FOR AGENDA

EBS/85/41

CONFIDENTIAL

March 1, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Mauritania - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a request from Mauritania for a one-year stand-by arrangement. A supplement, together with a proposed decision, will be issued after the meeting of creditors and donors to be chaired by the World Bank on March 12 and 13, 1985.

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

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Nsouli (ext. 576542) or Mr. Marciniak (ext. 576523).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

MAURITANIA

Request for Stand-By Arrangement

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

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

Approved by A.D. Ouattara and S. Kanesa-Thasan

February 28, 1985

I. Introduction

In the attached letter dated January 25, 1985, the Government of the Islamic Republic of Mauritania requests a one-year stand-by arrangement in an amount of SDR 12 million (35.4 percent of Mauritania's quota of SDR 33.9 million), in support of an adjustment program for calendar year 1985. Discussions on this program were held in Nouakchott during the period December 5-19, 1984 and in Washington D.C., during the period January 7-25, 1985. 1/

Mauritania's outstanding use of Fund credit as of January 31, 1985 amounted to SDR 62.76 million (185.14 percent of quota), including SDR 14.26 million (42.06 percent of quota) outstanding under the Supplementary Financing Facility. Assuming that all repurchases are made as scheduled and that purchases of the full amount available under the proposed stand-by arrangement are made, Mauritania's use of Fund credit would amount to SDR 61.0 million (179.9 percent of quota) by end-March 1986. Purchases under the proposed stand-by arrangement will be made in five equal installments of SDR 2.4 million, with an initial drawing

1/ The Mauritanian representatives included Colonel Anne Amadou Babaly, Minister of Finance; Mr. Dieng Boubou Farba, Governor of the Central Bank; Mr. Abdellah Ould Daddah, Ambassador to the United States; and other senior officials of ministries and agencies concerned with economic and financial matters. Mr. A. Alfidja, Mauritania's Executive Director, participated in the discussions at headquarters. The staff team consisted of Messrs. S.M. Nsouli (head-AFR), A. Tahari (AFR), Ph. Marciniak (AFR), L. Dicks-Mireaux (EP-AFR), A. Tas (AFR), and Ms. F. Straver-Postic (secretary); a World Bank team collaborated closely with the Fund staff team, during both the visit to Nouakchott and at headquarters. Mr. Ouattara (AFR) also participated in the discussions at headquarters.

when the arrangement becomes effective and subsequent drawings upon observance of the relevant performance criteria (Table 1).

The staff report on the last Article IV consultation with Mauritania was discussed by the Executive Board on December 10, 1984 (SM/84/257). 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 presented in Appendices II and III, respectively.

II. Background and Economic and Financial Developments in 1984 1/

Mauritania has suffered from severe droughts in conjunction with a rapid process of desertification. This has disrupted agricultural and livestock activities, the source of livelihood for more than two thirds of the population. The area of the country with an average annual rainfall exceeding 300 millimeters fell from about 50 percent in the 1960s to 10 percent during the 1970s. As a result, annual cereal production dropped from about 120,000 tons in the early 1960s to about 20,000 tons in 1984. Concomitantly, Mauritania's public investment programs, comprising large infrastructural projects that generally contributed little to domestic production or the balance of payments, were financed by heavy external borrowing resulting in a substantial increase in external debt. The impact of these factors was exacerbated by the emergence of serious financial difficulties in the public enterprise sector, a deterioration in the terms of trade, inappropriate pricing policies, expansionary fiscal and monetary policies, and an increasing overvaluation of the currency. As a result, in the early 1980s, economic growth was erratic and large fiscal and balance of payments deficits emerged. These were partly covered by accumulation of external payments arrears, as external debt service became unmanageable.

Faced with mounting domestic and external financial imbalances, the authorities implemented in 1984 a number of measures aimed at containing the deterioration in the economic and financial situation. Restrained fiscal and credit policies were implemented. The reforms of key public enterprises, initiated in 1983, were pursued in an effort to increase their productivity and strengthen their financial position. Further, the currency was devalued by about 10 percent in real terms as measured by the trade weighted index. Although the rate of inflation was contained to about 8 percent, drought conditions and a dispute with two major foreign partners over the terms of fishing agreements contributed to a decline in real GDP estimated at about 3.6 percent and a further deterioration in the external sector position (Table 2).

1/ A more comprehensive discussion is provided in the recent staff report for the 1984 Article IV Consultation (SM/84/257).

Table 1. Mauritania: Use of Fund Credit, 1985-86

	Outstanding beginning of arrangement	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-March	Total
		(In millions of SDRs)				
Transactions under tranche policies (net)						
Purchases		4.8	2.4	2.4	2.4	12.0
Ordinary resources		4.8	2.4	2.4	2.4	12.0
Borrowed resources		--	--	--	--	--
Repurchases		3.1	3.4	3.3	3.0	12.8
Ordinary resources		2.2	2.3	2.4	2.0	8.9
Enlarged access resources		--	--	--	--	--
Supplementary financing		0.9	1.1	0.9	1.0	3.9
Transactions under special facilities (net)		--	--	--	--	--
Purchases		--	--	--	--	--
Repurchases		--	--	--	--	--
Total Fund credit outstanding (end of period)	61.8	63.5	62.5	61.6	61.0	
Under tranche policies	61.8	63.5	62.5	61.1	61.0	
Under special facilities	--	--	--	--	--	
		(In percent of quota)				
Total Fund credit outstanding (end of period)	182.3	187.3	184.4	181.7	179.9	
Under tranche policies	182.3	187.3	184.4	181.7	179.9	
Special facilities	--	--	--	--	--	

Source: International Monetary Fund.

Table 2. Mauritania: Selected Economic and Financial Indicators, 1982-85

	1982	1983	1984 Est.	1985 Prog.
	(Annual percentage changes, unless otherwise specified)			
National income and prices				
GDP at constant prices	-2.2	6.6	-3.6	3.0
GDP deflator	9.9	4.0	8.0	12.0
Consumer price index 1/	8.4	4.9	8.0	12.0
External sector				
Exports, f.o.b. (in SDRs)	-5.7	36.3 2/	-3.4	13.7
Imports, f.o.b. (in SDRs)	17.1	-8.1	10.1	-11.7
Export volume	-8.2	43.0	-7.7	5.5
Import volume	16.1	-8.0	-1.8	-11.3
Terms of trade 3/	1.9	-4.7	-6.6	1.7
Adjusted trade-weighted effective exchange rate (depreciation -)	3.9	5.6	-8.9	...
Consolidated government operations				
Revenue	3.6	22.6	16.8	19.3
Revenue and grants	-1.3	0.7	30.7	24.1
Total expenditure	10.1	-0.5	18.3	10.6
Money and credit				
Domestic credit	21.3	10.0	8.6	5.2
Credit to the Government	(41.5)	(11.6)	(--)	(--)
Credit to the economy	(14.9)	(9.4)	(12.0)	(7.0)
Money and quasi-money	-2.0	9.1	9.1	9.2
Velocity (GDP relative to M2)	4.2	4.3	4.1	4.3
Interest rate 4/	9.0	9.0	9.0	11.0
	(In percent of GDP)			
Consolidated government deficit 5/				
Excluding grants	27.0	21.3	24.5	21.8
Including grants	15.0	11.2	9.1	4.2
Domestic bank financing (net)	0.4	-0.3	0.3	--
Foreign borrowing (net)	10.8	10.5	7.4	-2.1
Payments arrears (change)	3.8	1.0	1.4	-12.9
Financing gap	--	--	--	19.2
Budgetary deficit 6/	7.9	4.7	1.8	0.8
Gross domestic investment	38.7	26.9	36.9	25.2
Gross domestic savings	-5.0	-1.1	-0.6	2.5
Resource gap	43.8	28.0	37.5	22.7
Current account deficit				
Excluding official transfers	51.3	38.3	48.9	31.6
Including official transfers	39.9	28.2	33.5	14.1
External debt 7/ (outstanding)	144.2	176.9	202.6	242.5
Debt service ratio 8/	29.0	30.3	37.8	36.5
	(In millions of SDRs, unless otherwise specified)			
Overall balance of payments				
Before debt relief	-106.1	-82.9	-101.2	-71.8
After debt relief	-80.3	-56.8	-72.0	...
Gross official reserves (month of imports)	4.0	3.6	2.6	2.9
Net foreign assets 9/	-75.6	-113.5	-145.5	-145.5
External payments arrears (outstanding)	36.5	55.4	93.3 10/	--

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

1/ For low income group with Mauritanian consumption pattern.
2/ The rapid increase in exports is due to the fishing sector reorganization, with all sales by mixed enterprises being treated as exports.
3/ In SDR terms.
4/ Annual maximum deposit rate.
5/ On a commitment basis, including Central Government operations, development expenditures financed directly through external aid, and interest charges to be refinanced or rescheduled.
6/ Deficit on Treasury operations, on a commitment basis.
7/ Inclusive of Fund resources and Central Bank deposits.
8/ As a percentage of exports of goods and services and private transfers (net).
9/ Of the banking system.
10/ Excluding SDR 20 million of commercial credit arrears.

With regard to fiscal policy, the authorities took measures on both the revenue and expenditure sides. Total revenue and grants increased by about 31 percent in 1984, reflecting a 17 percent increase in domestic revenue and a 59 percent increase in grants (Table 2). The large increase in grants was to finance food aid, technical assistance, and capital outlays. The adverse effect of the decline in economic activity on revenue during 1984 was more than offset by an increase in receipts from income, profit, and turnover taxes due to a number of tax measures taken. 1/ In addition, a number of administrative measures to improve tax collection were implemented. By contrast, consolidated total expenditure rose by 18.3 percent in 1984. While there was a large increase in the expenditure financed by food aid, technical assistance, and foreign-financed investment, the expansion of current budgetary expenditure was contained to 3.2 percent. Wage expenditure increased by 4.6 percent in 1984, as no cost-of-living adjustment was granted and growth in government employment was limited. In addition, in April 1984, the authorities implemented a number of austerity measures which resulted in keeping nonwage expenditure (excluding interest payments on external debt) virtually unchanged in nominal terms.

Reflecting these factors, the deficit on current budgetary operations was reduced from 3.2 percent of GDP to 0.4 percent. The consolidated deficit on a commitment basis including grants, which was estimated by the staff by adding the counterpart of food aid, technical assistance, and foreign-financed investment to the treasury operations, dropped from 11.2 percent of GDP in 1983 to 9.1 percent of GDP in 1984 (Table 2). However, excluding grants, the deficit rose from 21.3 percent of GDP to 24.5 percent. On a cash basis, the consolidated deficit declined from 10.2 percent of GDP to 7.7 percent in 1984, as there was a further accumulation of domestic and external arrears. No bank credit was made available to finance the overall deficit as advances to the Treasury had reached the statutory limits.

In 1984, the rate of growth of domestic credit declined to an estimated 8.6 percent, compared with 10 percent in 1983 and with an average annual rate of 18.1 percent in 1980-82. The growth in credit in 1984 was totally due to an increase in credit to the nongovernment sector. The expansion of credit to the nongovernment sector was primarily accounted for by the fishing, industrial, and construction sectors; the share of commerce and other services declined. As the drop in net foreign assets

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1/ These included a 2 percentage point increase in the domestic turnover tax rate (TCA); the extension of the tax on services (TPS) to restaurant services; the implementation of an installment payments system for taxpayers subject to taxes on income and net profit (BIC) and the minimum tax (IMF); and the introduction of a surcharge on premium and regular gasoline.

was largely compensated for by developments in other monetary items, resulting partly from valuation adjustments and reclassification of credit, the expansion in credit resulted in an increase in domestic liquidity of 9.1 percent in 1984, the same rate as in 1983, compared with an annual average rate of 16.3 percent in 1980-82.

The restrictive demand management policies, combined with the depreciation of the currency, helped in reducing nonproject imports, excluding food aid, by 3.3 percent in SDR terms. However, as both foreign-financed capital imports and food aid increased markedly, the value of total imports rose by 10.1 percent. Exports, however, declined by 3.4 percent. While exports of iron ore increased by 16.3 percent, owing to a rise in demand, fish exports declined by 7.7 percent due to disputes with two major foreign partners over the terms of fishing agreements. The deterioration in the trade account was accompanied by a widening deficit on the service account, reflecting partly higher interest payments and project-related services. As a result, the external current account deficit, including public transfers, widened from 28.2 percent of GDP in 1983 to 33.5 percent in 1984. Excluding grants, the deficit rose from 38.3 percent of GDP to 48.9 percent, respectively. The amount of grants received in 1984, equivalent to 15.4 percent of GDP, was to finance projects (6.2 percent of GDP), technical assistance and other services (5.4 percent of GDP), and food aid. After account is taken of debt relief received in the past, the overall balance of payments deficit rose from SDR 56.8 million in 1983 to SDR 72 million in 1984. This was financed by a further accumulation of external arrears, which were estimated to have reached SDR 93.3 million at end 1984, and by a decline in gross foreign reserves by about SDR 36 million to the equivalent of 2.6 months of imports from 3.6 months of imports in the previous year.

At end-1984 Mauritania's outstanding external debt (including use of Fund resources, arrears, trade credits, and banking system short-term liabilities) is estimated to have reached SDR 1.4 billion (202.6 percent of GDP). Scheduled debt service payments, inclusive of repurchases to the Fund, is estimated to have risen from 30.3 percent of exports of goods and services in 1983 to 37.8 percent in 1984.

Economic analysis in Mauritania is constrained by limitations in the data base in various sectors. Efforts are being undertaken by the authorities to improve the data base with technical assistance provided by the Fund, the World Bank, and other multilateral organizations as well as donor/creditor countries.

III. The Program for 1985

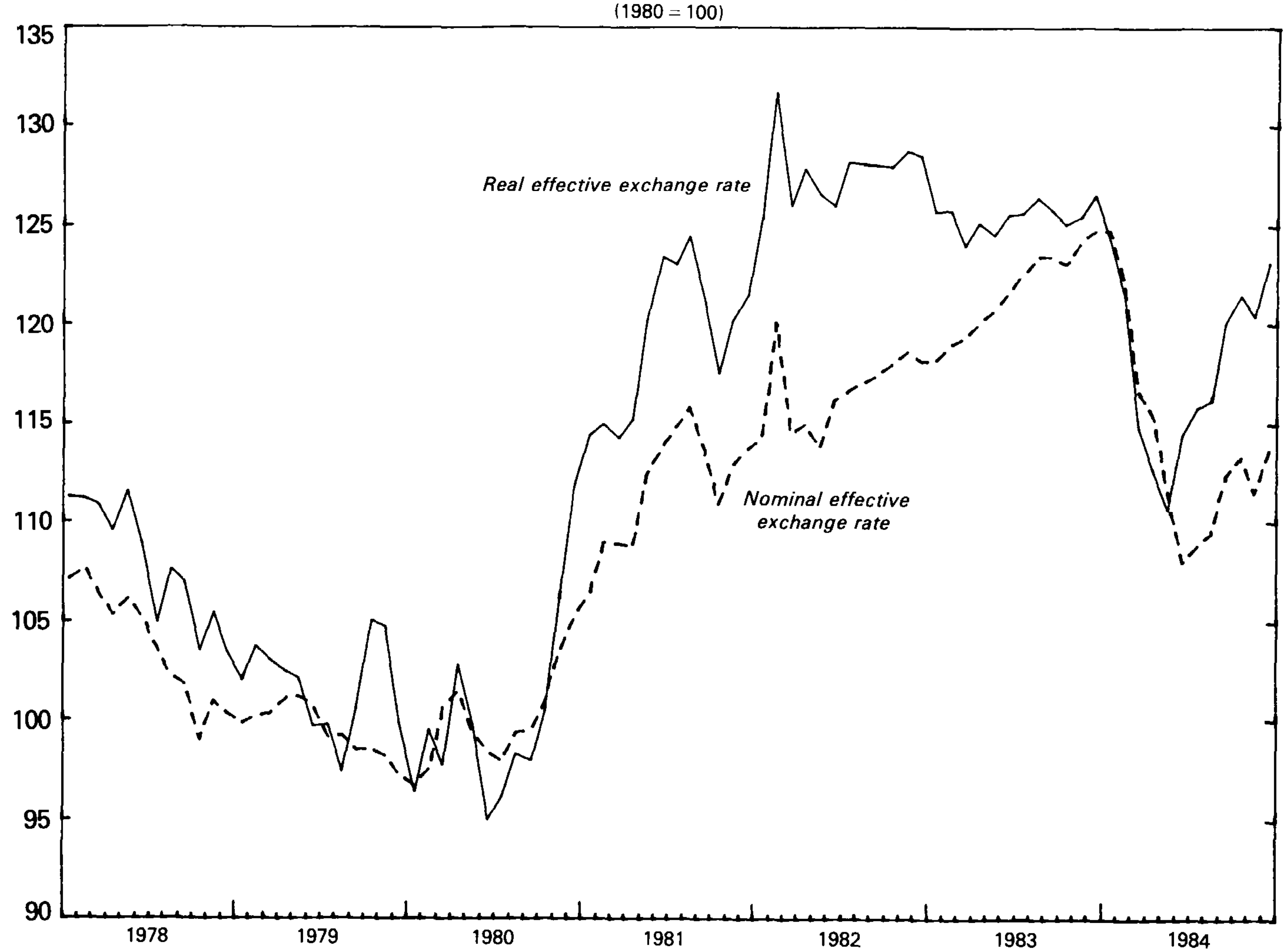
Against this background and with a view to achieving a viable external sector position over the medium-term, the Government of Mauritania has embarked on a comprehensive, and strengthened, adjustment program for

CHART 1

MAURITANIA

NOMINAL AND REAL EFFECTIVE EXCHANGE RATES[1], JAN. 1978 - DEC. 1984

(1980 = 100)



[1] Adjusted trade weighted index of nominal and real effective exchange rates; trade weights are adjusted for iron ore and fish exports which are set in U.S. dollars.

1985. A summary of the main elements of the program is presented in Table 3. The key program objectives for 1985 are to achieve a rate of economic growth of 3 percent, to limit the inflation rate to 12 percent, and to reduce the current account deficit of the balance of payments (including public transfers) from 33.5 percent of GDP to 14.1 percent and the overall balance of payments deficit (before debt relief) from SDR 101 million to SDR 72 million (Appendix I, Table I). The key measures under the program include a devaluation of the ouguiya, the elimination of all broken cross-rates, the adoption of a flexible exchange rate policy, increases in official prices for basic foodstuffs, utilities, and petroleum products, the gradual liberalization of prices, the scaling down of investment outlays in the context of an investment program viewed as appropriate by the World Bank, the continued reform of public enterprises, the pursuit of restrictive fiscal and monetary policies, including an increase in interest rates and appropriate external debt management. Notwithstanding these measures, a large financing gap of about SDR 200 million remains in the balance of payments.

1. External sector policies

The exchange rate policy under the program aims at correcting the appreciation of the Mauritanian currency that took place since 1980, enhancing the profitability of the fishing and mining export sectors, promoting import substitution activities, and containing demand pressures on imports. Accordingly, the Government decided to depreciate the Mauritanian currency, on February 15, 1985, by 16 percent (19 percent in domestic currency terms), thus bringing the cumulative effective depreciation since early 1984 to 24 percent (32 percent in domestic currency terms). This depreciation fully reverses the appreciation since 1980 in the real effective exchange rate, as measured by an adjusted trade-weighted basket (Chart 1). 1/ Simultaneously, all broken cross-rates were eliminated. Further, the Government is pursuing a flexible exchange rate policy designed to effect a real depreciation of the effective exchange rate, by taking into account movements in the relative rates of inflation between Mauritania and its main trading partners, with a view to enhancing the competitiveness of the Mauritanian economy over the program period. A full pass-through of the effects of exchange rate changes is in effect.

The exchange rate policy, together with other measures envisaged under the program, are expected to contribute to a significant reduction in the external current account deficit, including public transfers, from SDR 229.7 million (33.5 percent of GDP) in 1984 to SDR 87.6 million (14.1 percent of GDP) in 1985. Excluding public transfers, the deficit

1/ The trade weights of Mauritania's major trading partners are adjusted for exports of iron ore and fish, whose prices are set internationally in U.S. dollars.

Table 3. Mauritania: Summary of the 1985 Financial Program

Objectives

1. Economic growth: 3 percent;

2. Inflation: 12 percent;

3. Reduce the current account deficit of the balance of payments from 33.5 percent of GDP to 14.1 percent.

Policy Measures

1. External sector policies

a. Devalue the Mauritanian ouguiya by 16 percent (19 percent in domestic currency terms);

b. Eliminate all broken cross-rates;

c. Adopt a flexible exchange rate policy;

d. Eliminate outstanding arrears on public and publicly-guaranteed external debt through rescheduling, restructuring, or cash payments before end-September 1985, with no further accumulation;

e. Eliminate prior to end-March 1985, SDR 3.1 million in guaranteed commercial arrears identified to date, with no further accumulation;

f. Neither contract nor guarantee any new nonconcessional loans in the 0-12 maturity range (excluding debt rescheduling) during the program period.

2. Fiscal policies

a. Reduce the overall deficit on a commitment basis (including grants and before debt relief) from 9.1 percent of GDP in 1984 to 4.2 percent of GDP in 1985; excluding grants, from 24.5 percent of GDP to 21.8 percent;

b. Revenue measures:

i) convert specific taxes on tobacco, milk, tomato paste, and edible oil to an *ad valorem* basis;

ii) harmonize customs duties in accordance with those of the Community of West African States;

Table 3. Mauritania: Summary of the 1985 Financial Program (continued)

iii) revise the threshold for use of the lump-sum system for business profit taxes (BIC);

iv) improve collection of wage and salary taxes (ITS), the general income tax (IGR), and of delinquent taxes; and

d. Expenditure measures:

i) limit civil service salary increases to 2 percent;

ii) freeze the size of civil service employment;

iii) strengthen expenditure controls; and

iv) reduce capital expenditure.

3. Monetary policy

a. Limit the expansion of total domestic credit to 5 percent, to be provided exclusively to the nongovernment sector (including public enterprises), while maintaining net bank credit to the Government at its 1984 level.

b. Raise the interest rate structure.

c. Strengthen Central Bank monitoring of commercial bank activities, in particular in the areas of private borrowing from abroad and repayments of commercial loans as well as risk analysis of domestic credit, and improve the monetary data base.

d. Complete the study financed by the Arab Monetary Fund on rehabilitation and strengthening of the banking sector by the time of the mid-term review and begin implementing the study's recommendations.

4. Pricing and marketing policies

a. Increase official prices for consumer goods, public utilities, petroleum products, and agricultural producer prices, to reflect at least the full pass-through effects of the exchange rate adjustment on prices.

b. Undertake a study to determine the changes needed in the current system to liberalize pricing and marketing policies gradually.

Table 3. Mauritania: Summary of the 1985 Financial Program (concluded)

5. Public enterprises

a. Pursue rehabilitation of five key public enterprises: (i) the iron ore mining company (SNIM); (ii) the rural development agency (SONADER); (iii) the electricity and water supply company (SONELEC); (iv) the Nouakchott port authority (EMN); and (v) the post and telecommunications agency (OPT).

b. Prepare for the rehabilitation of other public enterprises, with priority given to the food aid agency (CSA), and the oil marketing agency (SMCPP).

c. Set a timetable for settlement of the interlocking debts of SONELEC, OPT, EMN, and the Government by end-April 1985.

6. Public investment program

a. 1985 overall objective: US$183 million;

- domestic counterpart: US$7.3 million;
- external borrowing: US$117.1 million;
- grants: US$58.6 million.

b. Limit implementation rate to 70 percent.

c. Prepare, in consultation with the World Bank, an investment program for the period 1986-88 for submission to a Consultative Group meeting tentatively scheduled to be held during the second half of 1985.

is programmed to be reduced from 48.9 percent of GDP to 31.6 percent, respectively. Public transfers projected for 1985 represent 17.6 percent of GDP, of which 6.5 percentage points are for investment, 4.5 percentage points for technical assistance and other project-related services, and 6.6 percentage points for food aid.

The reduction in the external current account deficit reflects a sizable improvement both in the trade and service accounts. On the export side, exports receipts are expected to grow by 13.7 percent owing to an increase in exports of iron ore by 8.5 percent and a 19.2 percent increase in fish exports. The former is due to a projected rise in prices and the latter partly reflects the resolution of the dispute over fishing agreements with two main partners. On the import side, the exchange rate action, the restrictive demand management measures and the reduction in public investment will contribute to a sharp drop in imports by 11.7 percent. The value of capital goods is forecast to decline by 32.5 percent, virtually all as a direct outcome of the sharp cutback in public investment spending incorporated in the 1985 investment program. The increase in the value of consumer goods and petroleum imports is projected to be limited to 1.1 percent. The improvement in the service account is to stem mainly from declining net outflows on the freight, insurance and other transports, and from a sharp drop in project-related services concomitant with the decline in investment.

With respect to the capital account, the surplus of SDR 128.5 million in 1984 will decline to SDR 15.8 million, as a result of a drop in project-related disbursement and higher scheduled amortization. This, however, will be more than offset by the improvement in the current account deficit, with the result that the overall balance of payments deficit (before debt relief) is projected to decline from SDR 101.2 million in 1984 to SDR 71.8 million. Taking into account the total elimination of external arrears on the servicing of medium- and long-term debt, estimated at SDR 93.3 million, the elimination of the identified arrears on commercial credits, estimated at almost SDR 20 million, and the scheduled SDR 12.2 million repurchases from the Fund, the financing gap is projected to amount to SDR 197.3 million. The authorities are making efforts to cover this gap by rescheduling or restructuring of public debt, additional cash external financial assistance, and the requested use of Fund resources. Gross official reserves, which represented the equivalent of 2.6 months of imports at end 1984, are projected to remain at the same level.

In order to close the financing gap in the budgetary and balance of payments positions, Mauritania is seeking exceptional financial assistance and debt relief from creditor/donor countries. In this regard, the authorities have already requested a meeting of the Paris Club, which is expected to take place after Board approval of the program. In addition, a meeting of donor and creditor countries, chaired by the World Bank, is scheduled to be held in Paris on March 12-13, 1985. The meeting chaired by the

World Bank will seek to obtain firm indications of debt relief from countries not normally participating in the Paris Club and additional exceptional assistance. A large proportion of outstanding arrears and debt service for 1985 (about 50 percent) is owed to Arab governments and national Arab development Funds. About 15 percent of the total is owed to Paris Club members. Saudi Arabia has already provided US$30 million as a cash grant in January 1985. Taking into account SDR 9.6 million in purchases under the proposed stand-by arrangement, the remaining gap to be filled amounts to about SDR 160 million to be secured through debt relief and additional exceptional assistance.

Scheduled external debt service is projected to reach 36.5 percent of goods and services in 1985, while the outstanding external debt is estimated to rise to SDR 1.5 billion (242.5 percent of GDP) by the end of 1985 (Appendix I, Table II). In order to achieve a gradual reduction in the debt burden and improve the debt profile, as a performance criterion, the Government will not contract or guarantee any nonconcessional loans in the 0-12 year maturity range over the program period. Further, there is presently an outstanding amount of SDR 75.9 million deposited by foreign central banks at the Central Bank of Mauritania. Any additional such deposits will be earmarked to build up gross reserves and will not to be utilized for balance of payments financing.

The elimination of arrears on the servicing of public and publicly-guaranteed external debt by rescheduling or cash payments before end-September 1985 constitute a performance criterion. There are also outstanding external arrears on commercial credits, some of which are guaranteed by domestic commercial banks. Currently, there is only preliminary and incomplete information on these arrears. The preliminary estimates are SDR 3.1 million and SDR 15.9 million for guaranteed and nonguaranteed commercial arrears, respectively. As a performance criterion, the SDR 3.1 million in guaranteed commercial arrears that has been thus far identified will be eliminated prior to end-June 1985. A comprehensive survey will be undertaken by the authorities and completed before end-April 1985. At the time of the mid-term review, understandings with the Fund will be reached on a timetable to eliminate all identified arrears on guaranteed and non-guaranteed commercial credit. Further, during the program period, and as a performance criterion, no external arrears on public and publicly-guaranteed debt obligations and on guaranteed or nonguaranteed commercial credit for which the domestic counterpart has been paid will be accumulated.

2. Fiscal policy

The program aims at reducing the overall deficit on a commitment basis including grants from 9.1 percent of GDP in 1984 to 4.2 percent in 1985. 1/ The balance between domestic revenue and current expenditures

1/ These figures, as well as data on external loans and grants shown in Table III, Appendix I, are based on debt commitments and exclude debt relief and cash grants expected from the gap-fill exercise.

is expected to shift from a deficit equivalent to 0.4 percent of GDP in 1984 to a surplus of 0.9 percent in 1985 (Appendix I, Table IV).

The consolidated deficit includes the public investment program, which is virtually fully financed externally, the expenditure financed by food aid, and foreign technical assistance financed through grants. Mauritania receives substantial amounts of foreign-financed food aid and technical assistance, which for 1984 and 1985 are estimated at 9.0 percent of GDP and 11.0 percent of GDP, respectively. In view of the high level of grants in the consolidated budget and the expenditures they finance, a devaluation has a negative effect on the consolidated fiscal position excluding grants (Appendix I, Table III). At an unchanged exchange rate, the consolidated deficit excluding grants would have declined from 24.5 percent of GDP to 19.3 percent. After account is taken of the exchange rate action, however, the deficit on this basis is projected at 21.8 percent of GDP.

Taking into account the elimination of outstanding domestic and external arrears in 1985, the consolidated deficit on a cash basis is expected to rise from 7.7 percent of GDP in 1984 to 17.1 percent in 1985. This deficit is expected to be financed through disbursements associated with the public investment program and through debt relief and additional exceptional assistance; domestic bank financing will not increase as the statutory ceiling on credit to the Government has already been reached.

Total receipts are projected to increase by 24 percent, reflecting a 30 percent increase in grants and a 19 percent increase in domestic revenue (Appendix I, Tables III and V). The latter is mainly due to the effects of the depreciation, which is expected to substantially boost customs duty receipts, the introduction of new tax measures, and improvements in tax administration. The major new tax measures approved by the Government in the 1985 central government budget include the conversion of specific taxes on tobacco, milk, tomato paste, and edible oil to an ad valorem basis, the revision of customs duties in line with those of the Community of West African States, and the revision of the threshold for using the lump-sum system for business profit taxes (BIC). Domestic revenue is also projected to benefit from an expected improvement in fishing sector activity. In addition, the Government expects to improve tax collection in the fishing sector through the newly-created fish marketing company (SMCPP). Tax administration will be strengthened in order to improve collection of wage and salary taxes (ITS), of the general income tax (IGR), and of delinquent taxes.

On the expenditure side, notwithstanding the exchange rate action, total consolidated expenditure is projected to grow by only 11 percent in 1985 as against 18 percent in 1984. The growth in budgetary current expenditure (excluding interest payments on public debt) will be limited to 7.4 percent (Appendix I, Tables III and VI). This will be achieved in part by containing the growth in the wage bill. Civil service salaries, which were already reduced by 13 percent in real terms during the period 1980-84, will be further reduced in real terms in 1985, as a general cost-of-living adjustment of only 2 percent will be granted. Recruitment in the last quarter of 1984 is estimated to account for an addition of 3 percentage points to the wage bill, while the wage drift is estimated at 2 percent. As the size of the civil service will be frozen at the end-1984 level in 1985, the overall wage bill will not be allowed to grow by more than 7 percent. Although cuts in real terms in nonwage expenditures were implemented in 1984, the Government intends to maintain expenditures on equipment, maintenance and supplies constant in real terms. Subsidies and transfers will be maintained at the 1984 level in nominal terms, implying a reduction in real terms. In addition, government investment expenditures will be reduced in domestic currency terms by 23 percent, reflecting the overall reduction in the public investment program.

As a performance criterion, domestic arrears, presently estimated at UM 742 million, will be reduced starting in March 1985 by quarterly amounts of UM 185.5 million. No new domestic arrears will be incurred during the program period. A comprehensive survey to determine if additional domestic arrears are outstanding will be completed before the mid-term review, at which time a schedule will be agreed upon for the elimination of all domestic arrears by the end of the program.

b. Monetary policy

The Government will continue with a restrictive monetary policy consistent with the balance of payments and budgetary objectives. Accordingly, credit expansion in 1985 will be limited to 5 percent compared with 8.6 percent in the previous year, and will be provided exclusively to the nongovernment sector, while no increase in net bank credit to the Government will be allowed for the whole year (Appendix I, Table VII). This implies that net credit to the nongovernment sector will increase by 7.0 percent in 1985 as against 12.0 percent in 1984, with priority to be given to vital economic sectors, such as agriculture, fishing, and mining.

As performance criteria, quarterly ceilings on total domestic credit and on net credit to the Government were established for end-March 1985 and end-June 1985. On an indicative basis, corresponding credit ceilings were set for end-September and end-December and performance criteria for these two quarters will be established during the mid-term review of the program scheduled before end-July 1985, taking into account the progress made under the program, the outcome of external debt rescheduling, and any additional nonproject related budgetary external assistance.

In order to improve resource allocation and strengthen financial intermediation, the authorities are raising the interest rate structure on February 28, 1985 by a minimum of 2 percentage points (Appendix V, Attachment II). Accordingly, interest rates on deposits are now in the range of 7-11 percent, and lending rates on rediscountable and non-discountable loans have been increased to a range of 8.5-12 percent and 12-16 percent, respectively, in line with the underlying inflation rate, about the average annual inflation rate recorded during 1982-84. The appropriateness of the interest rate structure will be reviewed at the time of the first review of the program.

Financial intermediation is also expected to be improved through a comprehensive rehabilitation of the banking system. A study financed by the Arab Monetary Fund is under way; a timetable for implementing the study's recommendations will be agreed upon at the time of the mid-term review. In the meantime, credit risk assessment procedures will be strengthened with a view to avoiding a further accumulation of domestic arrears to the commercial banking system. Further, to improve statistical recording of banking transactions, the recommendations made by a recent Fund report on statistical issues relating to monetary data will be implemented and the progress reviewed during the mid-term review of the program.

4. Pricing and marketing policies

With a view to stimulating private sector economic activity and improving resource allocation, the Government will progressively liberalize pricing and marketing policies and increase official prices for consumer goods, public utilities, petroleum products, and agricultural producer prices, to reflect at least the full pass-through effects of the exchange rate adjustments on prices. On February 15, 1985, the Government took a number of measures. The floor producer price of sorghum, maize, and wheat paid by the Commissariat à la Sécurité Alimentaire (CSA) was raised, in accordance with the proposals of the World Bank, from UM 15 per kg to UM 21 per kg, and that of paddy rice from UM 12.5 per kg to UM 14 per kg. This measure aimed at encouraging domestic cereal production, reducing cereal imports, and compensating for the phasing out of fertilizer subsidies by 1986. Concomitantly, the wholesale price of sorghum, maize, and wheat sold by CSA was increased in accordance with the proposals of the World Bank, from UM 15 per kg to UM 22.5 per kg in Nouakchott, and from UM 14 to UM 21.5 per kg in the rest of the country. While there is no explicit budgetary subsidy involved, given that these commodities are mostly received as grants, semi-annual adjustments will be made to achieve by 1987 import parity for these commodities, currently estimated at UM 27 per kg after the February 15, 1985 devaluation. In addition, the price of broken rice marketed by SONIMEX in Nouakchott was raised from UM 20 per kg to UM 26 per kg. Prices for other cities and regions will fully reflect the additional costs of transportation and marketing.

In view of the flexible exchange rate policy that is being pursued, directives have been given that official prices, including those for petroleum products, as well as charges of public utilities be fully adjusted for any exchange rate action at the latest within four weeks.

To ensure prompt adjustments, the Government plans to establish a mechanism to effect these adjustments automatically. The mechanism being considered will be examined at the time of the mid-term review of the program.

To provide a basis for the gradual liberalization of pricing policies, the Government is initiating a study to determine the appropriate changes in the current pricing system. Under the current system, the prices of basic commodities are fixed by the Government, a profit margin for imported goods is set, and only the prices of luxury goods are determined freely. The study will attempt to define which basic commodities, the prices of which are currently determined by the Government, can be allowed to be priced through the market mechanism, which imported commodities, subject to profit margins, can be moved to be priced in the market, and the extent to which profit margins on imported goods can be widened. Concurrently, the marketing arrangements are being reviewed to determine the modalities by which private sector participation can be expanded. In this regard, food marketing and production policies will be defined, by reviewing the role of CSA, SONIMEX, SONADER, and the rice mills. The results of the analysis will be examined at the time of the mid-term review with a view to formulating specific measures to be put in place during the second half of the program period.

4. Public enterprises

The Government initiated in late 1983 a reform of the public enterprise sector in cooperation with the World Bank and other donors. The reform is expected to continue in 1985. In 1984, two key public enterprises, the National Mining and Industrial Company (SNIM) and the National Rural Development Agency (SONADER) started implementing individual rehabilitation plans. In addition, rehabilitation programs to reform the electricity and water supply company (SONELEC), the Nouakchott port authority (EMN), and the post office and telecommunications agency (OPT) were formulated. World Bank financing of US$16.4 million for public enterprise technical assistance and rehabilitation has been negotiated. Total concessional financing committed, which amounts to US$11.6 million, involves participation of the Caisse Centrale de Coopération Economique, the Fonds d'Aide et de Coopération (FAC), the European Development Fund (EDF), the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW).

It is expected that in 1985 the public enterprise sector will benefit from a number of measures implemented in 1984. These include an improvement in the legal framework governing public enterprises, the delineation of responsibilities of boards of directors, and the introduction of a new accounting framework. In order to monitor the implementation of reforms under way in the public enterprise sector, the Government established a unit within the Ministry of Plan; monitoring units within the technical ministries are expected to be established in 1985. The Government also completed in 1984 a preliminary study on interlocked debts between the

Government, public enterprises, and banks. In 1985, the auditing of public enterprises is being accelerated. The results of these audits are expected to help the authorities to start preparations for the rehabilitation of enterprises, other than the aforementioned five key ones. Priority is expected to be given to the food aid agency (CSA) and the oil marketing agency (SMCPP). In addition, the audits are expected to aid in setting a timetable by end-April, for settling the interlocking debts of SONELEC, OPT, and EMN. The progress made in this regard will be reviewed at the time of the mid-term review of the program.

While efforts to lay the base for accelerating the reform of the whole sector will continue in 1985, the emphasis will be on the continued rehabilitation of the five key enterprises. In close consultation with the World Bank and other creditors, the national mining and industrial company (SNIM) is introducing measures to reduce production costs and improve the efficiency of mining operations and management with a view to enhancing the financial viability of the enterprise. The rehabilitation plan of the rural development agency (SONADER) includes the discontinuation of its direct involvement in construction of irrigation facilities in 1985, transferring to users responsibility for pump maintenance services in 1986, the phasing out of fertilizer subsidies by end-1985, and the discontinuation of input supply and credit extension functions by 1987. The Nouakchott port authority (EMN) increased its charges by 25 percent on January 31, 1985. A suitable formula for future increases is being devised to improve its financial performance, in line with the recommendations of the World Bank. Technical assistance aimed at improving management and strengthening accounting procedures is expected to improve the operations of the post and telecommunications office (OPT). A study of the medium-term financial viability of OPT will be undertaken in 1985. Finally, to strengthen its financial position, the electricity and water supply company (SONELEC) will increase its rates in line with the World Bank's recommendations, taking into account the effects of the exchange rate action. The World Bank has recommended increases in electricity and water charges of 15 percent and 10 percent, respectively, before exchange rate action. Negotiations of the required adjustment with the World Bank were scheduled to be completed by end-February 1985.

6. Public investment program

The Government's policy is to reduce gradually public investment expenditure while emphasizing rehabilitation of existing capital and implementing new projects which will enhance domestic production, export diversification, and import substitution. In December 1984, a World Bank mission completed a review of the 1985 public investment program. The World Bank considered the structure and level of the investment program to be basically consistent with the country's development needs and objectives. In consultation with the World Bank, the Government is preparing a document for submission to a Consultative Group meeting tentatively scheduled to be held in the second half of 1985. The document will outline the Government's public investment objectives, sectoral strategies, and the criteria for project selection, as well as a list of new projects and estimates of the macroeconomic impact of projected public investment for the period 1986-88.

During 1985 the Government is committed to reduce the envisaged level of investment in line with the absorptive capacity of the country and the availability of financial resources as well as the budgetary and balance of payments objectives. The total public investment program for 1985 targeted outlays at US$183 million. The Government, however, will defer investment expenditures for 1985, resulting in an overall implementation rate of 70 percent. Accordingly, the projected investment level for 1985 amounts to US$128 million, compared with an estimated US$225 million in 1984. This represents a cut of about 43 percent in foreign exchange terms. The public investment program in 1985 is fully financed through foreign loans (64 percent), foreign grants (32 percent), and a budgetary contribution of 4 percent. This involves a considerable increase in grant financing compared with 19 percent in 1984. If there should be a shortfall of financing during the implementation of the 1985 public investment program, the Government will reduce its investment expenditure accordingly after consultation on the composition of the revised investment program with the World Bank and the Fund.

The 1985 investment program emphasizes the rehabilitation of existing infrastructure and quick-yielding projects in the agricultural sector. Ongoing projects constitute about 71 percent of the total. The total cost of new projects is estimated at US$250 million, of which about 15 percent is programmed for 1985. The focus on smaller irrigation projects, rainfed agriculture, and existing infrastructure rehabilitation is considered by the World Bank to constitute a significant departure from the Government's previous strategy, which gave priority to large capital intensive projects. In the World Bank's view, the new direction of investment should contribute to improving capacity utilization and efficiency in irrigation, enhancing water supply, extending urban electrical power supply, and expanding critical social facilities. These investments are expected to promote economic growth and have positive effects on the financial position of the country.

7. Performance criteria

The program includes the following performance criteria: (i) quarterly ceilings on total domestic credit; (ii) quarterly ceilings on net credit to the Government; (iii) elimination of domestic arrears, with no further accumulation; (iv) elimination of identified commercial arrears on guaranteed and nonguaranteed commercial credit for which traders have provided the domestic counterpart, with no further accumulation of such arrears; (v) elimination of external payments arrears on public and publicly-guaranteed external debt, with no further accumulation; (vi) no contracting of government or government-guaranteed new nonconcessional loans in the 0-12 years maturity, excluding debt rescheduling; (vii) the pursuit of a flexible exchange rate policy to enhance the competitiveness of the Mauritanian economy; and (viii) standard clauses regarding multiple currency practices, bilateral payments arrangements, and restrictions on payments and transfers for current international transactions or import restrictions for balance of payments purpose.

In addition, two reviews, as performance criteria, in July and November 1985 will take place. The first review, which will take place at mid-term, will cover the progress made under the program and the outcome of the gap-fill exercise. Understandings for policies for the rest of the year will also be reached and quantitative performance criteria for end-September and end-December 1985 will be set. In the second review understandings will be reached with the authorities on 1986 budgetary policies and on indicative targets for end-March 1986.

The quantitative performance criteria are given in Table 4. The credit ceilings for end-March 1985 and end-June 1985 constitute performance criteria, while those for end-September 1985 and end-December 1985 are only indicative. Specific performance criteria for end-September and end-December will be set during the mid-term review, taking into account the outcome of the gap-fill exercice.

IV. Medium-term Scenario

The program was elaborated in the context of a medium-term scenario which foresees that Mauritania would attain a sustainable balance of payments position by the end of the decade, provided that the authorities continue their adjustment effort over the medium term (Appendix I, Table I) The 1985 program constitutes the first step in this direction.

The external current account (including grants) is projected to decline gradually from 14.1 percent of GDP in 1985 to 5.3 percent in 1990, resulting in a reduction of the overall balance of payments deficit (before debt relief) from SDR 71.8 million in 1985 to SDR 33 million in 1989, and the achievement of a small surplus in 1990. However, large but declining financing gaps in 1986-89 would remain and would need to be covered through exceptional financing. The external debt service ratio is projected to increase to 51 percent in 1986 before declining gradually to 25 percent in 1990.

In addition to the pursuit of continued adjustment measures, there are three basic assumptions underlying the medium-term balance of payments scenario. First, Mauritania's export receipts, which consist mainly of exports of iron ore and fish, are projected to rise by 9 percent annually over the period 1985-90. Iron ore exports are projected to increase at an annual rate of 8 percent, reflecting a 1 percent increase in volume and a 7 percent increase in prices as projected by the World Bank. Fish

Table 4. Mauritania: Quantitative Performance Criteria

(End of period)

	1984	1985			
	Dec. Proj.	March	June	Sept.	Dec.
		(In millions of ouguiyas)			
Net domestic credit 1/	19,642	19,850	20,050	20,450 2/	20,660 2/
Net credit to Government	5,142	5,142	5,142	5,142 2/	5,142 2/
Domestic arrears	742.0	556.5	371.0	185.5	--
		(In millions of SDRs)			
New nonconcessional foreign borrowing contracted or guaranteed by the Government with 0-12 years maturity 3/	...	--	--	--	--
External arrears	93.3	93.3	93.3	--	--
Guaranteed commercial arrears	3.1	3.1	--	--	--

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

1/ Precludes any reclassification of credit to other monetary items during the program period.
2/ Indicative limits.
3/ Excluding debt rescheduling.

exports are projected to rise by 10 percent annually, reflecting a 5 percent increase in volume and a 5 percent increase in prices. Second, imports are projected to increase at an average annual rate of 4 percent. This assumes a 4 percent increase in imports of consumer goods and petroleum in nominal terms, implying no increase in volume, based on the implementation of appropriate demand management and pricing policies. Food aid is projected to decline by 11 percent per year, assuming that Mauritania's needs will decline from 180,000 tons of cereals in 1985 to 60,000 tons in 1990. This is based on a return to more normal weather conditions and more emphasis on investment in the agricultural sector. Capital goods imports are projected to grow by 6.6 percent annually, implying a 2.5 percent increase in volume terms, in line with the containment of investment and its reorientation toward productive sectors. Third, the terms of trade are assumed to improve moderately over the medium term by about 1 percent annually.

The above medium-term balance of payments scenario is sensitive to changes in the underlying assumptions, especially since Mauritania exports virtually only two commodities, iron ore and fish. For instance, a 2 percentage point lower annual increase in prices of iron ore or in fish exports, will result in lower export receipts by about SDR 15 million by 1990, and would delay the achievement of a small overall balance of payments surplus by one year. Similarly, should imports of consumer goods not be contained as projected or average import prices increase at a higher rate than the projected 4 percent, the achievement of a sustainable balance of payments position would be delayed. A higher increase in the volume of consumer goods by 1 percentage point would result in higher imports of SDR 10 million by 1990, while a higher 1 percentage point increase in import prices would result in higher imports by about SDR 18 million. This underscores the importance of readjusting economic and financial policies on a continuous basis to ensure the attainment of the objective of medium-term balance of payments viability.

V. Staff Appraisal

Faced with mounting domestic and external financial imbalances, the Government of Mauritania took a number of policy initiatives in 1984. These included the pursuit of restrained fiscal and credit policies, the stepping up of the reform of the public enterprise sector, and the devaluation of the currency. While these measures helped in limiting the intensification of inflationary pressures, a severe drought, combined with temporary difficulties in the exports of fish, contributed to a decline in economic activity and a widening in the external sector deficits. In view of the rising debt service burden, both domestic and external payments arrears continued to accumulate.

In 1985, the Government of Mauritania has intensified its adjustment efforts by embarking on a comprehensive financial program, involving wide-ranging supply and demand-oriented measures, as a first step toward the attainment of balance of payments viability by the end of the present decade. For 1985, the program aims at stimulating economic activity, limiting the increase in inflation, and reducing the external imbalances. Given the large accumulation of external payments arrears and the heavy debt service burden, a financing gap of about SDR 200 million is expected to remain in the balance of payments. In addition to a request by Mauritania for rescheduling of debt owed to Paris Club creditors, the World Bank is chairing a meeting of creditors and donors in Paris on March 12-13, 1985, to seek debt relief from countries not normally participating in the Paris Club and to mobilize additional financial assistance to cover the gap. The covering of this gap will be essential to the achievement of the program objectives.

A key element of the adjustment effort being undertaken is the pursuit of an appropriate exchange rate policy. The devaluation of the currency, the elimination of the broken cross-rates, and the adoption of a flexible exchange rate policy are expected to promote domestic production and strengthen the external sector position by reducing economic distortions. The elimination of external payments arrears will help regularize Mauritania's external sector position. The external sector policy is being accompanied with a more flexible pricing policy, allowing for a full pass-through of the effect of the exchange rate action. In particular, the increase in producer and wholesale prices of cereals is expected to promote domestic agricultural output and reduce imports. The staff welcomes the authorities' decision to review pricing and marketing policies to allow for greater market determination of prices. In this regard, the study being prepared by the authorities should provide the basis for implementing in a gradual and orderly manner a liberalization of pricing and marketing policies on the basis of understandings to be reached at the time of the mid-term review, which will place a particular focus on this aspect of the program.

The rehabilitation of the public enterprise sector will be essential to the success of the authorities' adjustment efforts. The efforts made by the authorities in 1983 and 1984 are expected to be continued over the next few years. In 1985, the emphasis the authorities are giving to the reform of five key public enterprises constitutes an important step forward. However, a comprehensive rehabilitation program for the whole sector is still needed. The authorities plan to set up such a program and are working closely with the World Bank and other creditor/donor countries. In this context, the staff would urge the authorities on the need to accelerate the audits of public enterprises and to settle the interlocking debts.

The program for 1985 involves a significant reduction and reorientation of public investment. The sharp reduction is essential in order to set investment at a level consonant with the absorptive capacity of the economy and in line with the medium-term objective of financial viability, particularly in view of the already high external debt burden. In this regard, the shift in financing toward grants in 1985 is a positive development. The reorientation of investment, toward rehabilitation and quick-yielding projects in the production sectors, is expected to enhance the effectiveness of capital outlays, contributing to a higher rate of return and enhanced economic growth. The authorities are conscious of the importance of a well-mapped out investment strategy over the medium-term and are working closely with the World Bank on a medium-term rehabilitation program, including an investment plan for 1986-88.

The supply-oriented measures are to be reinforced with appropriate demand-management policies. In 1985, the consolidated budgetary deficit on a commitment basis is to be reduced as a result of a number of tax measures, a strengthening of tax administration, a cut in the capital outlays, and a restraint on ordinary budgetary expenditures. The latter is to be achieved through a freeze on the size of the civil service, a modest cost-of-living adjustment, and the maintenance of non-wage expenditures constant in real terms. However, given the envisaged settlement of outstanding arrears, the consolidated deficit on a cash basis is expected to rise sharply, leaving a large financing gap that will need to be covered through debt relief and exceptional assistance, especially as the statutory limits will not permit additional domestic bank financing.

Consistent with the objectives of the program a restrictive monetary policy is being pursued. No net bank credit to the Government will be provided during 1985, while the rate of growth of credit to the nongovernment sector is being reduced substantially. To reinforce the tight monetary stance, the interest rate structure is being revised upward. The authorities recognize the difficulties facing the commercial banking system and have commissioned a study financed by the Arab Monetary Fund, to determine the measures needed to reform the banking system. In order to avoid a further aggravation of the situation of commercial banks, the improvement in risk assessment of credit provided by the commercial banks is essential.

Mauritania's medium-term prospects depend crucially on the relentless pursuit of strong adjustment efforts; even so, Mauritania will remain dependent on exceptional external financial assistance, including debt relief, for the foreseeable future. The policies outlined in the letter of intent of January 25, 1985 represent an important and first step toward reducing Mauritania's economic and financial imbalances. The staff is of the view that the authorities' request for a 12-month stand-by arrangement in an amount equivalent to SDR 12 million merits Fund support.

Table I. Mauritania: Balance of Payments, 1982-90

(In millions of SDRs)

	1982	1983	1984 Est.	1985 Prog.	1986 Projections	1987 Projections	1988 Projections	1989 Projections	1990 Projections
Trade balance, f.o.b.	-168.3	-58.8	-104.6	-20.2	-0.9	19.7	40.3	62.4	87.4
Exports	216.5	295.0	284.9	323.9	354.3	386.3	424.2	462.5	506.4
Imports	-384.8	-353.8	-389.5	-344.1	-355.2	-366.6	-383.9	-400.1	-419.0
Services (net)	-151.2	-194.5	-205.9	-155.8	-163.6	-168.6	-175.6	-183.1	-192.7
Interest 1/	-39.6	-47.4	-53.4	-53.1	-58.9	-59.6	-59.4	-59.5	-60.9
Other	-111.6	-147.1	-152.5	-102.7	-104.7	-109.0	-116.2	-123.6	-131.8
Transfers	49.7	45.7	80.8	88.4	80.5	71.9	64.5	57.1	50.8
Private	-27.9	-28.3	-24.9	-21.0	-20.0	-20.0	-20.0	-20.0	-20.0
Public	77.6	74.0	105.7	109.4	100.5	91.9	84.5	77.1	70.8
Current account deficit									
Including public transfers	-269.8	-207.6	-229.7	-87.6	-84.0	-77.0	-70.8	-63.6	-54.5
Excluding public transfers	-347.4	-281.6	-335.4	-197.0	-184.5	-168.9	-155.3	-140.7	-125.3
Nonmonetary capital (net)	163.7	124.7	128.5	15.8	-21.4	-0.1	3.2	30.6	62.7
Disbursements	171.7	169.4	175.9	82.4	89.7	97.9	113.4	125.3	136.8
Principal repayments 1/	-43.4	-54.6	-67.5	-76.6	-121.1	-108.0	-120.2	-104.7	-84.1
Other capital 2/	35.4	9.9	20.1	10.0	10.0	10.0	10.0	10.0	10.0
Overall balance before debt relief (deficit -)	-106.1	-82.9	-101.2	-71.8	-105.4	-77.1	-67.6	-33.0	8.2
Accumulation of arrears	16.1	19.7	37.9	-113.3 3/	...	...	...	...	...
Interest	6.6	7.7	12.9	-34.1	--	--	--	--	--
Principal	9.5	11.9	25.0	-79.2 3/	--	--	--	--	--
Reserves changes (-indicates an increase)	64.2	37.1	34.1	--	...	...	...	...	...
Central Bank	28.0	27.1	35.6	(--)	...	...	...	...	...
Of which: maturing liabilities	(--)	(--)	(--)	(--)	(-27.6)	(-24.6)	(-23.6)	(--)	(--)
repurchases from the Fund	(-3.8)	(-4.3)	(-9.4)	(-12.2)	(-9.7)	(-4.9)	(-4.1)	(-6.8)	(-4.2)
Deposit money banks	36.2	10.0	-1.5	--	...	...	...	...	...
Debt relief	25.8	26.1	29.2	...	...	...	...	...	...
Financing gap	--	--	--	197.3 4/	142.7	106.6	95.3	39.8	--

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

1/ Including debt service on the financing of the gap.
2/ Including direct investment, private and short-term capital, and errors and omissions.
3/ Including SDR 20 million in arrears on commercial credit.
4/ Purchases under the proposed stand-by arrangement from the Fund would amount to SDR 9.6 million in 1985 and will reduce the gap correspondingly.

Table II. Mauritania: External Debt Service, 1983-90

(In millions of SDRs)

	1983	1984	1985	1986	1987	1988	1989	1990
Debt service on loans contracted before December 1984	98.1	117.3	117.7	189.3	169.2	175.0	130.9	106.6
Interest	(43.5)	(49.8)	(41.1)	(40.6)	(36.6)	(31.2)	(26.2)	(22.9)
Principal	(54.6)	(67.5)	(76.6)	(148.7)	(132.6)	(143.8)	(104.7)	(83.7)
Of which: central bank maturity liabilities	--	--	--	27.6	24.6	23.6	--	--
Debt service on new loans 1/	--	--	0.1	0.3	1.2	3.4	7.2	12.4
Interest	(--)	(--)	(0.1)	(0.3)	(1.2)	(3.4)	(7.2)	(12.0)
Principal	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(0.4)
Debt service on financing of the gap 1/	--	--	3.9	10.4	14.9	18.3	20.2	20.6
Interest	(--)	(--)	(3.9)	(10.4)	(14.9)	(18.3)	(20.2)	(20.6)
Principal	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Interest on short-term debt	...	...	5.2	5.2	5.2	5.2	5.2	5.2
IMF	8.2	13.0	15.0	12.1	6.6	5.4	7.5	4.4
Charges	(3.9)	(3.6)	(2.8)	(2.4)	(1.7)	(1.3)	(0.7)	(0.2)
Repurchases	(4.3)	(9.4)	(12.2)	(9.7)	(4.9)	(4.1)	(6.8)	(4.2)
Total	106.3	130.3	141.9	217.3	197.1	207.3	171.0	149.2
Interest and charges	(47.4)	(53.4)	(53.1)	(58.9)	(59.6)	(59.4)	(59.5)	(60.9)
Principal and repurchases	(58.9)	(76.9)	(88.8)	(158.4)	(137.5)	(147.9)	(111.5)	(88.3)
External debt outstanding 2/	1,299.2	1,388.7	1,510.9	1,584.9	1,651.4	1,712.2	1,765.8	1,814.3
Of which: Use of Fund resources	(39.6)	(30.2)	(30.0)	(20.3)	(15.4)	(11.3)	(4.5)	(0.3)
Exports of goods and services	350.5	345.0	389.3	425.1	462.8	507.0	552.1	603.4
Debt service ratio	30.3	37.8	36.5	51.1	42.6	40.9	31.0	24.7

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

1/ Assuming 4 percent interest rate, 5-year grace period, and 16 years maturity.
2/ Including central bank deposits.

Table III. Mauritania: Consolidated Government Operations, 1983-85

(In millions of ouguiyas)

	1983	1984 Est.	1985 Before devaluation	1985 After devaluation
Total revenue and grants	13,271	17,348	18,706	21,532
Budgetary	8,935	10,436	11,323	12,451
Grants	4,336	6,912	7,383	9,081
Budgetary	160	82	--	--
Extrabudgetary 1/	4,176	6,830	7,383	9,081
In kind 2/	(1,676)	(2,413)	(2,767)	(3,403)
Project	(1,230)	(2,786)	(2,754)	(3,387)
Other	(1,270)	(1,631)	(1,862)	(2,291)
Total expenditure and net lending	18,110	21,433	20,940	23,708
Current expenditure	12,774	13,716	15,926	17,697
Budgetary 3/	(10,294)	(10,620)	(11,297)	(12,003)
Extrabudgetary 4/	(2,480)	(3,096)	(4,629)	(5,694)
Investment expenditure	5,218	7,575	4,874	5,866
Budgetary	(704)	(564)	(679)	(706)
Extrabudgetary	(4,048)	(6,063)	(4,195) 5/	(5,160) 5/
Special accounts	(466)	(948)	(--)	(--)
Net lending	118	142	140	145
Deficit (-) (commitment basis)	-4,839	-4,085	-2,234	-2,176
(excluding grants)	(-9,175)	(-10,997)	(-9,617)	(-11,257)
Change in payments arrears	449	649	-5,543	-6,647
External	(273) 6/	(514) 6/	(-4,801)	(-5,905)
Domestic	(176)	(135)	(-742)	(-742)
Deficit (-) (cash basis)	-4,390	-3,436	-7,777	-8,823
Financing	4,390	3,436	7,777	8,823
Foreign (net)	4,540	3,313	-879	-1,081
Drawings 1/	(5,071)	(4,732)	(2,641)	(3,249)
Budgetary	2,253	1,455	1,200	1,476
Projects	2,818	3,277	1,441	1,773
Amortization	(-531)	(-1,419)	(-3,520)	(-4,330)
Domestic (net)	-150	123 7/	--	--
Banking system	(533)	(--)	(--)	(--)
Nonbanking sector	(-683)	(123) 7/	(--)	(--)
Financing gap	--	--	8,656	9,904
Memorandum items:		(In millions of ouguiyas)		
Amortization				
Due	1,192	1,666	3,520	4,330
Paid	531	1,419	...	...
Accumulation of arrears	661	247	--	--
		(In percent of GDP)		
Total revenue and grants	30.8	38.7	37.5	41.6
Total expenditure and net lending	42.1	47.8	42.0	45.8
Current	(29.7)	(30.6)	(31.9)	(34.2)
Investment	(12.1)	(16.9)	(9.8)	(11.3)
Deficit on a commitment basis				
Including grants	11.2	9.1	4.5	4.2
Excluding grants	21.3	24.5	19.3	21.8
Change in payments arrears (increase +)	1.0	1.4	-11.1	-12.9
Deficit on a cash basis	10.2	7.7	15.6	17.1
Financing gap	--	--	17.4	19.2

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

1/ As recorded in the balance of payments.
2/ Food aid grants.
3/ Includes interest due.
4/ Counterpart of extrabudgetary grants (in kind + other), excluding investment counterpart of food aid (special accounts).
5/ Assumes an implementation ratio of 70 percent for the public investment program.
6/ Arrears on interest.
7/ Residual.

Table IV. Mauritania: Treasury Operations, 1983-85

(In millions of ouguiyas)

	1983	1984 Est.	1985 Before dev.	1985 After dev.
I. Central government revenue	9,561	11,466	11,323	12,451
1. Budgetary revenue	8,935	10,436	11,323	12,451
2. Budgetary grants	160	82	--	--
3. Special accounts	466	948	--	--
II. Expenditure and net lending	11,582	12,274	12,116	12,854
1. Operating expenditure 1/	10,294	10,620	11,297	12,003
2. Investment expenditure	704	564	679	706
3. Special accounts	466	948	--	--
4. Net lending	118	142	140	145
III. Surplus or deficit (-) (on a commitment basis)	-2,021	-808	-793	-403
IV. Change in payments arrears (increases +)	449	649	-5,543	-6,647
External 2/	(273) 2/	(514) 2/	(-4,801)	(-5,905)
Internal	(176) 3/	(135)	(-742)	(-742)
V. Surplus or deficit (-) on a cash basis)	-1,572	-159	-6,336	-7,050
VI. Financing	1,572	159	6,336	7,050
1. Foreign (net)	1,722	36	-2,320	-2,854
a. Drawings 4/	(2,253)	(1,455)	(1,200)	(1,476)
b. Amortization	(-531) 5/	(-1,419) 5/	(-3,520)	(-4,330)
2. Domestic (net)	-150	123	--	--
a. Bank	(533)	(--)	(--)	(--)
b. Nonbank	(-683)	(123) 3/	(--)	(--)
3. Financing gap	--	--	8,656	9,904
Memorandum items:		(In percent of GDP)		
Budgetary revenue	20.7	23.3	22.7	24.1
Operating expenditure	23.9	23.7	22.6	23.2
Deficit on a commitment basis	4.7	1.8	1.6	0.8
Deficit on a cash basis	3.7	0.4	12.7	13.6
Financing gap	--	--	17.4	19.2

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

1/ Including interest due.
2/ Arrears on interest.
3/ Residual.
4/ As recorded in the balance of payments.
5/ Principal paid.

Table V. Mauritania: Central Government Revenue, 1983-85

(In millions of ouguiyas)

	1983	1984		1985		
		Budget	Est.	Budget	Before devaluation	After devaluation
Tax revenue	7,876	9,768	8,988	10,726	9,983	11,111
Tax on income and profits	2,475	3,010	2,706	3,328	3,030	3,142
Tax on business profits	(882)	(956)	(965)	(1,066)	(1,073)	(1,116)
Tax on wages and salaries	(1,298)	(1,600)	(1,497)	(1,750)	(1,665)	(1,732)
General income tax	(185)	(434)	(177)	(456)	(250)	(250)
National defense contribution	(37)	(--)	(26)	(--)	(--)	(--)
Other	(73)	(20)	(41)	(56)	(42)	(44)
Employers' payroll tax	10	35	14	6	15	16
Property taxes	148	200	118	188	130	130
Taxes on goods and services	1,078	1,506	1,869	1,717	2,002	2,143
Turnover taxes	(299)	(325)	(308)	(446)	(343)	(356)
Tax on petroleum products	(391)	(509)	(579)	(648)	(596)	(685)
Other excises	(333)	(572)	(895)	(518)	(966)	(1,005)
Other	(55)	(100)	(87)	(105)	(97)	(97)
Mining royalties (net)	207	474	463	647	647	796
Taxes on international trade	3,930	4,519	3,788	4,819	4,129	4,854
Import taxes	(2,870)	(3,117)	(2,715)	(3,418)	(2,817)	(3,240)
Export tax on fish	(1,057)	(1,400)	(1,072)	(1,400)	(1,311)	(1,613)
Other export taxes	(3)	(2)	(1)	(1)	(1)	(1)
Other taxes and duties	28	24	30	20	30	30
Nontax revenue	955	1,388	1,272	1,096	1,160	1,160
Fishing royalties and penalties	316	600	454	600	430	430
Other nontax revenue	639	788	818	496	730	730
Revenue from public enterprises	(458)	(355)	(406)	(410)	(430)	(430)
Other	(181)	(433)	(412)	(86)	(300)	(300)
Capital revenue	104	--	176	150	180	180
Total budgetary revenue	8,935	11,156	10,436	11,972	11,323	12,451

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

Table VI. Mauritania: Central Government Expenditure, 1983-85 1/

(In millions of ouguiyas)

	1983	1984		1985		
		Budget	Est.	Budget	Before devaluation	After devaluation
Operating expenditure	10,294	11,273	10,620	11,270	11,297	12,003
Wages and salaries 2/	5,295	5,177	5,541	5,852	5,652	5,934 3/
Equipement, maintenance, and supplies 2/	2,323	3,299	2,283	2,796	2,465	2,564 4/
Subsidies and transfers	1,421	1,672	1,489	1,557	1,489	1,489
Interest on public debt	903	623	994	400	1,353	1,664
General expenditure	352	502	313	665	338	352
Investment expenditure	1,170	767	1,512	683	679	706
Budgetary	704	625	564	679	679	706
Special accounts	466	142	948	4	--	--
Net lending	118	10	142	25	140	145
Total expenditure and net lending	11,582	12,050	12,274	11,978	12,116	12,854

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

1/ Excludes foreign-financed investment expenditure.
2/ Includes military expenditures, of which wage expenditures are assumed to be frozen at UM 1,793 million (before devaluation).
3/ Assumes a 7 percent growth in the total wage bill in 1985, including a 2 percent increase for seniority bonuses, and a 5 percent increase for salary adjustment.
4/ Assumes a zero real growth with an inflation rate (after devaluation) estimated at 12 percent in 1985.

Table VII. Mauritania: Monetary Survey, 1982-85

(In millions of ouguiyas)

	1982	1983	1984 June	1984 Sept.	1984 Dec. prov.	1985 March prog.	1985 June prog.	1985 Sept. Proj.	1985 Dec. Proj.
Foreign assets (net)	-4,597	-6,652	-7,510	-8,940	-9,768	-11,637	-11,637	-11,870	-12,103
Central Bank	-146	-1,587	-2,792	-4,098	-4,176	-4,975	-4,975	-5,075	-5,174
Deposit money banks	-4,451	-5,065	-4,718	-4,842	-5,592	-6,662	-6,662	-6,795	-6,929
Domestic credit	16,441	18,084	18,437	19,344	19,642	19,850	20,050	20,450	20,660
Claims on Government (net)	4,609	5,142	5,300	5,065	5,142	5,142	5,142	5,142	5,142
Central Bank	5,362	5,405	5,384	5,310	5,405	5,405	5,405	5,405	5,405
Deposit money banks	-406	-72	-72	-37	-55	-55	-55	-55	-55
Post Office and Treasury 1/	-347	-191	-12	-208	-208	-208	-208	-208	-208
Claims on rest of economy	11,832	12,942	13,137	14,279	14,500	14,708	14,908	15,308	15,518
Central Bank	--	--	--	--	--	--	--	--	--
Deposit money banks	11,425	12,735	12,930	14,072	14,293	14,501	14,701	15,101	15,311
Treasury	407	207	207	207	207	207	207	207	207
Money and quasi-money	9,245	10,084	11,333	10,850	11,000	11,208	11,408	11,808	12,018
Money	7,135	8,089	9,436	9,174	9,300	9,478	9,645	9,983	10,161
Currency outside banks and Treasury	2,950	3,024	3,315	3,158	3,330	3,394	3,454	3,575	3,639
Demand deposits	4,049	4,941	5,818	5,909	5,870	5,982	6,087	6,301	6,413
Post Office	136	124	303	107	100	102	104	107	109
Quasi-money	2,110	1,995	1,897	1,676	1,700	1,730	1,763	1,825	1,857
Long-term borrowing by banks	74	116	106	104	104	104	104	104	104
Other items (net)	2,525	1,232	-512	-550	-1,230	-3,099 2/	-3,099 2/	-3,332 2/	-3,565 2/

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

1/ Post office checking deposits less Treasury's claims on private sector less currency in Treasury.
2/ Including valuation impact.

MAURITANIA - Fund Relations

(As of January 31, 1985, 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's currency holdings: 62.76 million (185.14 percent of quota)
(c) Fund credit: 28.85 million (85.10 percent of quota)
(d) Reserve tranche position: None
(e) Current operation budget (maximum use of currency): None
(f) Lending to the Fund: None

III. Current Stand-By and Special Facilities

(a) Current arrangement: None
(b) Previous arrangements:

Type	Date of Approval	Duration	Amount	Utilization
SBA	July 23, 1980	11 months 1/	29.7 million	8.9 million
SBA	June 1, 1981	10 months	25.8 million	25.8 million

(c) Special facilities:

Type	Date of Approval	Amount
CFF	December 1979	10.5 million

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

IV. SDR Department

(a) Net cumulative allocation: 9.72 million
(b) Holdings: 0.07 million (0.67 percent)
(c) Current designation Plan (amount of maximum designation): None

MAURITANIA - Fund Relations (continued)

V. Administered Accounts

(a)	Trust Fund loan:		
	(i)	Disbursed:	12.70 million
	(ii)	Outstanding:	10.39 million
(b)	SFF Subsidy Account:		1.47 million

VI. Overdue Obligations to the Fund: None

(B) Nonfinancial Relations

VII. Exchange Rate Arrangement

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

VIII. Last Article IV Consultation

1984 Article IV consultation (SM/84/257 and SM/84/262) discussed by the Executive Board on December 10, 1984. The following decision was taken.

1. The Fund takes this decision relating to Mauritania's exchange measures subject to Article VIII, Sections 2 and 3, in concluding the 1984 Article XIV consultation with Mauritania, in light of the 1984 Article IV consultation with Mauritania conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Mauritania's exchange system involves broken cross-rates and external payments arrears as described in SM/84/257. The Fund urges the authorities to adopt effective policies that will enable them to eliminate the broken cross-rates and external payments arrears and to liberalize the exchange system as soon as possible.

IX. Technical Assistance (since 1980)

(a) CBD

Technical assistance mission on study of the banking system, April 1-11, 1980.

Bank supervision advisor: Mr. Hidoussi, February 1981-June 1983
Mr. Beyl, September 1983-October 1984

MAURITANIA - Fund Relations (concluded)

Foreign exchange advisor: Mr. Fillingham, November 1980-May 1983
Mr. Vandecan, May 1983 to date
Research department advisor: Mr. Aissi, February 1981 to date
External debt consultant: Mr. Djebali, May-October 1983

(b) Fiscal

Technical assistance mission on tax administration and policy, budget administration, and expenditure policies, September 20-October 18, 1983
Tax advisor: Mr. Ben Jaballah, end-July 1984-todate.

X. Resident Representative: None

Financial Relations of the World Bank Group with Mauritania

(As of December 31, 1984)

1. Date of Membership, IBRD/IDA: September 10, 1983

2. Capital Subscription, IBRD: SDR 10 million 1/
   IDA: US$577 thousand 1/

3. Status of Disbursements: Amount (less cancellations) (In millions of U.S. dollars)

	Committed		Disbursed	
	IBRD	IDA	IBRD	IDA
One loan and ten credits fully disbursed	66.0	38.2	66.0	38.2
Agriculture, livestock and rural development		23.1		7.4
Transportation		4.0		0.8
Education		5.7		1.5
Industry	60.0	8.0	60.0	6.2
Energy		3.0		1.1
Total	126.0	82.0	126.0	55.2
Repayments	66.0	1.8	66.0	1.8
Debt Outstanding	60.0	80.2	60.0	53.4

4. IFC: There are no IFC investments in Mauritania.

5. Status of Bank Group Dialogue and Operations

The Bank Group's presence in Mauritania was fairly substantial in the early 1970s, and in 1970-72 it was the third largest donor, providing about 18 percent of Mauritania's external capital assistance. Since then, external financial asistance to Mauritania from other sources has increased rapidly, and, in recent years the Bank Group's share has decreased to about 5 percent. Nonetheless, the importance of the Bank's economic and technical advice remains strong, even though the Government's receptivity is uneven.

The principal elements of the Bank Group's country assistance strategy are: (a) to help the Government to formulate a financial and economic rehabilitation program in cooperation with the IMF and other external aid donors; (b) technical assistance to help strengthen national economic management and increase the country's absorptive capacity; and

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

(c) direct project assistance for high-priority sectors, especially agriculture, with particular emphasis on mobilizing and coordinating the provision of external aid from the Arab OPEC countries and from other donor agencies.

As of December 31, 1984, the Bank Group has had 19 operations in Mauritania for a total of US$212.6 million. Of these, two are Bank loans for mining operations (US$66 million for MIFERMA in 1960, and US$60 million to SNIM in 1979 for the Guelbs Iron Ore Project). The other 17 are IDA credits totalling US$86.6 million. Of the IDA operations, five have been in the transport sector, six in the rural sector, two for education, two have been technical assistance projects for economic planning and there have been separate projects for urban and rural development and petroleum exploration. IFC has no operations in Mauritania. Three of the four projects sheduled for Board presentation in FY84 and FY85, are in agriculture (Technical Assistance to the Rural Sector, approved in September, 1983; Small-Scale Irrigation; and Livestock II); the fourth is the proposed project in the parapublic sector.

Project Performance Audit Reports have been issued for four operations in the rural sector. 2/ Common problems have included: (a) slow implementation arising from administrative inefficiencies within the Government; (b) cost overruns, due in part to slow implementation and exacerbated by the exceptional political situation that prevailed up to 1979; (c) acute shortages of trained local staff at all levels; and (d) difficulties in obtaining Government counterpart funding. Despite these problems, the four projects were successful. Design of future projects will take items (c) and (d) into account.

The Mauritanian authorities are well aware of the many difficulties being encountered in project execution. Some of these will persist for several years for reasons outside the Government's control, particularly those related to the country's peculiar geographic characteristics and the poor infrastructure base. The lack of skilled manpower stems from inadequate basic output from the educational system and will take a long time to fully resolve, although the Government is making a major effort to deal with this problem; assistance is being provided under IDA's Second Education Project (FY82); the Second Technical Assistance Project for economic planning; and the Second Technical Assistance Project to the Rural Sector Project (FY 83). These projects aim at improving the Government's capacity for project selection, preparation and monitoring in key sectors of the economy, and helping the Government to make prudent investments that fit the particular circumstances of Mauritania.

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

6. Resident Representative: The Bank does not maintain a Resident Representative in Mauritania.

Source: World Bank.

1/ Per the World Bank 1983 Annual Report.
2/ US$4.2 million for livestock development (FY72); US$2.5 million for Drought Relief Fund Project (FY83); US$1.1 million for Gorgol Engineering Project (FY74); and US$3.5 million or the SONADER Technical Assistance Project (FY77).

Mauritania - Stand-By Arrangement

Attached hereto is a letter, with annexed memorandum, dated January 25, 1985 from the Governor of the Central Bank of Mauritania, requesting a stand-by arrangement and setting forth

(a) the objectives and policies which the authorities of Mauritania intend to pursue for the period of this arrangement;

(b) the policies and measures that the authorities of Mauritania intend to pursue through July 31, 1985; and

(c) understandings of the authorities of Mauritania with the Fund regarding a review that will be made in realizing the objectives of the program and of the polices and measures that the authorities of Mauritania will pursue for the remaining period of the arrangement.

To support these objectives and policies, the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of twelve months from ______________, 1985, Mauritania will have the right to make purchases from the Fund in an amount equivalent to SDR 12 million, subject to paragraphs 2, 3, 4, 5, and 6 below, without further review by the Fund.

2. (a) Purchases under this arrangement shall not, without consent of the Fund, exceed the equivalent of SDR 2.4 million through May 15, 1985, SDR 4.8 million through August 15, 1985, SDR 7.2 million through November 15, 1985, and SDR 9.6 million through February 15, 1986.

b. None of the limits in (a) above shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Mauritania's currency in the credit tranches beyond 25 percent of quota.

3. Purchases under this stand-by arrangement shall be made from ordinary resources.

4. Mauritania shall not make purchases under this arrangement that would increase the Fund's holdings of Mauritania's currency in the credit tranches beyond 25 percent of quota:

(a) during any period in which the data at the end of the preceding period indicate that:

(i) the limit on total net domestic credit of the banking system or the limit on net credit from the banking system to the Government, both specified in paragraph 26 of the annexed memorandum, or

(ii) the target for elimination of outstanding external arrears on the servicing of public and publicly-guaranteed medium- and long-term debt and for elimination of guaranteed commercial arrears referred to in paragraph 9 of the annexed memorandum, or

(iii) the target for elimination of domestic payments arrears of the Government referred to in paragraph 24 of the annexed memorandum

is not observed; or

(b) if Mauritania fails to observe the limit on contracting of government and government-guaranteed external debt in the maturity range of 0-12 years, as specified in paragraph 11 of the annexed memorandum; or

(c) if Mauritania accumulates any new external arrears on public and publicly-guaranteed short-, medium- or long-term debt obligations or on guaranteed or nonguaranteed commercial credit for which the domestic counterpart has been paid, as specified in paragraph 9 of the annexed memorandum; or

(d) if the understanding with regard to the pursuit of a flexible exchange rate policy for the ouguiya as described in paragraph 6 of the annexed memorandum is not observed; or

(e) after July 31 and November 30, 1985 respectively until the reviews contemplated in paragraph 3 of the attached letter have been completed and suitable performance criteria have been established in consultation with the Fund as contemplated in that provision, or after such performance criteria have been established, while they are not being observed; or

(f) during the entire period of this arrangement, if Mauritania

(i) imposes or intensifies restrictions on payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices, or

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

(iv) imposes or intensifies restrictions on imports for balance of payments reasons.

When Mauritania is prevented from purchasing under this arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Mauritania and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Mauritania will not make purchases under this arrangement during any period of the arrangement in which the member has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action in respect of a non-complying purchase.

6. Mauritania's right to engage in the transactions covered by this arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Mauritania. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 6, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and Mauritania and understandings have been reached regarding the circumstances in which such purchases can be resumed.

7. Purchases under this arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Mauritania, the Fund agrees to provide them at the time of the purchase.

8. Mauritania shall pay a charge for this arrangement in accordance with the decisions of the Fund.

9. (a) Mauritania shall repurchase the outstanding amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Mauritania's balance of payments and reserve position improves.

(b) Any reductions in Mauritania's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

10. During the period of the arrangement Mauritania shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Mauritania or of representatives of Mauritania to the Fund. Mauritania shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Mauritania in achieving the objectives and policies set forth in the annexed memorandum.

11. In accordance with paragraph 3 of the attached letter Mauritania will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the arrangement and while Mauritania has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Mauritania's balance of payments policies.

Washington, January 25, 1985

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Larosière:

1. In recent years Mauritania has experienced major economic and financial imbalances. To redress these imbalances and promote a recovery in economic activity, the Government of Mauritania decided to embark on a comprehensive adjustment program for calendar year 1985. In support of this program, the Government of Mauritania requests the use of Fund resources under a one-year stand-by arrangement in the amount of SDR 12 million (35.4 percent of quota). In addition, exceptional assistance in the form of debt restructuring and foreign concessional aid from creditor/donor countries will be necessary to cover the financing gap.

2. The attached memorandum describes the program's economic and financial objectives and policies, as well as the performance criteria. The program was formulated in a medium-term context which envisages the attainment of a sustainable balance of payments position by the end of 1980s, through the continuing pursuit of adjustment measures over the medium term. For 1985, the main objectives of the program are to reduce substantially the external current account deficit, to stimulate economic growth, and to contain the rate of inflation. To achieve these objectives, the major elements of the program include the adoption of an appropriate and flexible exchange rate policy, increases in official producer and consumer prices, reforms of key public enterprises and the banking system, the implementation of an appropriate investment program, a reduction in the budgetary deficit, the elimination of domestic and external arrears, the pursuit of a tight credit policy, increases in the interest rate structure, and appropriate external debt management policies.

3. The Government believes that the measures described in the attached memorandum are adequate to achieve the objectives of the program. However, it will take any additional measures that might become necessary for this purpose. The Government of Mauritania will consult with the Fund in accordance with the policies of the Fund. The authorities will review with the Fund before end-July the progress made under the program and the outcome of the gap filling exercise. During this review, which constitutes a performance criterion, the authorities will reach understandings with the Fund on any necessary additional policies for the rest of the year and on appropriate ceilings for the quantitative performance criteria for end-September and end-December 1985. A second

review will take place, as a performance criterion, in November 1985, during which the Government will reach understandings with the Fund, on the fiscal policy to be reflected in the 1986 budget and on indicative targets for end-March 1986, which could subsequently serve as a basis for another stand-by arrangement. In addition, after the period of the requested stand-by arrangement, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director concerning Mauritania's balance of payments policies.

Sincerely yours,

Dieng Boubou Farba
Governor of the Central Bank

Memorandum on the Economic and Financial Policies of Mauritania

1. Mauritania is experiencing major economic and financial imbalances stemming from two key factors. First, in the last decade, Mauritania has been subject to a rapid process of desertification. The area of the country with an average annual rainfall exceeding 300 millimeters declined from about 50 percent during the 1960s to about 10 percent during 1970-80. Reflecting this, cereal production dropped from about 120,000 metric tons in the early 1960s to about 20,000 tons in 1984. Second, Mauritania borrowed heavily to finance infrastructure and other projects that have generally contributed little to domestic production, export promotion and diversification, or import-substitution. By end-1983, the external debt outstanding had risen to SDR 1.3 billion, equivalent to 177 percent of GDP. Scheduled debt service, which reached 30 percent of exports of goods and services in 1983 became unmanageable and further external payments arrears were accumulated. The effects of these two factors were exacerbated by a deterioration in the terms of trade, inappropriate pricing policies, mounting financial and production problems in the public enterprise sector, expansionary fiscal and monetary policies, and a progressive overvaluation of the currency.

I. Policies and Developments in 1984

2. Faced with mounting imbalances, the Government made efforts to contain the deterioration in the situation during 1984. On the budgetary front, a number of revenue measures were implemented and expenditures were reduced in real terms. As a result, the deficit on treasury operations on a commitment basis declined from 4.7 percent to 1.8 percent of GDP. The consolidated budgetary deficit on a commitment basis, including grants, was contained to 9.1 percent of GDP, compared with 11.2 percent in the previous year. Nonetheless, in view of the budgetary net foreign financing available and the statutory limit on government domestic bank lending, considerable domestic and external payments arrears were accumulated. Credit policy remained tight; overall credit expanded by 9 percent, with credit to the nongovernment sector accounting for the overall expansion. Reforms of five key public enterprises were implemented, supported by financial assistance from the World Bank and other creditors. In the external sector, the currency was devalued by about 10 percent in real terms as measured by the trade-weighted index.

3. While weather conditions contributed to a drop in economic activity estimated at about 4 percent, the measures taken helped in containing the rate of inflation, as measured by the African consumer price index, to about 8 percent and reducing nonproject imports, excluding food aid, by about 3 percent. Iron ore exports rose sharply, due to increased demand. However, as foreign-financed capital imports increased markedly

and exports of fish declined due to a dispute with two major foreign partners over the terms of fishing agreements, the external current account deficit, including transfers, widened from 28 percent of GDP in 1983 to 34 percent in 1984. The overall balance of payments deficit rose from SDR 83 million in 1983 to SDR 101 million in 1984. Nearly half of this deficit was financed by an accumulation of external payments arrears, which reached a level of about SDR 93 million at end-1984. Mauritania's outstanding disbursed debt, including obligations to the Fund, amounted to SDR 1.4 billion (203 percent of GDP) at end-1984, of which 89 percent represented public and publicly-guaranteed debt. The scheduled debt service obligations rose to 38 percent of exports of goods and services in 1984.

II. The Program for 1985

4. Overview: Against this background, the Government of Mauritania has decided to embark on a comprehensive adjustment effort in the context of an economic and financial program for calendar year 1985. This program was formulated within a medium-term framework which envisages the attainment of a sustainable balance of payments position by the end of the 1980s. For 1985, the main quantitative objectives of the program are to reduce the current account deficit (including public transfers) to 14 percent of GDP, from 34 percent in 1984, to achieve a 3 percent real rate of economic growth, and to contain the rate of inflation to 12 percent. To achieve these objectives, the Government is undertaking both supply- and demand-oriented measures. On the supply side, the exchange rate will be depreciated, a flexible exchange rate policy adopted, producer prices increased and other prices adjusted to fully pass-through the effect of the exchange rate action, reform of the key public enterprises and the banking system accelerated, and an appropriate investment program implemented. On the demand side, the deficit on treasury operations (including scheduled interest payments) will be reduced to 0.8 percent from 1.8 percent of GDP. The consolidated budgetary deficit (on a commitment basis) will be reduced from 9.1 percent to 4.2 percent of GDP in 1985, through expenditure-containing and revenue-raising measures. A restrictive credit and monetary policy will be pursued. The interest rate structure will be simultaneously simplified and revised upward.

5. Even with the continued pursuit of serious adjustment efforts over the medium term, Mauritania would record large, albeit declining, financing gaps during 1986-89 and achieve a small balance of payments surplus in 1990. With a complete elimination of external payments arrears on government and government-guaranteed external debt, a financing gap of SDR 197 million would remain in 1985.

6. External sector policies: In order to enhance the profitability of the export sector, promote import substitution activities, and contain demand pressures on imports, the Government decided to devalue the Mauritanian currency, on February 15, 1985, by 16 percent (19 percent in domestic currency terms), which brings the cumulative real effective depreciation since January 1984 to 24 percent (32 percent in domestic currency terms). Accordingly, the exchange rate of the ouguiya vis-à-vis the U. S. dollar, which stood at UM 67.15 = US$1 at end-1984, will be depreciated to UM 80 = US$1. All broken cross-rates will be simultaneously eliminated. In addition, the Government will pursue a flexible exchange rate policy to avoid any real appreciation of the effective exchange rate in the future and to enhance the competitiveness of the Mauritanian currency. There will be a full pass-through of the impact of the devaluation on controlled consumer and producer prices, and the increase in salaries in the civil service will be limited.

7. The mesures envisaged under the program are designed to contribute to a significant reduction in the external current account deficit. On the export side, exports are expected to rise by 14 percent (in SDR terms) on account of an increase of 8 percent in iron ore exports, reflecting an increase in prices, and 19 percent in fish exports, in part as the difficulties experienced in the first half of 1984 were resolved. On the import side, the restrictive demand management measures, combined with the exchange rate depreciation, and a sharp reduction in public investment, will contribute to a drop in imports of 12 percent. With a marked increase in net services reflecting higher interest payments due, a decline in private transfers abroad, and an increase in public transfers, these factors are expected to result in a decline in the current account deficit (including public transfers) from 34 percent to 14 percent of GDP in 1984 and 1985, respectively. Excluding public transfers, the deficit would be reduced from 49 percent of GDP to 32 percent, respectively.

8. With respect to the capital account, the surplus of SDR 128.5 million in 1984 is projected to decline to SDR 15.8 million as a result of higher scheduled payments of principal due, while drawings on foreign loans will decline sharply. As this will be more than offset by the improvement in the current account deficit, the overall balance of payments is expected to be reduced from SDR 101.2 million in 1984 to SDR 71.8 million in 1985.

9. The outstanding external arrears on the servicing of public and publicly-guaranteed medium- and long-term debt, which amounted to SDR 82.1 million at end-September 1984, are estimated to reach SDR 93.3 million at end-1984. As a performance criterion, the Government undertakes to eliminate these arrears by rescheduling or cash payments before end-September 1985. There is currently only preliminary and incomplete information on the external arrears on commercial credits owed by private borrowers, whether guaranted or not by the commercial banks. The current information from the major commercial bank indicates preliminary figures

of SDR 3.1 million and SDR 15.9 million, respectively, for guaranteed and nonguaranteed commercial arrears. The Government undertakes to compile a comprehensive survey of such arrears by end-April 1985, with a view to reaching understandings at the time of the mid-term review, on a timetable for the elimination of all identified arrears on guaranteed and on nonguaranteed commercial credit for which traders have or will have provided the domestic counterpart. As a performance criterion, the SDR 3.1 million in guaranteed commercial arrears that have been thus far identified will be eliminated prior to end-June 1985. During the program and as a performance criterion, no external arrears on public and publicly guaranteed medium- or long-term debt obligations and on guaranteed or nonguaranteed commercial credit for which the domestic counterpart has been paid will be accumulated.

10. Taking into account the total elimination of external arrears, the total financing gap is estimated at SDR 197 million. This gap will be filled by a combination of debt restructuring, exceptional concessional foreign assistance, and use of Fund resources. The Government has already contacted creditor/donor countries which have indicated their willingness to contribute to the filling of the financing gap, provided that a program with the Fund is agreed upon. The Government will prepare for a meeting of the donors and creditors, in cooperation with the World Bank and the Fund, to be held in March 1985 and chaired by the World Bank. For working purposes, it is estimated that debt relief could amount to about SDR 142 million; thus, about SDR 55 million in additional balance of payments financing would be needed to cover the gap.

11. In view of the already high debt service ratio, and in order to achieve a gradual reduction in the debt service burden and improve the medium-term structure of foreign debt, the Government will not contract or guarantee any new nonconcessional loans in the 0-12 years maturity range over the period of the program, excluding debt rescheduling. The current level of deposits by foreign central banks with the Central Bank of Mauritania amounted at end-1984 to the equivalent of US$76 million. The Central Bank will not use for balance of payments financing any new deposits from other central banks that may accrue during the program period. Any new such deposits will, therefore, be earmarked to augment gross reserves which amounted to about SDR 85 million at end-1984 and are projected to remain at about the same level at end-1985. The debt service ratio (before rescheduling) is projected to increase from 37 percent in 1985 to 41 percent in 1988. Thereafter, the debt service is projected to decline progressively reflecting a prudent debt policy and an increase in the share of concessional debt. The Government recognizes that there is a need to strengthen external debt management, including the availability of comprehensive and timely data by improving reporting procedures on both medium- and long-term debt as well as short-term debt. As indicated above, the Central Bank does not have comprehensive information on nongovernment external commercial credit and arrears. In addition, the valuation of the foreign liabilities of commercial banks

is made using varying exchange rates. Accordingly, before the medium-term review, efforts will be exerted to improve external debt management and statistical reporting with technical assistance from the World Bank and the Fund. The results will be reviewed with the Fund staff during the mid-term review of the program.

12. During the program period the Government will not introduce any multiple currency practices; impose any new or intensify any existing restrictions on payments and transfers for current international transactions; enter into any bilateral payment arrangements with Fund members; or introduce any new or intensify any existing restrictions on imports for balance of payments reasons.

13. Pricing and marketing policies: During the program period, the Government will progressively liberalize the pricing and marketing policies and increase official prices for consumer goods, public utilities, petroleum products, and agricultural producer prices, to reflect at least the full pass-through effects of the exchange rate adjustment on prices. In this context, the Government will adopt the following measures on February 15, 1985:

a. In order to encourage domestic cereal production, reduce cereal imports, and compensate for the phasing out of fertilizer subsidies by 1986, the floor price of sorghum, maize, and wheat paid by the Commissariat à la Sécurité Alimentaire (CSA) will be raised, in accordance with the proposals of the World Bank, from UM 15 per kg to UM 21 per kg, and that of paddy rice from UM 12.5 per kg to UM 14 per kg.

b. The wholesale price of sorghum, maize, and wheat sold by CSA will be raised, in accordance with the proposals of the World Bank, from UM 15 per kg to UM 22.5 per kg in Nouakchott, and from UM 14 to UM 21.5 per kg in the rest of the country. In accordance with the agreement with the World Bank, semi-annual adjustments will be made to achieve import parity for these commodities, currently estimated at UM 27 per kg after the devaluation, by 1987. The price of broken rice marketed by SONIMEX in Nouakchott will be raised from UM 20 per kg to UM 26 per kg. Prices for other cities and regions will fully reflect the additional costs of transportation and marketing.

c. Directives will be given that all official prices, including those for petroleum products, as well as charges of public utilities be fully adjusted for any exchange rate action at the latest within four weeks. The establishment of a mechanism to effect these adjustments automatically will be examined at the time of the mid-term review of the program.

14. The Government is committed to the gradual liberalization of pricing policies. For this purpose, it is undertaking a study to determine the appropriate changes in the current pricing system. Under the system, the

prices of basic commodities are fixed by the Government; a profit margin for imported goods is established; and only the prices of luxury goods are determined freely. The objective of the study is to determine which basic commodities can be allowed to be priced through the market mechanism, the extent to which profit margins can be widened, and the extent to which imported commodities subject to profit margins can be moved to be freely priced. The marketing arrangements will also be reviewed to determine the modalities by which greater private sector participation can be introduced. In this regard, food marketing and production policies will be defined, by reviewing the role of CSA, SONIMEX, SONADER, and the rice mills. The results of the analysis will be examined at the time of the mid-term review with a view to formulating specific measures to be put in place during the second half of the program period.

15. Public enterprises: The Government is determined to spare no effort to reform the public enterprise sector. A major restructuring of the public enterprise sector with technical assistance from the World Bank, the Caisse Centrale de Coopération Economique (CCCE), the Fonds d'Aide et de Coopération (FAC), the European Development Fund (EDF), the European Investment Bank (EIB), and Kredidanstalt für Wiederaufbau (KFW) has been underway since late 1983. In 1985, the emphasis will be on the continued reform of five key enterprises:

a. The rehabilitation of the national mining and industrial company (SNIM), in close consultation with the World Bank and other creditors, will be pursued. The main objectives will be to reduce production costs and improve the efficiency of mining operations and management in order to ensure the financial viability of the enterprise. The World Bank and other co-lenders have indicated a willingness to consider additional financial support if needed.

b. The rural development agency (SONADER) will continue to be rehabilitated. SONADER's rehabilitation plan includes the discontinuation of its direct involvement in construction of irrigation facilities in 1985, transfering to users responsibiliy for pump maintenance services in 1986, the phasing out of fertilizer subsidies by end-1985, and the discontinuation of input supply and credit extension functions by 1987.

c. The Nouakchott port authority (EMN) will increase its charges by 25 percent, before the effects of the exchange rate action, by January 31, 1985, and a suitable formula for future increases will be devised to improve its financial performance, in line with the recommendations of the World Bank.

d. The post and telecommunications office (OPT) will be reformed, through technical assistance aimed at improving management and strenghthening accounting procedures. A study of medium-term financial viability will be undertaken in 1985.

e. The electricity and water supply company (SONELEC) will increase its rates in line with the World Bank's recommendations, taking into account the effects of the exchange rate action. The World Bank has recommended increases in electricity and water charges of 15 percent and 10 percent, respectively, before exchange rate action. Negotiation of the exact change will be finalized with the World Bank by end-February 1985.

16. In addition, the Government will start preparations for the rehabilitation of other enterprises, with priority given to the food aid agency (CSA) and the oil marketing agency (SMCPP). The auditing of all public enterprises will be accelerated. A timetable for the settlement of interlocking debts of SONELEC, OPT, EMN, and the Government will be set at the latest by end-April 1985. The progress made will be reviewed during the midterm review of the program.

17. Public investment program: The Government's medium-term objective is to reduce gradually public investment expenditure while improving domestic supply through rehabilitation projects and new projects with positive rates of return. During 1984, the Ministry of Planning staff was strengthened to improve project preparation and project management procedures. As a result, Mauritania is now in a position to provide satisfactory information on ongoing projects, proposed projects for which financing has already been secured, and projects for which financing is still being sought. In December 1984, a World Bank mission completed a review of the 1985 public investment program. For the period 1986-88, the Government is preparing, in consultation with the World Bank, a document for submission to a Consultative Group meeting tentatively scheduled to be held in the second half of 1985. The document will outline the Government's public investment objectives, sectoral strategies, and the criteria for project selection, as well as a list of new projects and estimates of the macroeconomic impact of projected public investment.

18. The 1985 investment program places greater emphasis on project rehabilitation of existing infrastructure and on projects in the agricultural sector. The envisaged level of investment has been reduced in line with the absorptive capacity of the country and the availability of financial resources, and the budgetary and balance of payments objectives. During 1985 the total public investment expenditure is targeted at US$183 million. The Government undertakes to defer investment expenditures for 1985 to result in an overall implementation rate of 70 percent. Accordingly, the projected investment level of US$ 128 million would imply a cut of 44 percent from the 1984 level. The public investment program in 1985 is fully financed through foreign loans (64 percent), foreign grants (32 percent), and a budgetary contribution of 4 percent. This involves a considerable increase in grant financing compared with 19 percent in 1984. About 71 percent of the total is for ongoing projects. The World Bank views both the level and composition of the public investment program as appropriate. If there

should be a shortfall of financing during the implementation of the 1985 public investment program, the Government will reduce its investment expenditure accordingly after consultation on the composition of the revised investment program with the World Bank and the IMF. Furthermore, the Government intends to undertake thorough feasibility studies in preparation for the 1986-88 investment program, in consultation with the World Bank.

19. The 1985 investment program excludes the SAMIN copper mining project, in which the Government holds a 36 percent equity share, with private foreign partners holding the balance. The Government recognizes that the World Bank considers the project to be unviable. It will, therefore, avoid any form of subsidies, direct or indirect, and any identifiable infrastructural costs directly attributable to the mine will be recovered by a royalty tax on the export of copper and gold, with an annual minimum.

20. Public finance: The deficit on treasury operations, on a commitment basis and including scheduled interest payments, is expected to be reduced from UM 808 million (1.8 percent of GDP) to UM 403 million (0.8 percent of GDP). The consolidated budgetary deficit, on a commitment basis, including grants and before debt relief, is projected to drop from UM 4,085 million (9.1 percent of GDP) in 1984 to UM 2,176 million (4.2 percent of GDP) in 1985 as a result of a number of tax measures, strengthening of tax administration, a cut in the public investment program, and a containment of ordinary budgetary expenditure. The deficit excluding grants will decline from 24.5 percent of GDP to 21.8 percent. Given the envisaged settlement of outstanding domestic and external arrears, the condolidated deficit on a cash basis is expected to rise from UM 3,436 million (7.7 percent of GDP) in 1984 to UM 8,823 million (17.1 percent of GDP) in 1985. The overall deficit on a cash basis will be covered by foreign financing associated with the 1985 public investment program and, as a working hypothesis, by debt relief and exceptional financing.

21. Total receipts are projected to increase by 24 percent as a result of the exchange rate adjustment, which is expected to substantially increase receipts from customs duties, as well as a number of tax measures implemented in 1984 designed to widen the tax base and enhance the income elasticity of the tax system, in line with the recommendations of an IMF technical assistance mission. In 1984, the domestic turnover tax (TCA) was increased by 2 percentage points and the tax on services (TPS) was extended to include restaurant services (TPS). Installment payments were introduced for taxpayers subject to taxes on income and net profit (BIC) and the minimum tax (IMF); a surcharge was imposed on premium and regular gasoline; and administrative measures to improve tax collection and strengthen the organization of the Revenue and Customs departments were implemented. In addition, several tax measures have been introduced in the context of the 1985 budget. These include the conversion of specific taxes on tobacco, milk, tomato paste, and edible oil taxes to

an ad valorem basis, the harmonization of customs duties in accordance with those of the Community of the West African States, and the revision of the threshold for using the lump-sum system for business profit taxes (BIC). The tax administration will be strengthened. In particular, the Government will improve collection of wage and salary taxes (ITS), of the general income tax (IGR), and of delinquent taxes. The Government will also launch in-depth studies aimed at reviewing the tax-exemption system, customs tariffs, and tax collection in the fishing sector.

22. Total consolidated expenditure is projected to grow by 11 percent in 1985. The growth in current budgetary expenditures will be contained to 13 percent, notwithstanding the effect of the exchange rate action, through a containment of the wage bill, austerity measures, and strengthening of expenditure controls. Civil service salaries were already reduced by 13 percent in real terms during the period 1980-84. In 1985 there will be a further decline in real terms as a general salary adjustment of only 2 percent is planned. Recruitment in the last quarter of 1984 accounts for 3 percentage points to the wage bill, while the wage drift is estimated at 2 percent. As the size of the civil service will be frozen, the overall wage bill will not be allowed to grow by more than 7 percent in 1985. Investment expenditure is expected to decline in nominal terms in line with the investment program agreed upon with the World Bank and the 70 percent implementation ratio.

23. The Government will revise the present 1985 estimates of treasury operations after the exchange rate adjustment has been implemented and will notify the Fund of the approved revised budget by end-February 1985. The revised 1985 budget will reflect the above measures and appropriations.

24. The latest data available for domestic arrears indicate that these amounted to UM 742 million at end-1984. The Government undertakes to eliminate the UM 742 million in amounts of UM 185.5 million per quarter starting at end-March 1985, as a performance criterion, and will not incur any new domestic arrears. The Government will carry out a comprehensive survey to determine if further domestic arrears are outstanding, to be completed before the mid-term review, at which time understandings on a timetable for their elimination by the end of the program period will be reached.

25. Presently, the central government appropriations include only debt servicing which the Government intends to finance. This entry will be replaced in the revised 1985 budget by debt service commitments. Further, the central government estimates on treasury operations exclude most foreign-financed public investment. In order to provide the Government with an overview of the public finance situation, the Ministry of Finance and Commerce and the Ministry of Planning and Territorial Management plan to collaborate in the preparation of a consolidated budget for 1986. The Government may request technical assistance from the IMF in this regard. In addition, the Government may seek technical assistance

to improve the management of fiscal operations and the data base. In November 1985, the Government will consult with the Fund and reach understandings on fiscal policy for 1986. This will constitute a performance criterion.

26. Monetary and credit policies: The Government will continue the restrictive monetary and credit policies in line with the balance of payments objective and budgetary policy described above. The expansion of total credit will be limited to 5 percent, to be provided exclusively to the nongovernment sector, mainly for production activities, while no increase in net bank credit to the Government will be allowed for the whole year. Taking into account the balance of payments target, the above credit limits will imply an increase in broad money by 9.2 percent. As a performance criterion, total domestic credit which amounted to UM 19,240 million at end-October 1984, and is estimated to amount to UM 19,642 million on December 31, 1984, will not exceed UM 19,850 million at end-March 1985, and UM 20,050 million at end-June 1985; similarly net credit to the Government which amounted to UM 5,073 million at end-October 1984 and is estimated to amount to UM 5,142 million at end-1984, will not exceed UM 5,142 million as of March 31, 1985 and June 30, 1985. On an indicative basis, total domestic credit should not exceed UM 20,450 million as of September 30, 1985 and UM 20,660 million as of December 31, 1985; the net credit to the Government should not exceed UM 5,142 million as of September 30, 1985 and December 31, 1985. The ceilings, which will constitute performance criteria for end-September and end-December 1985, will be set during the mid-term review, taking into account the assessment of the progress made under the program, the reduction of government arrears, the outcome of external debt rescheduling, and any additional nonproject-related budgetary external assistance. These ceilings preclude any reclassification of credit during the program period. No counterpart of use of Fund resources will be made available for budgetary support.

27. In other areas of monetary policy, the Government will strengthen the procedure through which the domestic private sector borrows directly from abroad and improve the statistical recording of such transactions. Furthermore, commercial banks will be instructed to remain current in the scheduled payments on commercial loans which have been guaranteed and on the nonguaranteed ones for which the domestic counterpart has been paid. The Central Bank will institute procedures to improve risk assessment in credit extended by commercial banks, with a view to avoiding a further accumulation of doubtful credit. The recommendations made by a recent Fund report on statistical issues relating to monetary data will be implemented and the progress reviewed during the mid-term review of the program. Furthermore, at the time of the mid-term review, the findings of the study financed by the Arab Monetary Fund to rehabilitate and strengthen the banking sector will be reviewed and a timetable for the implementation of the study's recommendations will be agreed upon.

28. In order to improve the allocation of resources and enhance the process of financial intermediation, the interest rate structure will be raised. Accordingly, on February 28, 1985, the interest rate structure will be raised by a minimum of 2 percentage points, as per Attachment II. The interest rates on deposits will be increased from a range of 5-9 percent to 7-11 percent. Lending rates on rediscounted credit will rise from 6.5-10 percent to 8.5-12 percent. The interest rates on loans, which are not rediscountable, will be increased from 10-14 percent to 12-16 percent. As the projected rate of inflation of 12 percent in 1985 reflects in part the exchange rate action, the Government views the new interest rate structure as being consonant with the underlying rate of inflation of 8 percent which was recorded in 1984. The interest rate structure will be re-examined at the time of the mid-term review.

Mauritania: Structure of Interest Rates

(In percent per annum)

	BCM's rediscount rate		Deposit money banks' interest charges: Within individual limits		Deposit money banks' interest charges: In excess of individual limits	
	Up to Feb. 28	Effective March 1	Up to Feb. 28	Effective March 1	Up to Feb. 28	Effective March 1
			Rediscountable		Nonrediscountable	
Interest rate charged on credit						
Short-term						
Agriculture and cattle breeding	4.50	6.50	6.50	8.50	10.00	12.00
Trade, SONIMEX, PHARMARIM	6.00	8.00	7.50	9.50	11.00	13.00
Fishing, mining, and food-processing industries	6.00	8.00	8.50	10.50	12.00	14.00
Commerce, real estate companies, and construction	6.00	8.00	9.50	11.50	13.00	15.00
Transportation, oil refinery	6.00	8.00	10.50	12.50	14.00	16.00
Hotels, petroleum distribution, and car sales	6.00	8.00	10.50	12.50	14.00	16.00
Medium-term						
Agricultural and cattle breeding	4.50	6.50	6.00	8.00	11.00	13.00
Fishing, mining, and food-processing industries	6.00	8.00	7.00	9.00	12.00	14.00
Real estate companies	6.00	8.00	8.00	10.00	13.00	15.00
Residential construction	6.00	8.00	9.00	11.00	14.00	16.00
Hotels	6.00	8.00	10.00	12.00	14.00	16.00

(In thousands of ouguiyas)

	Up to 500		500-800		800-1,000		1,000-3,000		Above 3,000	
	Up to Feb. 28	Effec. March 1	Up to Feb. 28	Effec. March 1	Up to Feb. 28	Effec. March 1	Up to Feb. 28	Effec. March 1	Up to Feb. 28	Effec. March 1
Interest rate paid on deposits										
Demand deposits	5.00	7.00	5.25	7.25	5.50	7.50	7.75	9.75	8.00	10.00
Time deposits										
Less than six months	5.25	7.25	5.50	7.50	5.75	7.75	8.00	10.00	8.25	10.25
Six months to one year	5.50	7.50	5.75	7.75	6.00	8.00	8.25	10.25	8.50	10.50
One year to less than two years	5.75	7.75	6.00	8.00	6.25	8.25	8.50	10.50	8.75	10.75
Two years and over	6.00	8.00	6.25	8.25	6.50	8.50	8.75	10.75	9.00	11.00
Certificates of deposit										
Six months to one year	5.50	7.50	5.75	7.75	6.00	8.00	8.25	10.25	8.50	10.50
One year to less than two years	5.71	7.71	6.00	8.00	6.25	8.25	8.50	10.50	8.75	10.75
Two years and over	6.00	8.00	6.25	8.25	6.50	8.50	8.75	10.75	9.00	11.00
Savings deposits	8.00	10.00	8.00	10.00	8.00	10.00	8.00	10.00	8.00	10.00

Source: Data provided by the Mauritanian authorities.