programs and the promotion of the private services. The main constraint remains the lack of budgetary funds. In the context of public finance rehabilitation, health services will increase their relative share of current expenditure in order to expand purchases of drugs and other products without which existing personnel and capital would be under-utilized. Concerning education, it is necessary to define precisely the allocation within the budgetary envelope, to focus on reducing costs, to promote training cycles that can be efficiently implemented in Mauritania, and to concentrate public assistance at the secondary and university levels on needy, deserving students. A significant reform of the education system will be implemented. Employment planning measures will be put in place to adjust training to the qualifications in need. More generally, efforts will be developed to control the rate of population growth and to program a better distribution of public infrastructure among regions, on the basis of their economic potential.

IV. External Policies and Financing Requirements

30. The Government attaches the highest priority to maintaining an appropriate exchange rate, which would ensure the competitiveness of the export sector and promote import substitution. This, together with an appropriate credit and public investment policy will allow the control of import growth. The current flexible exchange rate policy will be continued.

31. The implementation of structural policy reforms and the pursuit of the financial policies indicated above should lead to a sharp reduction in external current account deficits over the next four years: from 25 percent of GDP in 1985 to about 9 percent in 1989 excluding official transfers (or close to equilibrium inclusive of official transfers). These estimates are based on certain assumptions with respect to prices and international demand for the two main export commodities, iron ore and fish, but are surrounded by some uncertainties. If exogenous developments would be less favorable than projected, further adjustment measures may be needed. On the basis of these projections, the debt service ratio (30 percent of export revenues in 1985, before debt rescheduling) will gradually decline, and the need for exceptional financial assistance, including debt relief, will decrease from an estimated SDR 125 million in 1986 to about SDR 30 million in 1989. The closing of the financing gap and a desirable increase of foreign reserves (to the equivalent of three months of imports) will require -- in addition to disbursements under the Fund's Structural Adjustment Facility and the Bank's Structural Adjustment Credit -- further debt rescheduling. However, the rescheduling needed will gradually decline and new foreign borrowing will be serviced on schedule. For 1987, the financing gap will decline to about SDR 70 million which could be covered by possible disbursements under the Structural Adjustment Facility of the Fund, the Structural Adjustment Credit of the Bank, further debt rescheduling and possible exceptional assistance. These requirements are additional to approximately SDR 500 million already committed in external assistance (in the form of grants and loans) to finance the investment program in the 1986-89 period. The Government will seek an improvement in the composition of this assistance in favor of grants, in view of the high level of debt already contracted. As a result, total disbursed debt should decline gradually as a ratio to GDP from almost 200 percent in 1985. To improve external debt management, any new loans contracted or guaranteed by the Government, as well as any drawings against such loans, will require the authorization of an Inter-ministerial Committee, which will strictly monitor project appraisal and financing. The Government will not contract or guarantee loans at non-concessional terms of less than 15 years maturity.

V. Conclusion

32. The Government is determined to implement the necessary reforms which fall under its responsibility in order to control financial imbalances, improve the efficiency of the economy, promote savings, and thus lay the ground for future growth. External current and capital

market developments will be monitored closely to enable the authorities and the donor community to respond in an appropriate and timely manner to unexpected developments. Through its actions, the Government expects to convince the donor community to strengthen its assistance and target it to the various needs of the adjustment effort. Reactions to Government's policies from the donor community and international institutions had been favorable during the first Consultative Group meeting held in Paris in November 1985. The investment program which was presented at that meeting constitutes the basis for bilateral discussions with the donors to finance specific projects. Because of their priority in the economy, three sectors, fishing, drinkable water and irrigation, will be the object of sectoral meetings with donors during the first part of 1987. These three meetings are being prepared with the technical assistance from the Kuwaiti Fund, the Caisse Centrale de Coopération Economique, the UNDP and the World Bank. A second consultative Group meeting will be held in November 1987 to review the *progress made after two years of the Recovery Program*; at the same time a five-year development program for the 1988-92 period will be submitted for donors' support. The Government is improving the internal mechanisms of aid coordination, through a strengthening of the Financing Directorate of the Ministry of Economy and Finance.

MAURITANIA

Structural Adjustment Facility
Memorandum on Economic and Financial Policies
for the July 1986-June 1987 Period

1. The document setting forth the economic policy framework, which accompanies this memorandum, describes the objectives of the Economic and Financial Recovery Program for the period from mid-1986 to mid-1989 and the financial and structural steps envisaged to attain them.

The principal objectives sought are a rate of economic growth of about 4 percent on average, a reduction in the rate of inflation from 10.5 percent in 1985, to 6 percent in 1987 and 5 percent in 1988 and 1989, and a reduction in the current account deficit of the balance of payments, not including official transfers, from 25 percent of GDP in 1985 to about 9 percent of GDP in 1989, corresponding to approximate equilibrium when official transfers are taken into account. The improvement in the balance of payments on current account will entail substantial progress toward a viable balance of payments position and will make it possible to reduce recourse to exceptional assistance (including debt rescheduling) from about SDR 125 million in 1986 to about SDR 30 million in 1989.

2. To achieve these objectives, the authorities will pursue a firm policy of demand management through a reduction of the disequilibria in public finances and prudent credit and incomes policies, accompanied by intensification of the structural reforms already under way in the area of public investment, the public administration and the tax system, agriculture, and public enterprises, fisheries, small and medium-sized enterprises and the banking sector. These reforms include (a) a strengthening of administrative structures, enhanced effectiveness of current expenditure and expansion of the tax base by reducing exemptions and reforming direct taxation; (b) a more rigorous selection and monitoring of investments through the establishment of an investment budget, so as to increase the contribution of investment to growth while limiting the debt burden; (c) the establishment of an agricultural price structure which provides incentives to producers, together with a more important role for the private sector in marketing, processing, maintenance and service activities; (d) the reform of the fisheries sector to increase the extent to which it is integrated into the national economy; (e) rehabilitation of the main public enterprises; (f) reorganization of the banking system featuring an increased collection effort, restructuring and rationalization of the banks, and strengthening of management methods; and (g) reform of the Investment

Code and a liberalization of pricing and import regulations in order to encourage economic activity.

3. As regards fiscal policy, the recovery program seeks to achieve balance in the consolidated budget, including grants, by 1988 and to register a surplus in 1989. These targets are consistent with the improvement in the balance of payments; they imply an increase in the surplus of the Treasury, and an increase in the proportion of the investment program that is financed by grants. In line with the improvement in the Central Government's financial situation, bank credit to the Government will not be increased, so that the expansion of total credit may be devoted in its entirety to the productive sector. The expansion of credit to the economy will be kept in line with the real growth rate of GDP and the programmed rate of inflation.

4. The annual program for the July 1986-June 1987 period, which represents the first year of the three-year period for which an arrangement is requested within the framework of the Structural Adjustment Facility, incorporates the objectives and measures for 1986 described in the letter of February 4, 1986 from the Minister of Economy and Finance and the Governor of the Central Bank of Mauritania and in the memorandum on economic and financial policies attached to that letter, as updated by the letter of June 26, 1986 regarding the review of the stand-by arrangement.

The main objectives for 1987 are (i) to achieve a growth rate of GDP of about 4 percent, (ii) to reduce the rate of inflation to 6 percent, (iii) to reduce the current account deficit to about 6 percent of GDP and the overall balance of payments deficit to about SDR 70 million, and to achieve some increase in reserves. The financing need would be covered by further debt relief, possible disbursements under the Structural Adjustment Facility, the Structural Adjustment Credit of the Bank and some exceptional assistance.

In the first half of 1987, the Government plans to pursue a rigorous fiscal and credit policy and to make significant progress in the implementation of structural reforms. In view of the objective set forth in the Economic and Financial Recovery Program to reduce the consolidated budget deficit in 1987 by more than 1 percent of GDP, the Treasury's surplus should rise to about UM 2,400 million in the same year. This would be reflected by a Treasury surplus from July 1986 to June 1987 of about UM 2,000 million. On the revenue side, steps will be taken to reduce customs duty exemptions and an effort will be made to expand the base for direct taxes. The new Investment Code will enter into effect before mid-1987, but certain changes in exemptions will be introduced in the Finance Law for 1987. Tax reform in the fisheries and mining sectors will be implemented on the basis of recommendations in World Bank studies scheduled for completion by end-1986, and after consultation with the Fund. Changes will also be introduced for the tax on business profits. On the revenue side, the increase in personnel

expenditure will not exceed the projected rate of inflation and there will be no nominal increase in expenditure on subsidies and military spending. In order to enhance the efficiency of the administration, a civil service census will be completed in the early months of 1987 and the reorganization of career paths and the structures of ministries will be implemented with assistance from the World Bank.

5. As in 1986, credit to the Central Government will not increase during the first half of 1987. The rate of increase in credit to the private sector will be maintained within a limit of about 8 percent in accordance with the financing requirements for new investments; this corresponds to an increase in domestic credit of approximately UM 1,700 million between end-December 1985 and end-March 1987 and of about UM 2,000 million between end-December 1985 and end-June 1987.

During the period July 1986-June 1987 the Government will not contract or guarantee nonconcessional loans with less than 15-year maturities; no external payments arrears will be accumulated.

The targets through June 1987 as regards the Treasury surplus, the expansion of overall domestic credit and credit to the Central Government, nonconcessional borrowing and external payments arrears represent benchmarks for program monitoring.

6. As regards agricultural policy, a study of the entire grain sector, including the structure of production and marketing costs, will be completed by end-1986 and will serve as a basis for a readjustment of producer and consumer prices in March 1987. The role of the private sector in marketing and processing domestic agricultural output will be gradually expanded and the existing monopolies on the marketing of food products will be reviewed. Some rice mills will be privatized. In 1987, the present channels for distributing fertilizers and other inputs and supplies will be privatized in connection with the establishment of new credit facilities, thereby easing the role of SONADER. The reorganization of the Food Security Agency will continue in order to cut costs and improve its management. This should make it possible to free a greater proportion of the sales proceeds from food aid for use in project financing by the Common Fund for food aid counterparts.

7. An in-depth study on the fisheries sector and the steps necessary to promote its expansion and integration into the national economy is now under way; it will be completed by September 1986. On the basis of the results of the study, steps will be taken to promote expansion of the fishing fleet as well as to improve the supply of the on-shore processing facilities with a view to increasing value added.

8. In order to promote the development of the small industry and crafts sector, implementation of the reform of the incentive system under the Investment Code will start in the first half of 1987 on the basis of a study now in progress. The price liberalization policy begun in 1985 and 1986 will be continued. This will make it possible to prevent monopolistic situations and to encourage greater efficiency on

the part of domestic industry. The tariff protection system will be reviewed in the context of a study financed by the World Bank.

9. The steps to rehabilitate the public enterprises will be pursued vigorously with assistance from the World Bank. In addition to the actions under way for SONELEC (water and electricity), EMN (port), OPT (posts and telecommunications) and SMCPP (petroleum products distribution), technical and financial audits will be conducted by mid-1987 for STPN (urban transport), SOCOGIM (construction) and PHARMARIM (pharmaceutical products). The system for establishing energy product prices, which will be negotiated with the World Bank in July 1986, will be implemented in the course of 1986. This will be complemented by a price setting scheme for electricity based upon a study financed by the World Bank; a new price structure will be implemented in early 1987. The role of SMCPP in importing petroleum products will be reviewed and efforts to strengthen its financial structure will be continued.

10. The financial restructuring of the Mauritanian banks, with increased participation by foreign shareholders, will be finalized in 1987. In 1987, the authorities will implement the banking reform now under study and will prepare a revision of the accounting scheme and of the regulations regarding risks, capital and solvency. Particular effort will be made with regard to improving bank management procedures. This will be accompanied by a program of actions aimed at strengthening the Central Bank's ability to supervise the banking system. Major progress in this area will be accomplished by mid-1987.

11. The reduction of customs exemptions, the preparation of a new investment code, the reform of the system for establishing agricultural prices, the introduction of a new structure of electricity tariffs and petroleum prices, progress in the restructuring of SONELEC, SMCPP and of the banking sector will also constitute benchmarks for monitoring the implementation of the program.

Nouakchott, June 26, 1986

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosiere:

Under the stand-by arrangement approved by the International Monetary Fund on April 21, 1986, it was stipulated that a program review was to be conducted by August 31, 1986 in order to examine the progress achieved in executing the program during the first half of 1986, in particular with respect to the results of the rescheduling agreements, budgetary policy, pricing, interest rate and exchange rate policies, as well as to define the credit ceilings for the second half of the year which are to serve as performance criteria. It was also envisaged that the authorities would reach understandings with the Fund during the review on further steps to be taken on the ongoing rehabilitation of the banking system and on any adjustment in the program that may prove necessary. Discussions were held with Fund staff in connection with this review in conjunction with the Article IV consultation in Nouakchott from June 12 to 27, 1986, at which time there were also discussions on the use of Fund resources under the new Structural Adjustment Facility.

1. Economic developments have been favorable during the first half of 1986. The good rainfall makes it likely that the grain harvest will total 66,000 metric tons as compared to 30,000 tons in 1985. The rate of inflation as measured by the consumer price index was 3.1 percent in the first five months of the year.

During the first months of the year, the authorities have vigorously pursued the envisaged program of reforms and adjustment. In particular, significant tax measures have been adopted; these include an increase in the rate of the minimum tax on profits, an increase in the withholding rate on higher salaries, an increase in the rate of the consumption tax on petroleum products, and the introduction of administrative measures aimed at reducing customs duty exemptions. Agricultural prices have been raised at the producer and retail level and the list of domestically produced goods with administered prices has been shortened to eight items. Exchange rate adjustment has continued.

Rigorous measures have been adopted to facilitate and accelerate the collection of the banking system's nonperforming credits, and other measures have been adopted with a view to reducing bank costs; the Central Bank's controls on the granting of loans have been strengthened. In particular, a separate banking supervision department has been created within the Central Bank, and borrowers of nonperforming loans who have failed to establish protocols of agreement or to abide by the provisions of protocols already signed have been denied access to all banking operations and to government contracts. This action has resulted in an increase in the number of new protocols and has made it possible to speed up collections. In order to allow for enhanced monitoring of the banking system, banks have been required to provide to the Central Bank, without delays, the required documentation on their operations; banks failing to meet the relevant deadlines have been denied access to the facilities of the Central Bank. The legal costs of recording the protocols of agreement have been reduced and the Special Court of Justice has sped up its procedures with the objective of making it possible to handle all disputes and the recording of protocols of agreement before the end of the year. Measures relating to tax exemption for the interest on nonperforming credits and to the Government's assumption of the banks' equity holdings in the Central Bank's portfolio are now being adopted. Steps have been taken to mobilize the savings of Mauritanian expatriate workers, including the possibility of making deposits at attractive interest rates through the Government's diplomatic offices abroad.

2. Within the framework of the May 16 meeting of the Paris Club, creditor countries granted substantial assistance in the form of debt rescheduling. The rescheduling obtained slightly exceeds that forecast in the program; however, effective payments in 1986 after rescheduling will be higher than projected, largely because certain end-1985 maturities were carried forward and paid early this year. Additional external financing is needed in order to achieve the objectives of the program, including the increase of foreign exchange reserves. To this end, assistance from the Arab Monetary Fund is expected in the next few weeks, and friendly countries have provided assurances of their support. In addition, the Government wishes to make use of Fund resources under the new Structural Adjustment Facility. Accordingly, and on behalf of the Government of the Islamic Republic of Mauritania, we are today submitting a request for an arrangement under that facility in support of the three-year macro-economic and structural adjustment program from mid-1986 to mid-1989 and a request of the first annual arrangement thereunder covering the period from mid-1986 to mid-1987.

3. As regards the Central Government budget, in overall terms, budgetary expenditure excluding interest on the debt was in line with the program projections for the first five months of the year. Wage and salary expenditure increased slightly more rapidly than foreseen in the program, but outlays for material remained well below the projections. There was no new hiring in the first five months of the year and the

departure of 36 persons from government employment in January 1986 was followed by that of 68 persons from February 1 through end-May.

With regard to budgetary revenues, a considerable increase has been recorded over the same period for last year. However, revenue has remained below the level projected in the program. This is attributable in part to certain delays in the implementation of the new tax provisions regarding the minimum profit tax (IMF) and the personal income tax (ITS) and to delays in payment of the SNIM mining royalty owing to operational problems in the first months of the year, but may also be traced to the customarily slower pace of collections, especially of customs duties, early in the year. Their pace of collection began to pick up in May. As regards external debt service, available information indicates that for the year as a whole, actual payments will be about UM 1,400 million higher than forecast because of the carrying forward of certain end-1985 maturities, which were paid in early 1986, and the larger than projected amount of contractual maturities for 1986 that are not eligible for rescheduling. The Government is confident that these additional unforeseen expenditures will be covered, on the one hand by sizable gains expected in fishing duties resulting from the increase in export volumes and prices, and, on the other, by the revenues resulting from the decline in international petroleum prices. This implies that the Treasury surplus will reach UM 1,600 million. This surplus is higher than the UM 900 million programmed, as part of the exceptional resources indicated above will cover amortization charges. As a result of revenue and expenditure developments, and especially of expenditure on debt service for the first five months of the year, the authorities had to make use of their credit facility with the banking system in the amount of UM 700 million, thus exceeding the end-April performance criterion for net bank credit to the Central Government, which was set at the end-December 1985 level. On the other hand, there was no accumulation of domestic or external arrears.

4. At end-April 1986, outstanding credit to the economy, excluding the mobilization of foreign claims, amounted provisionally to UM 16.8 billion, an increase of UM 1.4 billion over the end-December 1985 level, well beyond the credit expansion limit set forth in the program. Several factors, including the recording as credit of some UM 230 million in set-aside interest, contributed to this increase. The expansion of credit other than set-aside interest results inter alia from special operations for the fisheries sector (UM 150 million) and for SNIM (UM 200 million), the latter having experienced temporary production problems. In recent weeks, outstanding credit to the economy has declined sharply owing to sizable repatriations of export receipts.

5. During the first five months of the year, the trade balance improved by comparison with the same period last year, which would suggest that the targeted trade surplus for the year will be exceeded. In particular, fish exports have increased and prices have firmed. After some technical difficulties early in the year, iron exports have returned to their normal pace and the projected volume of 10 million

metric tons is expected to be achieved. Although interest on the external debt is higher than forecast, the year's target for the improvement of current account of the balance of payments could be exceeded. After some decline in the first three months of the year, foreign exchange reserves increased in the second quarter.

6. The Government is firmly resolved to further pursue the adjustment process envisaged in the memorandum on economic and financial policy attached to our letter of February 4, 1986. In the tax area, a comprehensive inventory of all customs exemptions under the various regimes has been completed with a view to instituting a reform which is expected to be implemented as part of the Budget Law for 1987. One aspect of the reform entails the revision of the Investment Code, which will be finalized in the months ahead with assistance from the World Bank. As regards direct taxes, the effort to improve assessment of the tax base will be continued through enhanced cross-checking and a more effective circulation of information on taxpayers. In addition, a mechanism will be introduced whereby the Central Government will be able to absorb a large proportion of the gains resulting from the decline in oil prices on international markets. On the expenditure side of the budget, the Government will continue the austerity policy now in force. In keeping with the commitments set forth in our letter of February 4, 1986, net recruitment will be limited to the Ministry of Education and the Ministry of Health, and the increase in the wage bill for each of these two ministries will not exceed the agreed ceiling of 7 percent. An ordinance amending the organic law on budget laws is now being adopted. It establishes the requirement of drawing up a consolidated account of central government operations, including central government and public enterprise investment. This account will be annexed to the Finance Law for 1987. In accordance with the guidelines of the 1986-88 Economic Recovery Program, the Government will take care to ensure that approximately half of 1987 central government investment is financed by grants. The decree establishing the Common Fund for food aid counterparts, funded by the proceeds of sales, is in the process of being adopted; it stipulates that financing proposals submitted by the technical ministries must be approved by the Interministerial Monitoring Committee. In its food aid policy, the Government will encourage the preparation of projects that make use of the "Food for Work" approach, thereby limiting free distribution.

7. Total bank credit will increase by no more than UM 1,000 million between end-December 1985 and end-September 1986, and by no more than UM 1,200 million between end-December 1985 and end-December 1986. Net bank credit to the Central Government at end-September and end-December 1986 will not exceed the end-December 1985 level. The above ceilings on total bank credit and net bank credit to the Central Government constitute performance criteria. They are consistent with a 6 percent increase in total bank credit and a 7.6 percent increase in credit to the economy for 1986 as a whole. Credit to the economy excludes the mobilization of foreign claims.

8. The Government will resolutely move ahead with the ongoing process of rehabilitating the major public enterprises and restructuring the sector. For SONELEC, the rehabilitation effort will be pursued rigorously. The rate of collections, which was 45 percent in 1985, rose to 60 percent in the first half year and is expected to increase to 70 percent in the second. The measures contributing to this improvement include in particular the Government's authorization to SONELEC in February 1986 to interrupt the service of any customer in payments arrears, including the public administrations. To avoid the accumulation of government arrears for electricity consumption, budget allocations for the consumption of water and electricity increased from UM 30 million in 1985 to UM 50 million in 1986. However, SONELEC continues to experience serious financial difficulties as a result in particular of the heavy debt service and its gas-oil power-generating facilities, which are relatively expensive to operate. Conversion of these gas-oil plants to diesel will make it possible to improve the financial situation in the medium term. In July, a series of measures will be implemented with a view to improving SONELEC's financial position. They would include, inter alia, increases in water and electricity tariffs and a reduction in the price of gas-oil. In addition, a World Bank mission will assist the Government in devising a new and more appropriate rate structure for electricity and energy which will take the requirements of the productive and export sectors into account. The new structure is expected to be introduced in early 1987.

The restructuring of the petroleum products distribution company (SMCPP) will be continued, and SMCPP's role in importing petroleum products will be reviewed in the months ahead in cooperation with the World Bank. A significant improvement in operating results was made in 1985 and the first months of 1986, and has made it possible substantially to reduce the losses accumulated over the past three years. A more effective procurement policy has been introduced. Steps are under way to improve the management of the Food Security Agency. A first provisional balance sheet has been drawn up for 1986 and steps have been taken to cut administrative costs, thereby making it possible to increase the resources available to the Common Fund for project financing. The free distribution of grains during the first part of the year amounted to 27,000 metric tons, a figure in line with the objectives for the year.

9. As regards the reorganization of the banking system, discussions aimed at the rationalization of Mauritanian banks are under way with foreign shareholders. Agreements are expected to be reached in the next few months. The banks will continue to be required to adhere to a rigorous policy in the recovery of frozen credits and in the granting of new loans. In order to improve management methods in the banking system, in the latter half of the year the monetary authorities will introduce a reform of the procedures for monitoring bank operations and will strengthen risk analysis.

10. This letter supplements our letter of February 4, 1986.

Sincerely yours,

/s/
Thiam Samba
Secretary of State
in Charge of the Budget

/s/
Dieng Boubou Farba
Governor
Central Bank of Mauritania

Table 1. Mauritania: Treasury Operations, 1984-1989 ^{1/}

(In millions of Ouguiya)

	1984	1985		1986		1987	1988	1989
		Prel. (EBS/86/70)	Rev.	Prog.	Rev.				Projections
Revenue and grants	11,288	13,108	13,105	14,695	16,245	17,640	19,370	21,490
Budgetary revenue	10,296	12,304	12,301	14,595	15,945	17,240	18,770	20,890
Budgetary grants	63	61	61	100	300	400	500	600
Special accounts	929	743	743	--	--	--	--	--
Expenditure and net lending	12,117	13,001	13,315	13,795	14,636	15,240	15,780	16,470
Operating expenditure ^{2/}	10,463	11,432	11,747	12,804	13,645	13,971	14,330	14,820
Of which: interest due	(994)	(1,299)	(1,659)	(1,994)	(2,835)	(2,713)	(2,602)	(2,558)
Investment expenditure	583	706	706	790	790	1,269	1,450	1,650
Special accounts	929	687	687	--	--	--	--	--
Net lending	142	176	176	201	201	--	--	--
Surplus or deficit (-) (commitment basis)	-829	107	-210	900	1,609	2,400	3,590	5,020
Change in payments arrears (increase +)	649	-8,371	-4,809	--	--	--	--	--
External	(514) ^{3/}	(-7,671)	(-4,109)	--	--	--	--	--
Domestic	(135)	(-700)	(-700)	--	--	--	--	--
Surplus or deficit (-) (cash basis)	-180	-8,264	-5,019	900	1,609	2,400	3,590	5,020
Financing	180	8,264	5,019	-900	-1,609	-2,400	-3,590	-5,020
Foreign borrowing (net)	-829	-2,675	-3,032	4,763	-7,000	-6,145	-7,415	-7,540
Drawings ^{4/}	(387)	(2)	(2)	(--)	(--)	(--)	(--)	(--)
Amortization	(-1,216)	(-2,677)	(-3,034)	(-4,763)	(-7,000)	(-6,145)	(-7,415)	(-7,540)
Domestic (net)	1,009	-369	-663	-438	-405	--	--	--
Banking system	(-125)	(-530)	(-530)	(--)	(--)	(--)	(--)	(--)
Other	(1,134)	(161)	(-133)	(-438)	(-405)	(--)	(--)	(--)
External debt relief and exceptional assistance	--	11,308	8,714	...	5,796	...	...	...
Rescheduling	--	8,858	6,264	...	5,796	...	...	...
Interest	--	(--)	(1,163)	(...)	(942)	...	...	...
Principal	--	(--)	(1,660)	(...)	(4,854)	...	...	...
Arrears	--	(--)	(3,441)	(--)	(--)	--	--	--
Exceptional assistance	--	2,450	2,450 ^{5/}	...	--	...	...	...
Financing gap	--	--	--	4,301	--	3,745	3,825	2,520
Of which:								
Possible debt relief	(--)	(--)	(--)	(4,301)	(--)	...	...	...
<u>Memorandum items:</u>				<u>(In percent of GDP)</u>				
Budgetary revenue	22.3	23.1	23.1	24.9	26.5	26.1	26.1	26.2
Operating expenditure	22.7	21.5	22.1	21.9	22.7	21.1	19.8	18.6
Treasury surplus or deficit (-)								
On a commitment basis	-1.8	0.2	-0.4	1.5	2.7	3.6	5.0	6.3
On a cash basis	-0.4	-15.5	-9.4	1.5	2.7	3.6	5.0	6.3
Financing gap	--	--	--	7.3	--	5.7	5.3	3.2

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

^{1/} Excluding most foreign-financed government operations.^{2/} Including interest due.^{3/} Arrears on interest due.^{4/} Drawing on budgetary loans only.^{5/} Including a grant from Saudi Arabia of US\$30 million (UM 2,019 million), budgetary assistance from France of F 40 million (UM 355 million), and a grant from Qatar of US\$1 million (UM 76 million).

Table 2. Mauritania: Consolidated Government Fiscal Operations, 1984-89 ^{1/}

(In millions of ougulyas)

	1984	1985		1986		1987	1988	1989
	Actual	Prel.	Actual	Prog.	Rev.		Projections	
		(EBS/86/70)						
Total revenue and grants	16,566	17,357	18,781	19,727	21,518	22,270	24,371	26,800
budgetary revenue	10,296	12,308	12,301	14,595	15,945	17,241	18,870	20,686
Grants:	6,270	5,053	6,480	5,132	5,873	5,479	5,501	5,922
Budgetary	63	61	61	100	300	400	500	600
Extrabudgetary ^{2/}	6,207	4,992	6,419	5,032	5,573	5,079	5,001	5,322
In kind ^{3/}	2,099	1,407	2,499	1,378	960	880	1,036	1,095
Projects	2,990	2,162	2,497	2,080	3,039	2,415	2,180	2,385
Others	1,118	1,423	1,423	1,574	1,574	1,684	1,785	1,892
Total expenditure and net lending	21,393	19,466	21,396	21,507	22,408	22,735	22,951	24,225
Current expenditure	12,751	13,575	14,982	15,756	16,179	16,636	17,151	17,806
Budgetary ^{4/}	10,465	11,432	11,747	12,804	13,645	13,972	14,330	14,819
Extrabudgetary ^{5/}	2,288	2,143	3,235	2,952	2,534	2,664	2,821	2,987
Investment expenditure	8,760	5,717	6,239	5,550	6,026	6,099	5,800	6,419
Budgetary	583	706	706	790	790	1,269	1,450	1,649
Extrabudgetary	7,168	4,324	4,836	4,760	5,236	4,830	4,350	4,770
special accounts	929	687	687	--	--	--	--	--
Net lending	182	176	176	201	201	--	--	--
Overall financing deficit (commitment basis)	-5,027	-2,111	-2,615	-1,780	-988	-16	1,420	2,633
(excluding grants)	-11,297	-7,164	-9,095	-6,912	-6,461	-5,495	-4,081	-3,349
Change in payment arrears (increase +)	659	-8,371	-4,809	--	--	--	--	--
External	514 ^{6/}	-7,671	-4,109	--	--	--	--	--
Domestic	145	-700	-700	--	--	--	--	--
Overall fiscal deficit (-) (cash basis)	-4,378	-10,482	-7,424	-1,780	-988	-16	1,420	2,633
Financing	4,378	10,482	7,424	1,780	988	16	-1,420	-2,633
Foreign borrowing (net)	3,069	-513	-683	-2,085	-4,805	-3,730	-5,225	-5,152
Drawings	4,555	2,164	2,351	2,680	2,197	2,415	2,170	2,385
Budgetary	387	2	2	--	--	--	--	--
Project	4,168	2,162	2,349	2,680	2,197	2,415	2,170	2,385
Amortization	-1,216	-2,677	-3,034	-4,763	-7,000	-6,145	-7,415	-7,537
Domestic (net)	1,009	-313	-607	-438	-405	--	--	--
Banking system	-125	-530	-530	--	--	--	--	--
Other	1,134	217	-77	-438	-405	--	--	--
External debt relief and exceptional assistance	--	11,308	8,714	--	5,796	--	--	--
Rescheduling	--	8,858	6,264	--	5,796	--	--	--
Exceptional assistance	--	2,450	2,450	--	--	--	--	--
Financing gap	--	--	--	4,301	--	3,746	3,825	2,519
of which: Possible debt relief (---)	--	(---)	(---)	(4,301)	(---)	(---)	(---)	(---)
<i>Nonrandom items</i>				<i>(In percent of GDP)</i>				
Budgetary revenue	22.3	23.1	23.1	24.8	26.5	26.1	26.1	26.2
Total expenditure and net lending	46.9	39.6	40.2	36.3	37.3	34.1	31.6	30.4
Current expenditure	27.7	25.5	28.1	26.8	26.9	25.2	23.7	22.3
Investment expenditure	18.9	10.7	11.7	9.4	10.0	9.2	5.0	8.0
Overall fiscal deficit (commitment basis)	-10.9	-4.0	-4.9	-3.0	-1.0	--	2.0	3.4
Including grants	-10.9	-4.0	-4.9	-3.0	-1.0	--	2.0	3.4
Excluding grants	-24.5	-13.5	-17.1	-11.7	-10.8	-8.3	-5.7	-4.2
Financing gap	--	--	--	7.3	--	5.7	5.3	3.2

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

^{1/} Including expenditure financed directly from abroad and therefore not recorded in Treasury accounts.^{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 of food aid).^{6/} Arrears on interest only.

Table 3. Mauritania: Monetary Survey, 1984-86

(In billions of ouguiyas)

	1984	1985	1986				
	Dec. Act.	Dec. Act.	April		June	Sept.	Dec.
			Prog.	Frel.	Prog.	Prog.	Prog.
Net foreign assets	-9.41	-9.70	...	-10.77	-10.60	-10.00	-9.70
Central Bank	-3.55	-5.10	...	-5.10	-5.20	-5.20	-5.20
Deposit money banks	-5.86	-4.60	...	-5.67	-5.40	-4.70	-4.50
Domestic credit	19.76	20.17	20.45	22.26	20.65	21.17	21.37
Claims on Government (net)	5.02	4.48	4.48	5.01	4.48	4.48	4.48
Central Bank	5.29	4.68	...	5.28	4.57	4.57	4.57
Deposit money banks	-0.05	0.02	...	0.05	0.02	0.02	0.02
Post office and Treasury	-0.2	-0.22	...	-0.32	-0.11	-0.11	-0.11
Claims on the economy	14.75	15.69 1/	15.97	17.25 1/	16.17	16.69	16.89
Money and quasi-money	10.99	13.63	...	15.24	13.53	14.61	14.84
Money	9.29	11.71	...	12.94	11.23	12.31	12.54
Currency in circulation	3.31	4.05	...	4.29	4.30	4.33	4.35
Demand deposits	5.89	7.56	...	8.45	6.78	7.83	8.04
Post Office	0.01	0.10	...	0.15	0.15	0.15	0.15
Quasi money	1.70	1.92	...	2.30	2.30	2.30	2.30
Long-term borrowing	0.10	0.05	...	0.06	0.06	0.06	0.06
Other items net	-0.74	-3.21	...	-3.81	-3.54	-3.50	-3.23

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

1/ Under a new presentation of monetary statistics, in which provisioned accrued interest (interests reserves) is uniformly classified under other items for all banks, credit to the economy amounted to UM 15,417 million at end-December 1985, and to UM 16,750 million at end-April 1986. In the old presentation, still used in this table, some banks include such interest under other items, and others under domestic credit. Domestic credit expansion for the purpose of the ceilings (Table 4) is based on the new presentation.

Table 4. Mauritania: Balance of Payments, 1984-1992

(In millions of SDRs)

	1984	1985 Prel.	1986 Prog. 1/	1986	1987	1988	1989	1990	1991	1992
				Projections						
Trade balance (t.o.b.)	-26.8	89.5	81.1	116.0	127.5	132.7	165.9	175.0	185.1	196.4
Exports	286.6	371.9	338.6	372.3	385.1	407.8	470.2	493.4	516.5	555.6
Imports	-313.5	-302.4	-257.5	-256.3	-257.6	-275.1	-304.3	-318.4	-333.4	-349.2
Services (net)	-206.4	-218.0	-191.6	-232.9	-230.7	-229.3	-228.3	-230.8	-238.3	-247.2
Contract services (net)	-164.1	-170.4	-146.0	-172.1	-175.7	-178.9	-180.8	-184.6	-193.0	-202.2
Investment income (net)	-42.3	-47.6	-45.6	-60.8	-55.0	-50.5	-47.6	-46.2	-45.2	-45.0
of which:										
Interest payments due 2/	(-50.1)	(-50.2)	(-47.5)	(-62.3)	(-58.7)	(-55.2)	(-53.2)	(-51.7)	(-50.4)	(-50.2)
Transfers (net)	75.0	76.3	47.5	63.7	58.5	59.0	59.9	62.9	65.6	68.8
Private transfers	-22.5	-18.2	-18.2	-18.0	-18.0	-17.5	-17.5	-17.0	-17.0	-16.5
Public transfers	97.5	94.5	65.7	81.7	76.5	76.5	77.4	79.9	82.6	85.3
Current account										
Including public transfers	-158.1	-72.2	-63.0	-53.1	-44.6	-37.6	-2.5	7.2	12.4	18.0
Excluding public transfers	-255.7	-166.7	-128.7	-134.8	-121.1	-114.1	-79.9	-72.7	-70.2	-67.3
Nonmonetary capital (net)	55.0	36.8	-17.0	-21.1	3.7	12.4	-25.3	-6.7	-24.1	-25.7
Direct investment	8.3	6.9	25.3	9.0	9.4	30.0	15.3	16.2	17.2	18.2
official medium- and long-term										
loans	39.3	24.9	-39.8	-31.1	-7.7	-34.2	-40.5	-22.9	-41.3	-43.9
Disbursements 3/	108.7	90.0	73.5	78.1	90.3	91.8	75.1	79.6	84.4	89.4
Principal due 2/	-69.4	-65.1	-113.3	-109.2	-98.0	-116.0	-115.6	-102.5	-125.7	-133.4
Other capital 4/	7.4	3.0	-2.5	1.0	2.0	6.5	--	--	--	--
Overall balance	-103.2	-35.4	-80.1	-74.3	-40.9	-25.2	-27.8	0.5	-11.8	-7.7
Financing	103.2	35.4	-52.8	74.3	-16.0	-18.3	-5.5	-5.5	-5.5	-5.5
Changes in net foreign assets										
of the banking system	32.1	-26.3	-57.6	-38.1	-19.6	-18.3	-5.5	-5.5	-5.5	-5.5
(- indicates an increase)										
Monetary authorities (net)	27.6	8.9	-47.6	-33.1	-19.6	-18.3	-5.5	-5.5	-5.5	-5.5
Change in gross reserves	32.2	24.4	-15.0	-15.0	-17.4	-14.8	2.3	5.0	-0.2	-3.8
Change in liabilities	-4.5	-15.5	-32.6	-18.1	-2.2	-3.5	-7.8	-10.5	-5.3	-1.7
of which: Fund credit	-9.0	-2.7	-7.3	8.8	-2.2	-3.5	-7.8	-10.5	-5.3	-1.7
Purchases	(-)	(9.6)	(2.4)	(18.5) 5/	(2.7)	(-)	(-)	(-)	(-)	(-)
Repurchases	(-9.0)	(-12.3)	(-9.7)	(-9.7)	(-4.9)	(-3.5)	(-7.8)	(-10.5)	(-5.3)	(-1.7)
Deposit money banks (net)	4.5	-35.2	-10.0	-5.0	--	--	--	--	--	--
Accumulation of arrears	41.7	-96.6	--	--	--	--	--	--	--	--
(- indicates a decrease)										
Interest	18.0	-41.7	--	--	--	--	--	--	--	--
Principal	23.7	-54.9	--	--	--	--	--	--	--	--
External debt relief and										
exceptional assistance	29.3	158.3	4.8	112.4	3.6	...	...	...	...	...
Rescheduling	29.3	121.8	...	102.0	...	...	...	...	...	...
Interest	12.4	21.8	...	15.6	...	...	...	...	...	...
Principal	16.9	28.0	...	86.4	...	...	...	...	...	...
Arrears	--	72.0	...	--	--	--	--	--	--	--
Exceptional assistance	--	36.5	--	10.4	...	...	...	...	...	...
Financing gap	--	--	132.9	--	57.0	43.5	33.3	5.0	17.3	13.2
Possible debt relief	--	--	96.6	--	...	...	...	...	...	...
Residual gap	--	--	36.3	--	...	...	...	...	...	...
Memorandum items:				(In percent of GDP)						
Current account deficit										
Including official transfers	-22.4	-10.6	-9.5	-7.7	-6.1	-4.8	-0.3	0.8	1.3	1.5
Excluding official transfers	-36.4	-24.5	-19.3	-19.6	-16.5	-14.4	-9.3	-8.0	-7.3	-6.6

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

1/ As indicated in EBS/86/70.

2/ Including debt service on financing of the gap.

3/ Includes projected disbursements of SDR 4.4 million, SDR 13.0 million, and SDR 12.8 million in 1986, 1987 and 1988, respectively, under the IBRD Structural Adjustment Credit.

4/ Including private short-term capital and errors and omissions.

5/ Differs from 1986 program by additional purchases of SDR 9.3 million under the new Stand-By Arrangement and SDR 6.8 million under the Structural Adjustment Facility. Possible disbursements under the SAF of SDR 4.6 million in 1987 and 1988 are not included in the projection.

Table 5. Mauritania: Assumptions Underlying the Medium-Term Balance of Payments Projections, 1986-92

(In annual percentage changes)

	1986 Prog. 1/	1986	1987	1988	1989	1990	1991	1992
		Projections						
Total exports, f.o.b.								
Value (in SDRs)	3.2	0.1	3.4	5.9	15.3	4.9	5.1	5.2
Volume	1.5	5.4	2.5	4.2	13.4	3.2	3.3	3.4
Unit value (in SDRs)	1.7	-5.0	0.9	1.6	1.6	1.7	1.7	1.7
Of which:								
Iron ore								
Value (in SDRs)	6.3	-6.4	-1.0	1.4	3.7	-1.0	-1.0	-1.0
Volume	5.3	10.9	--	2.4	4.8	--	--	--
Unit value (in SDRs)	0.9	-15.6	-1.0	-1.0	-1.0	-1.0	-1.0	-1.0
Fish								
Value (in SDRs)	0.1	4.5	5.6	8.2	8.2	8.1	8.1	8.1
Volume	-2.1	2.5	3.5	5.0	5.0	5.0	5.0	5.0
Unit value (in SDRs)	2.2	2.0	2.0	3.0	3.0	3.0	3.0	3.0
Total imports, f.o.b.								
Value (in SDRs)	-5.6	-15.2	0.5	6.8	10.6	4.6	4.7	4.8
Volume	-2.1	-9.4	-0.9	3.6	7.3	1.5	1.5	1.6
Unit value (in SDRs)	-3.6	-6.5	1.5	3.1	3.1	3.1	3.1	3.1
Of which:								
Foodstuffs (incl. food aid)								
Value (in SDRs)	-4.4	-25.6	1.1	5.7	5.3	5.3	5.3	5.3
Volume	-6.5	-20.1	2.1	2.1	1.7	1.7	1.7	1.7
Unit value (in SDRs)	2.2	-6.9	-1.0	3.5	3.5	3.5	3.5	3.5
Petroleum products								
Value (in SDRs)	-27.0	-44.6	-3.7	7.1	7.1	7.1	7.1	7.1
Volume	5.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
Unit value (in SDRs)	-30.5	-46.7	-7.4	3.0	3.0	3.0	3.0	3.0
Project related imports								
Value (in SDRs)	--	4.1	0.5	11.4	-7.8	6.0	6.0	6.0
Volume	-2.2	1.5	-2.4	8.1	-10.5	2.9	2.9	2.9
Unit value (in SDRs)	2.2	2.6	3.0	3.0	3.0	3.0	3.0	3.0
Terms of trade	5.5	1.6	-0.5	-1.5	-1.4	-1.4	-1.4	-1.3

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

1/ As indicated in EBS/86/70.

Table b. Mauritania: Medium-Term External Debt Projections, 1986-92

	1986	1987	1988	1989	1990	1991	1992
	Projections						
	(In millions of SDRs)						
Total debt service due	171.5	156.7	171.2	168.8	154.2	176.1	183.6
Principal due	109.2	98.0	116.0	115.6	102.5	125.7	133.4
On loans committed until end-1985	109.2	95.5	112.1	113.1	100.6	105.3	103.6
On debt rescheduled in 1986	--	2.5	2.5	--	--	19.4	19.4
On financing of the gap ^{1/}	--	--	1.4	2.5	1.9	1.0	11.0
Interest due	62.3	58.7	55.2	53.2	51.7	50.4	50.2
On loans committed until end-1985	52.0	43.3	37.1	33.1	30.4	28.0	27.9
On loans committed after end-1985	--	0.3	0.6	1.0	1.6	2.2	3.3
On debt rescheduled in 1986	3.6	6.8	6.6	6.6	6.6	5.7	4.4
On financing of the gap ^{1/}	--	1.9	5.1	7.4	8.5	10.5	10.9
On use of Fund resources	3.1	3.1	2.4	1.7	1.2	0.6	0.3
On short-term credit	3.6	3.4	3.4	3.4	3.4	3.4	3.4
Disbursements of medium- and long-term loans	78.1	90.3	91.8	75.1	79.6	84.4	89.5
Under commitments until end-1985	72.8	74.6	66.2	64.0	55.6	48.3	42.5
Bilateral loans	(43.0)	(44.0)	(39.1)	(37.8)	(32.8)	(28.5)	(25.1)
Multilateral loans	(24.3)	(24.3)	(26.4)	(26.2)	(22.8)	(19.8)	(17.4)
Financial institutions	(5.5)	(6.3)	(0.7)	(--)	(--)	(--)	(--)
Under new commitments	5.3	15.7	25.6	11.1	24.0	36.1	47.0
Of which: SAC	(4.4)	(13.0)	(12.8)	(--)	(--)	(--)	(--)
Total disbursed debt outstanding	1,409.4	1,457.6	1,481.4	1,468.9	1,442.4	1,413.9	1,392.4
Official medium and long-term loans	1,330.8	1,380.1	1,400.9	1,396.2	1,380.2	1,357.0	1,337.2
Fund credit ^{2/}	36.3	34.2	30.7	22.9	12.4	7.1	5.4
Short-term credit	42.3	43.3	49.8	49.8	49.8	49.8	49.8
	(As percentage of exports of goods and services)						
Total debt service	43.4	37.4	38.2	33.8	30.1	31.7	30.8
Interest and charges	14.9	13.6	12.1	10.2	9.5	8.8	8.3
Of which: on use of Fund credit	(0.7)	(0.7)	(0.5)	(0.3)	(0.2)	(0.1)	(--)
Principal and repurchases	28.5	23.8	26.1	23.6	20.7	22.9	22.4
Of which: Fund repurchases	(2.3)	(1.1)	(0.8)	(1.5)	(1.9)	(0.9)	(0.3)
	(As percentage of GDP)						
Total disbursed debt outstanding	204.5	198.0	187.4	171.1	159.1	147.0	136.6
Of which: Fund credit	(5.3)	(4.6)	(3.9)	(2.7)	(1.4)	(0.7)	(0.5)
Fund credit as percent of quota	107.1	100.7	90.4	67.5	36.7	21.1	16.0
Memorandum items:							
Average interest rates	(In percent)						
On disbursed debt under commitments until end-1985	3.8	3.6	3.1	2.9	2.8	2.7	2.8
On disbursed debt under commitments after end-1985	0.7	1.2	1.3	1.7	1.9	1.9	2.0
On rescheduled debt and financing of the gap	6.5	6.5	6.5	6.5	6.5	6.5	6.5

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

^{1/} Assuming that 5 percent of the financing provided will be repaid within the first two years following the gap, and 95 percent after a grace period of five years, over a period of five years.

^{2/} Includes proposed disbursements under the first annual arrangement under the Structural Adjustment Facility.

MAURITANIA - Relations with the Fund

(As of June 30, 1986; 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 (General Resources Account)

- (a) Quota: 33.9 million
- (b) Total Fund currency holdings: 59.09 million
(174.29 percent of quota)
- (c) Fund credit: 25.18 million (74.26 percent of quota)
Of which:

	Million	Percent
credit tranche	15.84	46.73
sup. financing	9.33	27.53

- (d) Reserve tranche position: None
- (e) Current operation budget (maximum use of currency): None
- (f) Lending to the Fund: None

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

	<u>Type</u>	<u>Date of Approval</u>	<u>Duration</u>	<u>Amount</u>	<u>Utilization</u>
(a)	Current arrangement:				
	SBA	April 21, 1986	12 months	12.0 million	1.2 million
(b)	Previous arrangements:				
	SBA	July 23, 1980	11 months ^{1/}	29.7 million	8.9 million
	SBA	June 5, 1981	10 months	25.8 million	25.8 million
	SBA	April 12, 1985	12 months	12.0 million	12.0 million
(c)	Special facilities:				
	CFE	December 1979		10.5 million	

IV. SDR Department

- (a) Net cumulative allocation: 9.72 million
- (b) Holdings: 0.67 million (6.9 percent of allocation)
- (c) Current designation plan (amount of maximum designation): None

^{1/} Arrangement became inoperative and was replaced by a new stand-by arrangement in June 1981.

MAURITANIA - Relations with the Fund (continued)

V. Administered Accounts

(a) Trust Fund loan:	
(i) Disbursed:	12.70 million
(ii) Outstanding:	7.69 million
(b) SFF Subsidy Account:	1.82 million

VI. Overdue Obligations to the Fund: None

(E) Nonfinancial Relations

VII. Exchange Rate Arrangement

Since January 22, 1974, the exchange rate of the ouguiya has been determined on the basis of a basket of currencies.

VIII. Last Article IV Consultation, Review Under the Stand-by Arrangement, and Request for New Stand-by Arrangement

The staff held discussions with the authorities on the 1985 Article IV consultation and the first review under the stand-by arrangement during the period June 27-July 11, 1985.

The staff report (EBS/85/239) and the report on recent economic developments (SM/85/270) were considered by the Executive Board on November 1, 1985. The decision adopted was:

1985 Article IV Consultation

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Section 2, and in concluding the 1985 Article IV consultation with Mauritania, in the light of the 1985 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Mauritania maintains a restriction on payments and transfers for current international transactions giving rise to external payments arrears, which is subject to approval under Article VIII, Section 2(a). The Fund welcomes the elimination of the multiple currency practice arising from broken cross-rates and urges Mauritania to eliminate the exchange restriction giving rise to external payments arrears.

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

The staff held discussions with the authorities on the second review under the stand-by arrangement and on an economic and financial program for 1986 in support of a new 12-month stand-by arrangement during the periods November 28-December 12, 1985 and January 23-February 4, 1986.

MAURITANIA - Relations with the Fund (concluded)

The staff report (EBS/86/70) was considered by the Executive Board on April 21, 1986. The decisions adopted were:

Review under Stand-by Arrangement

1. Mauritania has consulted with the Fund in accordance with paragraph 4 (e) of the stand-by arrangement for Mauritania (EBS/85/41, Supplement 2) and paragraph 3 of the letter of January 25, 1985, in order to reach understandings on the fiscal policies of the program.

2. The Fund finds that no additional understandings are necessary and decides that the review is completed.

Stand-by Arrangement

1. The Government of Mauritania has requested a stand-by arrangement for a period of twelve months from April 26, 1986, in an amount equivalent to SDR 12.0 million.

2. The Fund approves the stand-by arrangement attached to EBS/86/70.

3. The stand-by arrangement shall become effective on April 26, 1986.

1A. 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 and
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 date.

(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.

A. Resident Representative: None

MAURITANIA - Financial Relations with the World Bank Group

(As of March 31, 1986)

1.	Date of membership, IBRD/IDA:	September 10, 1963			
2.	Capital subscription, IBRD:	SDR 10 million			
	IDA:	US\$577 thousand			
3.	Status of disbursements:	<u>Amount (less cancellations)</u> (In millions of U.S. dollars)			
	Two loans and ten credits fully disbursed	126.0	38.9	126.0	38.9
	Agriculture, livestock, and rural development		38.2		12.6
	Transportation		4.0		0.6
	Education		5.7		2.8
	Industry	20.0	13.3		7.9
	Energy		3.0		1.8
	Parapublic		16.4		0.0
	Technical assistance		4.6		1.4
	Total	<u>146.0</u>	<u>124.1</u>	<u>126.0</u>	<u>67.7</u>
	Repayments	75.0	2.5	75.0	2.5
	Debt outstanding	71.0	117.9	51.0	66.0

4. IFC: The IFC financed an edible oil refinery in 1985 for US\$ 1.2 million.

5. Status of Bank Group dialogue and operations

To date, the Bank Group has had 24 projects in Mauritania for a total of US\$270.1 million. Of these, three are bank loans for mining operations (US\$66 million for MIFERMA in 1960, US\$60 million for SNIM in 1979 for the Guelbs Iron Ore Project, and another US\$20 million for SNIM's rehabilitation in 1985). The other 21 are IDA credits totaling US\$24.1 million. In 1985, IFC financed an edible oil refinery. At present, the Bank Group's share in Mauritania's external capital assistance amounts to about 3.0 percent.

After a comprehensive review of the public enterprise sector financed under the first Technical Assistance Project, assistance was also provided to enterprises in preparing a medium-term rehabilitation measures to increase the efficiency of existing enterprises through selective rehabilitation, privatization, and liquidation and outlines rehabilitation programs for several of these enterprises, including pricing policies, personnel adjustments, streamlining of management, and appropriate maintenance of equipment. In support

of this program, a Public Enterprise Technical Assistance and Rehabilitation Project was presented to the Board of Executive Directors in 1985.

In order to address Mauritania's severe balance of payments problems, tight fiscal situation, and inability to service its public debt, the Bank Group, in close collaboration with the IMF, helped the Government to prepare a Rehabilitation Program (1985-88) which was presented to a Consultative Group meeting in November 1985. A Structural Adjustment Credit is now being required in support of reform measures outlined in the Recovery Program. The loan is at an advanced stage of preparation. It will support in particular an action program in the area of public administration, food policy, energy policy, banking reform, fishing sector and private sector activity.

Assistance to the education sector is being provided under the Second Education Project (FY 1982) which aims at expanding access to primary education, improving vocational training in the modern industrial and commercial sectors, and training lower secondary school teachers to replace a substantial number of foreign technical assistants. Future IDA assistance should continue to focus on the need to reduce expensive technical assistance personnel. The Government recently requested the Association to assist the Government Education Reform Committee in the definition of overall long-term objectives, and the formulation of policies.

Assistance to agriculture will continue because this sector is still considered Mauritania's principal source of long-term growth, despite its weak base and extreme vulnerability to drought, and the high cost of investments due to difficult physical conditions, limited transport infrastructure and the high level of technical assistance needed. Through the Second Technical Assistance to the Rural Sector Project (FY 1983), rural institutions are being strengthened and efficient incentives developed by addressing such fundamental issues as input and product pricing, subsidies, and land tenure. Development of small scale irrigation is being assisted through a small-scale irrigation project (FY 1985).

A sector study has been prepared to assist the Government in the elaboration of a strategy in the fisheries sector, which could be an important source of future growth. The objective is to enable Mauritania to capture a larger share of the benefits currently reaped by foreign trawlers operating along the coast. Once this sector's strategy is in place, a fisheries project could be considered.

In the energy sector, assistance from the World Bank Group consists of supporting the Government's search for oil through the Petroleum Exploration Project (FY 1982) and carrying out an energy assessment.

The Bank Group is also helping Mauritania to develop an overall strategy for the urban sector. Urbanization has accelerated dramatically in recent years, but appropriate measures to adjust to this development have not been taken.

To assist in Mauritania's efforts to diversify employment and sources of income, financing was provided through the Mauritanian Development Bank to encourage private enterprise and to promote artisanal carpet-weaving

activities. A Second Industrial Development Project approved by the Board in FY 1985 is continuing to develop appropriate policies for improving subsector performance and to assess the possibilities for further expansion of the manufacturing sector.

The Bank is presently preparing a loan to provide assistance to public sector management rationalisation, and in particular for improvement in personnel management, budgetary and programming procedures, and interministerial coordination.

b. Resident Representative: The Bank has had a resident representative in Noukchott since October 1985.

MAURITANIA - Basic DataArea, population, and GDP per capita

Area:	1.0 million square kilometers					
Resident population: Total (1985):	1.75 million					
Growth rate:	2.4 percent					
GDP per capita (1985):	SDR 380 million					
	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u> Prov.	<u>1986</u> Proj.
<u>GDP (at 1982 market prices)</u>						
Total (in millions of ouguiyas)	39,692	38,838	41,401	40,053	41,293	43,440
Agriculture and livestock (in percent of total)	24.9	25.5	24.6	20.5	20.2	20.2
Fishing (in percent of total)	4.0	4.5	7.8	7.0	7.7	7.6
Mining (in percent of total)	11.0	9.2	9.3	14.5	13.7	14.4
Manufacturing (in percent of total)	3.3	3.2	3.1	3.4	3.5	3.4
Government (in percent of total)	11.2	12.2	12.8	12.1	11.3	10.7
Annual real rate of growth (percent)	3.7	-2.2	6.6	-3.3	3.1	5.2
Gross fixed investment as percent of GDP (at market prices)	41.9	47.1	17.9	23.9	21.9	21.5

Prices (percent change)

GDP deflator	7.0	9.9	4.0	11.2	12.0	7.3
Consumer price index (lower-income group)	11.5	8.4	4.9	8.0	12.0	7.0

Central government finance

(In millions of ouguiyas)

Recurrent revenue	6,665	7,211	8,935	10,296	12,301	15,945
Foreign grants	5,035	4,627	3,728	6,270	6,480	5,873
Total expenditure	13,357	16,302	19,583	21,593	21,396	22,406
Recurrent	(9,579)	(10,881)	(12,137)	(12,751)	(14,982)	(16,179)
Developpement	(3,778)	(5,421)	(7,446)	(8,842)	(6,415)	(6,227)
Overall deficit (-) (commitment basis)	-1,657	-4,464	-6,920	-5,027	-2,615	-588
Changes in arrears (decrease (-))	436	498	449	649	-4,809	--
Overall deficit (-) (cash basis)	-1,221	-3,966	-6,471	-4,378	-7,424	-588
Foreign borrowing (net)	3,844	5,411	5,020	3,369	-683	-4,609
Domestic borrowing	-2,623	-1,445	1,451	1,009	-607	-599
Of which: from banking system	(703)	(426)	(1,458)	(-125)	(-530)	(--)

MAURITANIA - Basic Data (continued)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u> Prov.	<u>1986</u> Proj.
<u>Money and credit</u> (Percent change)						
Domestic credit	15.8	21.3	10.0	9.3	2.1	5.9
Government	(27.5)	(13.1)	(39.6)	(-2.4)	(-10.8)	(-)
Private sector	(12.5)	(23.9)	(1.5)	(13.9)	(6.4)	(7.6)
Money and quasi-money	33.2	-2.0	9.1	9.0	24.1	9.0
<u>Balance of payments</u> (In millions of SDRs)						
Exports, f.o.b.	229.7	217.4	295.0	286.6	371.9	372.3
Imports, f.o.b.	-328.6	-407.5	-360.6	-313.4	-302.4	-256.3
Trade balance	-99.0	-190.1	-65.6	-26.8	69.5	116.0
Services and private transfers (net)	-121.6	-180.8	-222.8	-228.2	-236.2	-250.9
Sub-total	-220.6	-371.0	-288.4	-255.0	-166.7	-134.9
Public transfers	85.5	77.9	74.0	97.5	94.5	81.7
Current account	-135.1	-293.0	-214.4	-157.5	-72.2	-53.1
Capital account	111.6	182.2	130.6	54.3	36.8	-21.1
Disbursements	(114.3)	(172.4)	(163.2)	(108.7)	(90.0)	(78.1)
Amortization	(-58.5)	(-43.5)	(-54.6)	(-69.4)	(-65.1)	(-109.2)
Other capital <u>1/</u>	(55.8)	(53.4)	(22.0)	(15.0)	(12.9)	(10.0)
Overall balance <u>2/</u>	-23.5	-110.8	-83.6	-103.2	-35.4	-74.3
Current account deficit as percent of GDP	21.2	43.1	29.2	22.4	11.8	7.7
<u>Gross official foreign reserves</u> (end of period)						
	151.8	130.1	104.3	76.9	46.6	61.6
In weeks of imports, c.i.f.	21.6	15.4	13.8	11.6	7.2	11.4
<u>External public debt</u>						
Debt outstanding (end of period)	757.9	1,052.7	1,231.0	1,336.7	1,318.4	1,405.2
Debt service (in percent of exports of goods and services) <u>1/</u>						
Excluding the Fund	29.2	29.1	28.5	34.9	27.3	41.2
Including the Fund	31.5	31.5	30.3	38.4	30.9	44.2

1/ Including private and short-term capital, valuation adjustments, and errors and omissions

2/ Before debt relief.

MAURITANIA--Statistical Issues

1. Outstanding statistical issues

a. Prices

The deficiencies of the consumer price index were discussed during a technical assistance mission in December 1985. The mission's recommendations in this regard are being implemented.

b. Government finance

The 1985 GFS Yearbook includes central government data for the 1975-79 period and for 1983. Following his participation in the French I&F Institute GFS course earlier this year, a Ministry of Finance official received two weeks additional training in government finance statistics in the Bureau of Statistics. This should be helpful to the Mauritanian authorities in compiling data for the missing years.

c. Monetary accounts

A technical assistance mission made a detailed review of Mauritania's monetary data in November 1984. Shortcomings were found in the compilation of data series for both the Central Bank of Mauritania (CBM) and the Deposit Money Banks (DMB). In the CBM data, the transactions with the Fund were not correctly treated; the valuation adjustments of accounts denominated in foreign currencies were based on constant rates; and, finally, a number of claims on government were treated as unclassified accounts. Regarding DMB data, there was a considerable delay in their compilation, due mainly to an inappropriate report form system. In addition, the banks did not have standard procedures for valuing their foreign currency accounts nor a clear understanding of the difference between resident and nonresident accounts. Finally, the DMB series included under unclassified assets a number of claims on the Central Government and public enterprises. These problems were raised during the technical assistance mission and specific recommendations were made to solve them. The present mission discussed these recommendations in detail with the authorities and there was a consensus that the recommendations should be implemented.

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

The table on the next page shows the currentness and coverage of data published in the country page for Mauritania in the July 1986 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 fairly regular basis; however, the currentness of the data needs to be improved in certain areas.

Status of IFS Data

		<u>Latest Data in July 1986 IFS</u>
Real sector	- National accounts	1980
	- Prices	Q4 1984
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government finance	- Deficit/Surplus	1979
	- Financing	1979
	- Debt	n.a.
Interest rates	- Division rate	Q1 1985
	- Bank deposit/lending rates	Q2 1985
	- Bond yields	n.a.
Monetary accounts	- Monetary authorities	January 1986
	- Deposit money banks	January 1986
	- Other financial institutions	n.a.
External sector	- Merchandise trade: Values	February 1986
	Prices	n.a.
	- Balance of payments	1984
	- International reserves	May 1986
	- Exchange rates	May 1986