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Islamic Republic of Mauritania: 2012 Article IV Consultation and Fourth Review Under the Three-Year Extended Credit Facility Arrangement, and Requests for Waivers of Nonobservance and Modification of Performance Criteria—Staff Report and Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania.

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2012 Article IV consultation with Mauritania and fourth review under the three-year Extended Credit Facility arrangement, and waivers of nonobservance and modification of performance criteria, the following documents have been released and are included in this package:

- The staff report for the combined 2012 Article IV consultation and fourth review under the three-year Extended Credit Facility arrangement, and waivers of nonobservance and modification of performance criteria, prepared by a staff team of the IMF, following discussions that ended on May 16, 2012, with the officials of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 14, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A supplement containing a joint IMF/World Bank Debt Sustainability Analysis
- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its July 2, 2012, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.
- A statement by the Executive Director for the Islamic Republic of Mauritania.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Mauritania*
Selected Issues Paper
Technical Memorandum of Understanding*

*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2012 Article IV Consultation, Fourth Review Under the Three-Year Extended Credit Facility Arrangement, and Requests for Waivers of Nonobservance and Modification of Performance Criteria

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Daniela Gressani and Dhaneshwar Ghura

June 14, 2012

Fund relations: A three-year SDR 77.28 million (120 percent of quota) arrangement under the ECF was approved on March 15, 2010. Mauritania's outstanding loans from the Fund were SDR 54.5 million (84.6 percent of quota) as of May 31, 2012.

Discussions: The team comprised A. Mati (head), Y. Zouhar, R. Blotevogel (all MCD), and C. Ebeke (SPR). T. Najeh (Resident Representative) assisted. Discussions were held in Nouakchott during April 29–May16, 2012. The mission met with the president, the governor of the central bank, the ministers of finance, economic affairs and development, energy, fishing, and of rural development, other senior officials, and representatives of the corporate and banking sector, the diplomatic and donor community, civil society, academia, and a wide spectrum of political parties.

Fourth program review: Based on the strong performance under the program, staff recommends its completion with one waiver for the nonobservance of the continuous performance criterion on nonconcessional external debt. Most of the structural reform agenda is progressing well, although three structural benchmarks were missed because of delays in administrative and procurement procedures.

Focus of the Article IV consultation: Discussions centered on the authorities' immediate challenge of maintaining macrostability in the face of the drought and on building inclusive growth in the medium term.

Exchange rate regime: The exchange rate is de facto classified as other managed arrangement. Mauritania has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4 of the Fund's Articles of Agreement, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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EXECUTIVE SUMMARY

Mauritania's economy has performed well in 2011, despite significant challenges. Helped by appropriate policies and high metals prices, real GDP grew 4 percent, inflation fell back below 6 percent, and record fiscal and external buffers were built. This performance materialized even though Mauritania faced a severe drought, a slowdown in Europe, and high international fuel and food prices.

Economic activity will pick up this year and in the medium term thanks to new projects that will temporarily worsen the external deficit. The rebound in cereal production and major infrastructure projects will lift growth above 5 percent, while inflation will remain contained. The external position will significantly deteriorate due to one-off effects linked to major energy investments and the construction of the new airport—before recovering as new mineral production comes on line and nonmetals commodity prices fall.

Notwithstanding the favorable outlook, Mauritania faces important short- and medium-term policy challenges, notably in the social area, where progress in reducing poverty has been slow and unemployment is still high:

- **In the short term,** maintaining macrostability is essential. While a modest fiscal loosening is appropriate to accommodate pressing social needs in the aftermath of the drought, accelerating the phasing out of ill-targeted subsidies is essential to safeguard fiscal sustainability. To guard against upside inflation risks, the authorities will introduce a new T-Bill maturity that is under the sole control of the central bank—but paid for by the Treasury—to gradually absorb excess liquidity. Inflationary pressures from infrastructure projects and exchange rate depreciation should be closely monitored.

- **Over the medium term**, Mauritania needs to diversify away from commodity exports to make growth inclusive. Anchoring fiscal policy on non-mining aggregates, creating a mining fund, strengthening social safety nets, deepening the financial sector, and persevering with the structural reform agenda are necessary to reduce poverty, create employment, and reduce the economy's vulnerability to exogenous shocks.

Performance under the ECF-supported program remained strong. All quantitative performance criteria for end-December 2011 were met with a relatively large margin. The continuous performance criterion on the contracting of nonconcessional external debt was missed because of delays in the parliamentary calendar. The structural reform agenda is progressing according to plan, with the exception of the three benchmarks on public enterprise audits, external debt strategy, and IFRS quantification, which were missed.

I. Background and Context

1. **Mauritania staged a solid recovery from the global crisis, while confronting several exogenous shocks**. The commodity price boom of the past two years, combined with prudent policies helped Mauritania restore macroeconomic stability and build reserve and fiscal buffers. Good progress on structural reforms also contributed to this performance, which materialized even though Mauritania faced a severe drought and high international fuel and food prices.

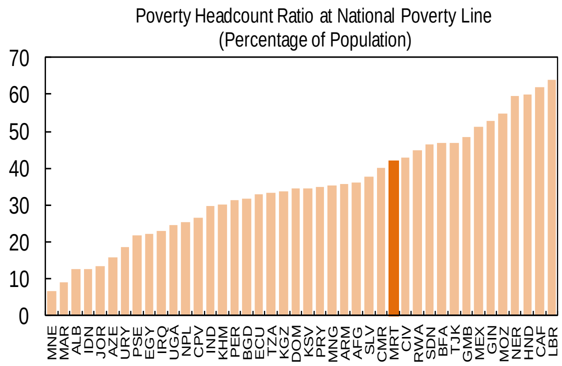
Box 1. Drought: Impact and Emergency Response so Far

Mauritania is being hit hard by the Sahel drought. Wheat production is currently 55 percent below historical average, and the shrinking of available pastures caused important losses among cattle, which led to severe wealth and income loss for farmers. As a result, the number of people living in food insecurity has tripled to 800,000 (25 percent of the population) over the past year, with more than 40,000 children suffering from acute malnutrition.

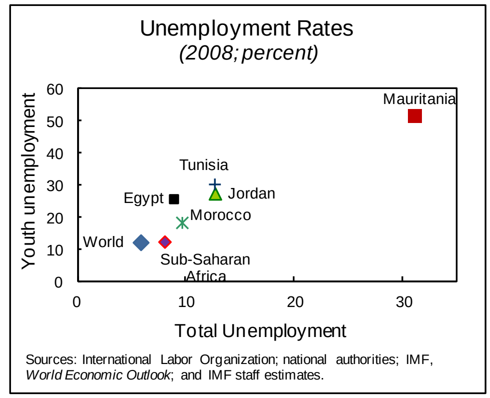
Timely government response and better coordination with development partners has been crucial to reducing the impact of the drought. Early adoption of the emergency response in the 2012 budget and a revolving trade facility for the public food import company (SONIMEX) have helped rapidly scale up relief. So far, more than 100,000 tons of wheat and fodder have been distributed to the affected areas, but additional aid is needed to expand free food distribution, replenish food stocks in rural areas, and implement cash transfer programs. Following the government's emergency call last November, the international community has generously mobilized (about $50 million), leaving a remaining gap of 35 percent of identified emergency needs not covered by the budget or donors. In view of the urgency of this situation and while awaiting new donor funds that will be directly channeled through aid agencies, the government has decided to further increase its contribution to the emergency program (see Section II below).

The response to the drought is further complicated by logistical issues and the massive inflow of refugees from Mali. Seaport congestion, a weak internal transport system, and insufficient storage capacity have complicated relief delivery, which has not always been able to keep pace with the large scale of the response. In addition, the unstable situation in Mali has increased the flow of refugees settling in the South-Eastern part of Mauritania to about 60,000. While development partners (aid is usually channeled through the HCR, UNICEF, and WFP) currently provide and finance all refugee relief operations, scaling up of the emergency program may be necessary to meet the needs of an ever-increasing refugee inflow.

2. **Vast challenges, notably in the social area, loom ahead**. Given that growth has been concentrated over the past two years in capital-intensive industries (such as mining and telecommunications), progress in reducing poverty has been slow and unemployment is still high. Poor infrastructure and constrained access to finance continue to undermine private-sector development.



Source: World Bank.



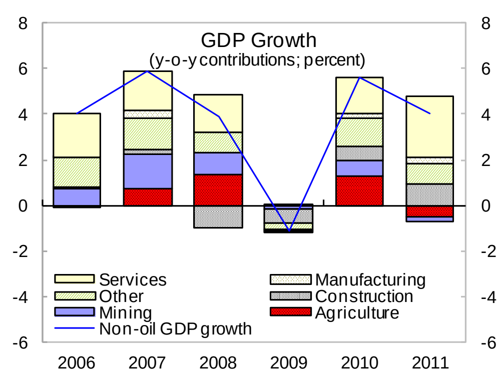
3. **Political tensions have recently increased, as the opposition has become more vocal in the wake of the Arab Spring**. New elections in 2009 led to a stable reform-minded government coalition. The government launched a process of inclusive dialogue with civil society and the opposition, which led to new constitutional amendments, revision of the electoral code and, a new independent electoral commission. However, lack of improvements in general living conditions and perceived governance issues have increased social discontent, which ultimately led to the largest demonstration in years last March. The postponement of the legislative elections, possibly to later this year, generates additional uncertainty and tension.

4. **At the time of the 2009 Article IV discussions,** the IMF Executive Board urged the authorities to pursue prudent fiscal and monetary policies, greater exchange rate flexibility and broad-based structural reforms to strengthen the financial sector and promote private-sector development. The authorities' policy response and reform agenda were broadly in line with these recommendations. Continued implementation of these policies is needed to enhance the economy's resilience to external shocks.

II. Recent Economic Developments

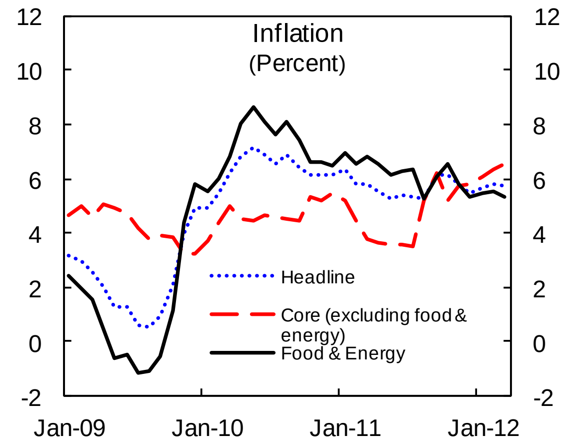
5. **Mauritania's macroeconomic performance has been robust, despite a severe drought, a slowdown in Europe, and high international food and fuel prices** (Tables 1–8, Figures 1–5):

- After a vibrant recovery driven by a strong rebound in external demand in 2010, real GDP growth in 2011 fell a full percentage point short of expectations (to 4 percent). This slower economic expansion is mostly explained by the drought, which resulted in a 35 percent drop in cereal production. To a lesser extent, a stalling mining production



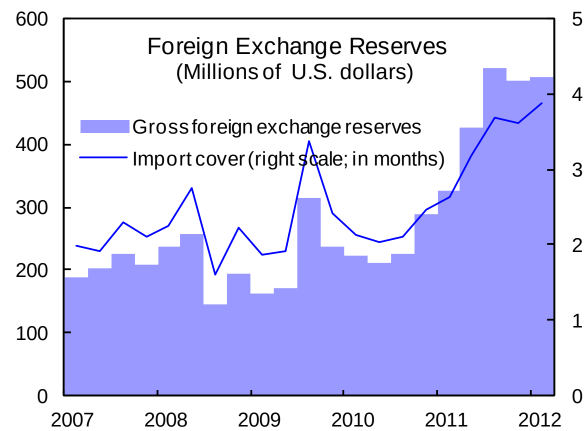
Sources: Mauritanian authorities; and IMF staff calculations.

also contributed to this performance.



Source: Central Bank of Mauritania.

- Headline inflation was contained to 5.7 percent (y-o-y), a full percentage point below expectations, mostly because of low pass-through of international food and energy prices. Notwithstanding this trend, core inflation (excluding food and energy) has picked up recently, but is not likely to reflect rising demand pressures as these are due to one-off adjustments in administered prices (transport) and excise duties.

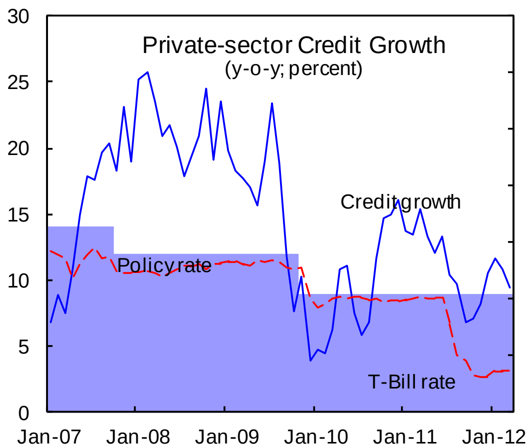


Sources: Central Bank of Mauritania; and IMF staff calculations.

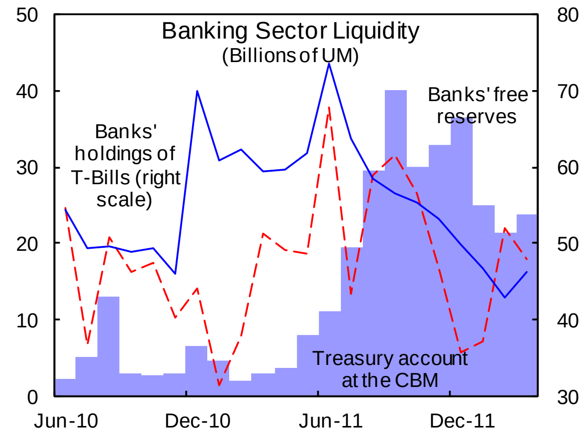
- The positive terms of trade shock associated with the run-up in metals prices (iron, gold, and copper) during the first three quarters of 2011 helped narrow the current account deficit, albeit by less than programmed, mostly because of the unexpected decline in metals prices in Q4 2011. Nonetheless, gross foreign reserves doubled in 2011 to a recent high of $501.6 million, about 3.6 months of imports.

- Fiscal consolidation continued for a third year in a row, with the basic non-oil deficit (excluding grants, interest on external debt, and foreign financed investment) declining to 0.2 percent of non-oil GDP (about 1.5 percentage point better than programmed). Higher mining revenues and strong tax collection more than offset the cost of the emergency program put in place in 2011 to alleviate the impact of higher commodity prices on the most vulnerable. With a smaller financing requirement and excess liquidity in the banking system, T-bill yields fell to unprecedented lows of just below 3 percent.

- Monetary policy was accommodative, although the excess liquidity in the banking system, associated with the unsterilized accumulation of net foreign assets, has not translated into high private sector credit growth, which remained subdued at just over 10 percent (y-o-y).



Source: Central Bank of Mauritania.



Source: Central Bank of Mauritania.

III. Report on Policy Discussions

A. Outlook and Risks

6. **Following a difficult year, a pick-up in economic activity—accompanied by moderately paced inflation and a wider current account deficit—is expected in the medium term.** The rebound in cereal production and major construction projects will offset the expected decline in demand from Europe and delays in expanding gold production, thus lifting growth above 5 percent in 2012. Thereafter, expanded mining capacity and large investment projects already in the pipeline will sustain growth above 5 percent, while declining international energy and food prices will help contain inflation. After a temporary and significant widening of the current account deficit (to about 20 percent of non-oil GDP in 2012) because of one-off effects—such as the drought (2.6 percent), major energy investments, and the construction of the new airport (2 percent)—the external position will recover through rising mineral production and lower nonmetal commodity prices.

Mauritania: Medium-Term Macroeconomic Objectives, 2009–17

	2009	2010	2011 Est.	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Real GDP growth	-1.2	5.1	4.0	5.7	7.0	5.7	5.4	5.5	5.4
Real GDP growth excluding extractive industries	-1.1	5.6	4.9	6.1	6.2	5.3	5.3	5.3	5.3
Inflation, end-of-period	5.0	6.1	5.5	6.0	6.3	5.9	5.5	5.1	5.1
Current account balance (percent of GDP)	-10.7	-8.6	-7.4	-19.5	-17.7	-12.4	-7.8	-6.4	-4.7
Gross official reserves 1/	2.4	2.5	3.6	3.8	4.2	4.3	4.4	4.5	4.8

Sources: Mauritanian authorities; and Fund staff estimates.
1/ In months of following year's imports excluding extractive industries.

7. **The authorities shared staff's analysis on the outlook**. They pointed out that the large current account deficit this year would amount to only 8 percent of GDP, after excluding FDI-financed mining imports. Repatriation of mining proceeds, new concessional loans and external credit lines (including those for the new airport) will help finance other

import needs. As a result, gross foreign reserves are still expected to cover an unprecedented 4.8 months of imports by 2017.

8. **The economic outlook in the short term is subject to the following risks:**

- **A deteriorating external environment**: Mauritania's narrow export base (the mining sector represents nearly 75 percent of exports) keeps its economy highly vulnerable to a fall in metals prices and shifts in global demand, particularly from Europe (Box 2) and to a lesser extent China. The authorities recognized these risks but pointed out that the baseline scenario already incorporates a 25 percent fall in metals prices; the authorities expect the buffers accumulated over the past two years to make them more resilient to a sharp fall in demand (for the impact of a more severe downside risk scenario, see Box 2 of IMF Country Report No. 11/362).

- **Additional increases in international food and fuel prices** will worsen the external position, and will place an additional burden on the budget, particularly if it requires new emergency mitigating measures. An inadequate social safety net would also negatively affect social stability.

- **A shortfall in donor assistance**, particularly for food aid and refugee assistance (in case of sustained refugee inflows).

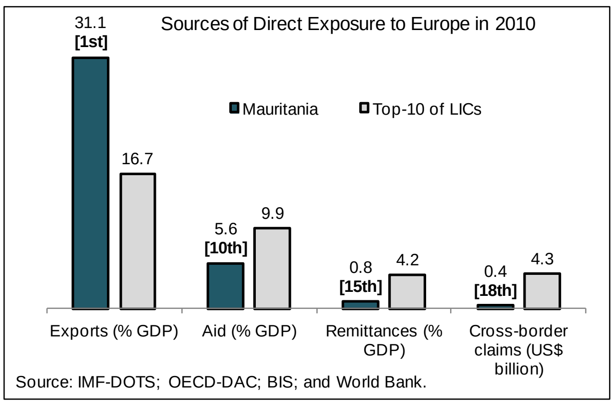
- **Persistence of the drought.** Another rain deficit would further aggravate the near-term prospect for agriculture and livestock industries, further reducing the income of the rural poor.

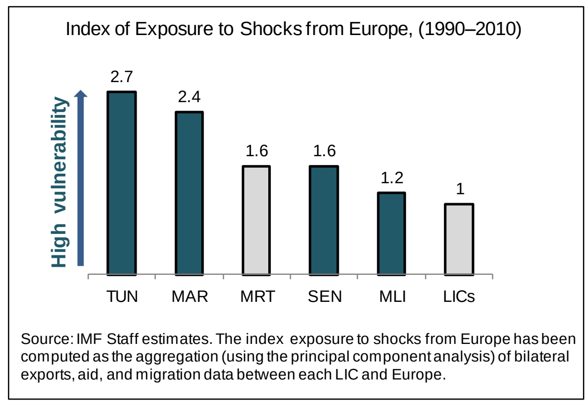
- **Political context.** A flare-up in domestic social unrest or yielding to spending pressures ahead of the legislative elections could jeopardize macroeconomic stability.

9. **Lack of diversification of the economy and low job creation are key longstanding concerns.** Staff's baseline scenario is predicated on reforms that generate inclusive growth and diversify the economy. Implementation shortfalls will impede the authorities' pro-poor growth agenda, particularly if actions to address internal bottlenecks, improve governance, and orient new investments towards developing a domestic industrial base slow down. On the upside, growth dividends of the ongoing public investment projects could be higher than assumed in the baseline scenario.

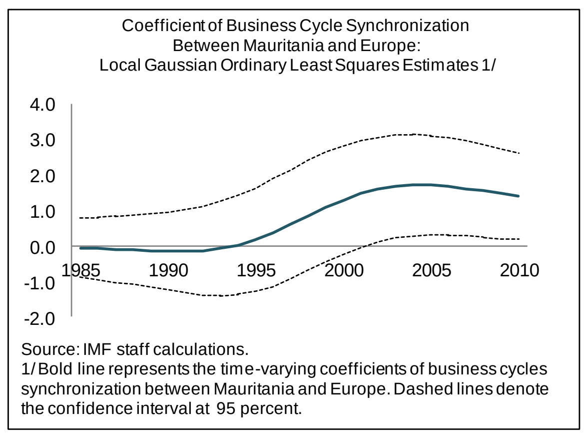
Box 2. Mauritania: Spillovers from Europe[1]

As a small open economy, Mauritania remains highly vulnerable to developments in Europe through the trade channel. Mauritania's exports to Europe, which are mostly metals, represent close to 30 percent of GDP, the highest among LICs. Contagion from Europe through remittances or financial sector links is limited, although Mauritania is still vulnerable to a shortfall in aid flows from the continent. That said, when combining all these indicators, Mauritania still appears more vulnerable to Europe than the typical LIC.





The interconnectedness of Mauritania's economy with Europe has increased in recent years. Staff's analysis shows that co-movements with Europe rose markedly from 2000 onward as mining and fishing started to play a larger role in the economy. As a result, staff estimates that a 1 percent decrease in Europe's real GDP growth lowers Mauritania's exports by 3.2 percent (in volume terms).



[1] See Selected Issues Paper.

B. Short-Term Challenge: Maintaining Macroeconomic Stability in the Face of the Drought and Large Infrastructure Projects

10. **Food insecurity has emerged as a pressing issue.** Both staff and the authorities agreed on the need of a realistic budget that takes into account drought-relief requirements. These were recently revised upwards to about 3 percent of non-oil GDP (from approximately 2 percent in the initial budget law),[1] mostly to reflect increased costs of subsidized and free food distribution in rural areas, additional subsidies for livestock feeds, and slower pace of donor contributions than initially expected (text table). Staff welcomed the evaluation of the "subsidized food shops" programs introduced in 2011 and emphasized that the extension of these programs in 2012 should be approved in a revised budget law, remain linked to the current food crisis and not become a permanent entitlement. To strengthen the targeting, the existing monitoring system should regularly provide a report on beneficiaries of aid.

Drought Emergency Response, 2012

(In billions of ouguiyas; unless otherwise specified)

	Initial Estimate Nov. 2011	Updated Estimate May 2012
1. Preventing food insecurity	29.8	33.2
Free food distribution	5.0	5.0
Subsidized food	14.2	15.6
Cash transfer	3.0	5.0
Replenishing food security stocks	7.6	7.6
2. Providing health care for vulnerable groups and children	0.9	0.9
3. Preserving livestock	11.2	13.2
4. Developing income-generating activities	0.3	3.3
5. Monitoring and supervision	0.5	0.5
Total	42.6	51.1
in percent of non-oil GDP	3.3	4.3
Of which : Budget	2.0	3.0
Off-Budget (Donors) 1/	1.3	1.3

Source: Fund staff estimate.

1/ This includes donors' commitments that have not yet been disbursed.

11. **Additional mining proceeds will limit the deterioration of the fiscal deficit in 2012.** In a repeat of last year's experience, higher mining revenues (including additional exceptional dividends from the state-owned mining company amounting to about 2 percent of non-oil GDP) and stronger tax collection will help pay for a more comprehensive emergency drought-relief response and higher subsidy payments to the energy sector (including large arrears repayment). They will also partly compensate the revenue loss arising from the delay in renewing the fishing agreement with the EU (LOI, ¶9–10). As a result, the basic fiscal deficit in 2012 will only worsen to 1 percent of non-oil GDP, 0.3 percent of non-oil GDP higher than programmed.

12. **This modest loosening of the fiscal stance is appropriate to face the urgent social needs caused by the drought**. However, staff cautioned against ballooning subsidy payments, which have increased for two years in a row as a result of various emergency programs—and amount to 8 percent of GDP in 2012 (as high as the wage bill). Staff urged

[1] Non-oil GDP is used to maintain continuity of program targets. However, given that oil resources are small and that mining industries are increasingly important economically (with new discoveries), focusing on nonextractive industries is more appropriate (as advocated for the medium term).

the phasing out of these programs as soon as possible (see below). It also cautioned against financing additional expenditures through volatile mining revenues, which is not sustainable in the long term.

13. **The authorities were adamant that the construction of the new international airport—a priority project listed in the last two PRSPs—does not entail new fiscal risks** (Annex I and LOI, ¶12). Existing contracts showed that potential financial risks for the new airport will be borne by the private consortium constructing it. The authorities argued that the gradual transfer of land to the consortium in exchange of a new airport is a win-win situation since the government could not sell the land to other parties at a higher price (due to limitations in existing government regulations). They pointed out that no guarantees or tax incentives were granted to the private operator, thus preventing revenue loss and potential contingent liabilities. They disagreed with staff's notion that it would have been better to use a bidding process to attribute this market as that is the procedure currently used by the government to sell land. In the absence of an independent cost-benefit analysis, staff has not been able to form a view as to whether the fair value of the land will be worth more or less than the new airport. That said, staff's baseline macroeconomic scenario accounts for the largest cost estimate provided for the airport ($300 million, of which two thirds are imports—see Annex I).

14. **Unwinding excess liquidity in the banking system will enhance the traction of monetary policy and reduce macroeconomic risks.** Bank liquidity, measured by free reserves, persists at high levels, while T-bill yields are stuck at around 3 percent. Both staff and the authorities agreed that inflationary pressures could emerge if banks started to rely on their liquidity cushions to lend more aggressively. Meanwhile, the CBM's ability to influence banks' lending activities is limited (Box 3). To guard against upside inflation risks and enhance the traction of monetary policy, the authorities will introduce a new short-term monetary policy instrument that is under the sole control of the central bank—but paid for by the Treasury—to gradually absorb excess liquidity over the coming 12 months, as recommended by Fund TA (see Annex II and LOI, ¶14). The CBM also agreed to closely monitor inflationary effects from large construction projects (notably the new airport and electricity plant), exchange rate depreciation, and increases in administered energy prices. It stands ready to raise the required reserve ratio if the new instrument cannot be phased in quickly enough to remove the excess liquidity.

Box 3. Monetary Policy (In)Effectiveness in Mauritania[1]

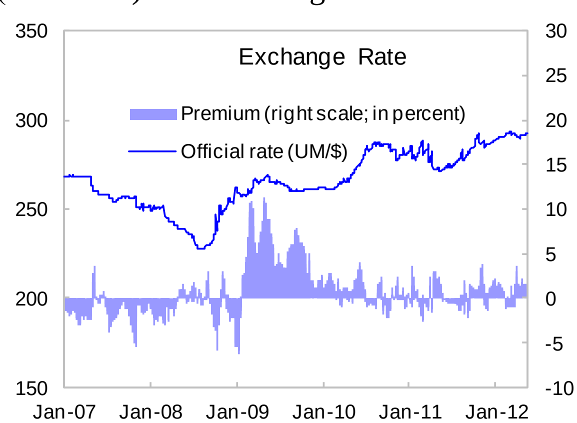
Three of the four traditional channels of monetary policy transmission—interest rates, asset prices, and the exchange rate—are unlikely to be very effective in Mauritania, as the institutional prerequisites of these channels are missing: (i) consumers and companies do not have significant savings that would allow them to adjust their consumption and investment patterns over time; (ii) asset markets with real-time price information do not exist; and (iii) the closed capital account prevents the exchange rate from adjusting to monetary policy changes.

This potentially leaves the banking sector as the fourth channel. Staff's analysis of the behavior of six Mauritanian banks over the past six years finds that banks' decision to lend more did not depend on exogenous increases in their available liquidity. This testifies to a weak monetary policy transmission mechanism—an experience shared by other low-income countries (see FO/Dis/12/66).

The bank lending channel would become more effective if liquidity were scarce. Although there are several binding constraints that undermine monetary policy effectiveness, absorbing excess liquidity would make the CBM's policy rate more relevant and stimulate interbank transactions. The forthcoming new monetary policy instrument (7-day maturity T-bill) will therefore ultimately put the CBM in a better position to affect bank lending.

[1] See Selected Issues Paper.

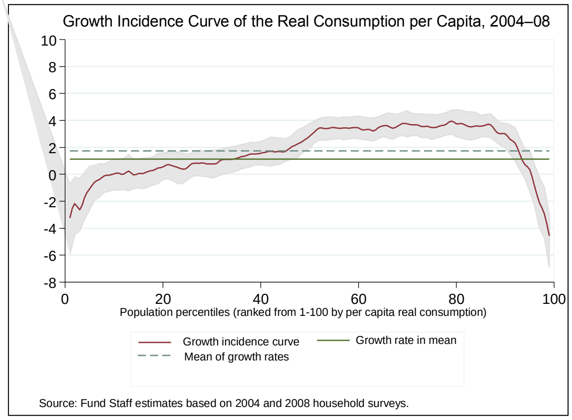
15. **The CBM agreed that the exchange rate should continue to adjust freely to deal with exogenous shocks.** Staff analysis suggests that the ouguiya is modestly overvalued, despite last year's depreciation of the currency (Annex III). The CBM agreed with this analysis but expressed concern about upside inflation risks associated with exchange rate depreciation. It agreed with staff on the need to continue improving Mauritania's shallow foreign exchange market by regularly selling mining proceeds repatriated through the CBM and avoiding off-market sales of foreign exchange. As a main seller of foreign exchange, the CBM will use its interventions to smooth excessive exchange rate fluctuations but not to lean against economic fundamentals. A sharper increase in prices of oil or food could undermine the authorities' efforts to safeguard reserves, which are still projected below the optimal level (Annex III).



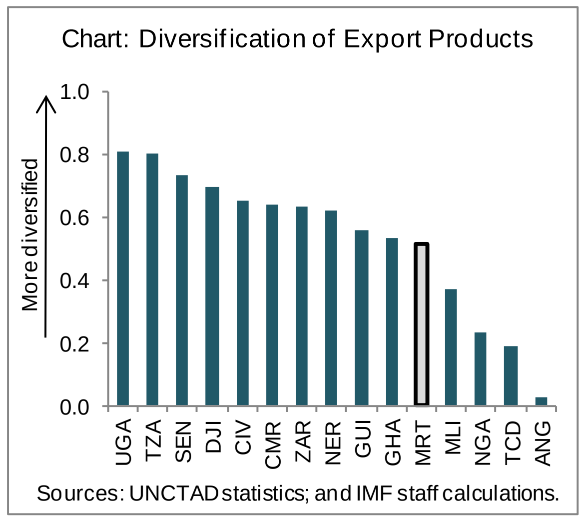
Source: Central Bank of Mauritania.

C. Building Inclusive Growth

16. **Mauritania faces a difficult challenge with respect to poverty reduction.** Overall poverty has fallen to about 42 percent in 2008 (from about 46.5 percent in 2000), but worsened to about 59 percent in rural areas (Table 9). The slow progress in poverty reduction through 2008 is partly explained by insufficient and unbalanced economic growth. Indeed, staff calculations of a growth incidence curve suggest that growth has not been inclusive over the 2004–08 period (see Selected Issues Paper (SIP)).



17. **The structure of Mauritania's economy is a key constraint for poverty reduction and employment creation.** Mauritania's productive sectors and export base have become increasingly concentrated, with growth over the past decade mainly driven by the good performance of the mining sector (particularly iron ore, copper, and gold), construction and telecommunications industries. However, these activities have low employment generation capacities, while agriculture, which remains the most important employment and poverty-reducing sector, continues to be constrained by the lack of a coherent government strategy, and by insufficient financing.

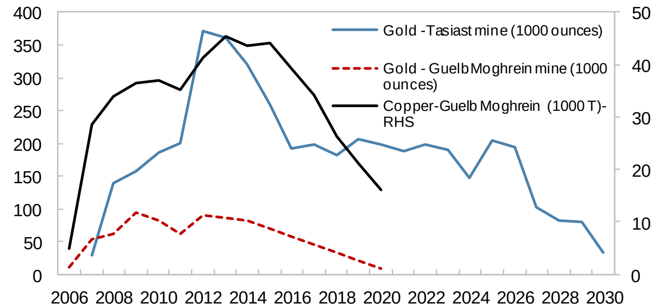


18. **Against this background, both staff and the authorities agreed that Mauritania needs to diversify its economy away from commodity exports to reduce vulnerabilities to exogenous shocks and make growth more inclusive.** Main strategies include maintaining macroeconomic stability, creating fiscal space for priority expenditures, strengthening social safety nets, deepening the financial sector, and pressing ahead with structural reforms.

Fiscal policy remains dependent on mining revenues and needs to be better anchored to remain sustainable and create space for priority spending

19. **Maintaining public finances on a sound footing in the face of volatile mining revenues is a key objective.** The authorities recognized that mining revenues that have been used to finance recurrent emergency spending are volatile and finite in time (gold and copper extraction will likely expire in 2030 and 2020, respectively). For this reason, they agreed to start using the nonmineral fiscal balance to anchor fiscal policy over the medium term. They aim to gradually reduce the nonmineral deficit to 4 percent of non-mining GDP in 2017, which will help reduce the debt-to-GDP ratio to 54.5 percent of GDP (a 25 percent of GDP debt reduction after excluding debt relief from Kuwait, see below). Such a strategy permits for scaling up social and investment spending while saving a fraction of windfall mining revenues. Fund TA for the creation of a stabilization mining fund later this year will help in this area.

Production Profile of Gold and Copper



Sources: Mauritanian authorities; First Quantum; and Kinross.

Mauritania: Main Fiscal Indicators

	2009	2010	2011	2012	2013	2014	2015	2016	2017
				(In percent of non-oil GDP)					
Non-oil Revenue and grants	24.9	25.7	26.7	30.9	27.1	26.6	26.0	25.5	25.1
Non-oil Revenue	24.1	24.6	26.0	29.4	25.9	25.6	25.2	24.7	24.5
Of which : Tax revenue	14.1	15.0	16.3	18.5	18.1	18.2	18.4	18.4	18.3
Expenditure and net lending	32.1	29.1	30.2	35.9	31.3	29.9	28.4	26.8	25.6
Current expenditure	24.6	21.0	21.9	24.8	21.0	19.7	18.6	17.4	16.5
Capital expenditure	6.8	6.7	8.1	10.9	10.3	10.2	9.8	9.4	9.1
Basic non-oil balance	-5.3	-2.4	-0.2	-0.9	-0.3	0.6	1.2	1.8	2.4
Net revenue from oil	1.8	1.4	2.0	1.5	1.3	1.1	1.0	0.9	0.7
Overall balance including grants (deficit -)	-5.4	-2.0	-1.5	-3.5	-3.0	-2.2	-1.4	-0.5	0.3
Memorandum Items:				(In percent of GDP, excluding extractive industries)					
Primary fiscal balance excluding revenues from extractive industries	-12.6	-11.7	-15.6	-20.8	-14.6	-12.7	-10.6	-8.9	-7.7
Overall balance excluding revenues from extractive industries and foreign-financed investment	-12.0	-11.4	-13.7	-15.3	-9.4	-7.6	-6.1	-4.9	-4.1

Sources: Mauritanian authorities; and Fund staff estimates.

20. **Subsidy reform and wage bill containment are the cornerstone of the adjustment strategy (LOI, ¶22–33), which would still allow for higher social and infrastructure spending.** Fiscal consolidation through 2017 will mainly be achieved through:

- **Subsidy reform** (Box 4). The increases in administered diesel prices during 2011 were not enough to eliminate ill-targeted subsidies by early 2012, as planned because international fuel prices turned out higher than envisaged. However, staff welcomed the authorities' introduction of the new petroleum price structure and formula, which should facilitate the move toward international prices by end-2012 (thus leading to savings of about 0.4 percent of GDP) and help depoliticize the price setting process. The mission urged the authorities to put a cap on the monthly increase to ensure that large international price hikes do not lead to excessive retail price volatility that would undermine political support for the automatic fuel price formula. Additional reduction in subsidies will follow the planned increases in electricity tariffs (for large consumers) and gas prices (LOI, ¶21 and ¶34).

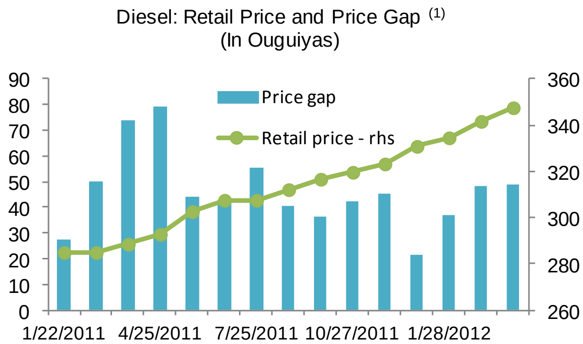
- **Social safety nets.** The scaling up of cash transfer schemes (Box 4), in which the targeting is benefitting from new poverty and vulnerability studies, should help protect the poorest from the impact of subsidy removal. The mission also recommended the use of these new targeted schemes to gradually replace the "subsidized food shops," which are not always located in the most vulnerable areas and do not reach the poor who have no disposable cash. It underscored that a successful subsidy reform strategy must be accompanied by a communication campaign that explains its benefits to the population.

- **Civil service reform.** The authorities have recently reconciled the civil service census with the payroll file, and expect to use a unique payroll database as of June 2012. Going forward, the wage bill will be contained at the regional average (about 7 percent of non-oil GDP in 2017). A better human resources framework and a new organizational audit will also help, with some savings generated by the replacement of retirees by younger qualified personnel.

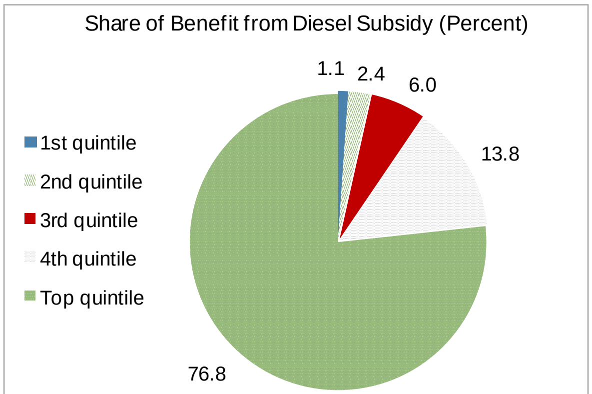
- **Social and investment spending.** The authorities and staff agreed on the need to protect social and investment spending. Capital expenditures averaging about 10 percent of non-oil GDP over the period, which are increasingly domestically financed, allow for large infrastructure projects planned in the areas of energy, road infrastructure, water and agriculture. Staff estimates that this increase is realistic and in line with Mauritania's implementation capacity, which has improved considerably: as 98 percent of total investment spending was executed in 2011.

Box 4. Mauritania's Progress in Diesel Subsidy Reform

While gasoline products are not subsidized in Mauritania, the government remains committed to phasing out inefficient diesel subsidies, which benefit mostly the rich. However, the steady 1.5 percent monthly increase in diesel prices observed since January 2011 was not enough to completely eliminate subsidies in 2012, as the latest wave of international fuel price increases widened the price gap.

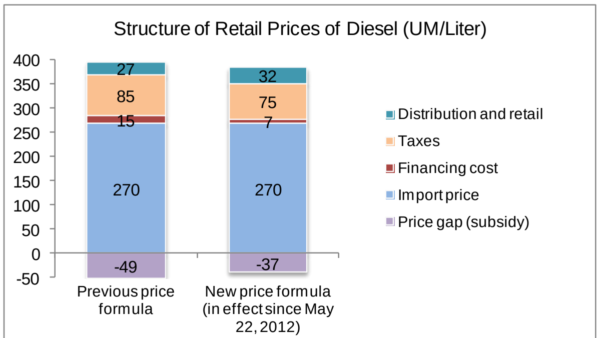


Source: Fund staff estimates
(1) the price gap corresponds to the difference between the full pass-through price and the retail price .



Source: Fund staff estimates.

A simplified price formula for petroleum products will allow for a faster alignment of fuel retail prices with international levels. This new formula, in effect since May 2012, has been agreed with petroleum distribution companies, and will help reduce the current price gap by one third. Additional ad hoc price increases—about 10 percent—over the next six months should eliminate the remaining gap. Once that is closed, the automatic formula will start being applied on a biweekly basis.



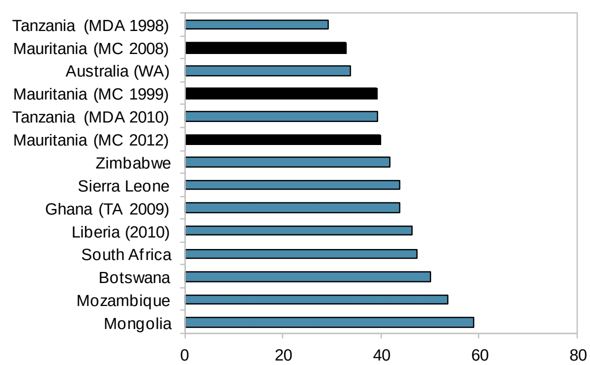
Sources: National authorities; and Fund staff calculations.

Concurrently, the government is finalizing, with the assistance of the WFP, a cash transfer program. This program, which was rapidly put in place, targets 10,000 vulnerable households in Nouakchott identified through the recent poverty survey. Each household will receive UM 15,000 monthly (equivalent to half of the legal minimum wage) via a bank transfer. A positive side effect is that beneficiaries will also gain access to financial services. The program was extended in June to 15,000 households in four rural areas deemed of high food insecurity, with the targeting to be improved later in the year once the poverty survey for the rest of the country is completed.

- **Public financial management** (LOI, ¶27–30)**.** Greater spending should be accompanied by more transparency, accountability, and efficiency in the use of public resources. Recognizing this requirement, the authorities introduced a functional budget classification, created a Treasury Single Account, and committed to limiting the use of treasury advances. The government also made an inventory of domestic arrears, which will be repaid over a three-year period. This repayment plan complements the clearing of arrears in the energy sector, of which 1 percent of GDP is scheduled for 2012.

21. **Staff agreed with the authorities' intention to consider options that will enhance revenues from the extractive industries.** Progress made in recent years to augment non-mining revenues should be sustained, including revenue administration reforms (LOI, ¶25–26). However, about 60 percent of this year's revenue increase will come from the mining sector, mostly the state-owned mining company, as the take from the private sector has so far been limited. Indeed, special tax regimes/exemptions granted to foreign investors in the early exploration phase when mining potential had yet to be confirmed weakened Mauritania's mining taxation regime, which today mobilizes less revenue for the state than in other resource-rich countries.

Average Tax Rate of Gold Mining Activities 1/



Source: IMF staff calculations.
1 / MC: mining code; TA: tax agreement; MDA: mining development agreement.

22. **The government and staff agreed that new mining contracts should not grant new exemptions and instead be directly governed by the mining code**. However, any intention to renegotiate existing contracts should be explored prudently, and only in a mutually agreed process with the foreign investor so as to protect Mauritania's business climate. Staff recommended closing the existing loophole that allows the transfer of mining assets (to a nonresident) without any tax incidence (LOI, ¶23–24). In the meantime, Mauritania has become a fully compliant member under the Extractive Industries Transparency Initiative (EITI), which should help transparency.

23. **The authorities shared staff's debt sustainability concerns, and underscored their commitment to rely on concessional borrowing.** After declining by over 70 percentage points following the 2006 MDRI initiative, and by another 8 percentage points following debt cancellation from Algeria and Libya in 2010, the PPG debt ratio is hovering around 83 percent of GDP at end-2011. Stress test scenarios indicate that Mauritania's risk of debt distress is moderate. Continued fiscal prudence and debt relief from Kuwait are necessary to improve the medium-term debt outlook (see DSA). Development and adoption

of a medium-term debt management strategy (MTDS) will guide the authorities in their future borrowing decisions.

Financial sector: Pushing for further deepening

24. **The banking system remains relatively stable.** Mauritanian banks have large liquidity cushions and are adequately capitalized. Their profitability, while weak, has not been significantly affected by the decline in T-bill yields last year. The main concern is weak asset quality, although risks are somewhat mitigated by high provisions, particularly for legacy loans, which account for the bulk of nonperforming loans.

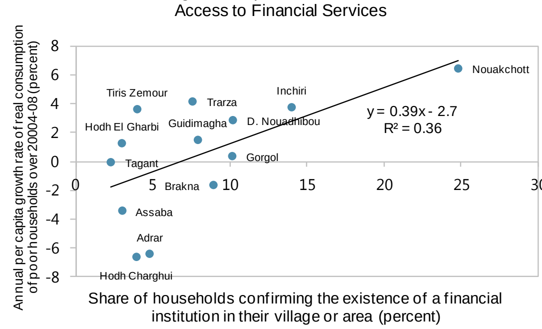
Mauritania: Key Banking Sector Indicators, 2009–11
(In percent)

	2009	2010	2011 Est.
Liquid assets / short-term liabilities 1/	54.0	53.2	51.7
Loans 360+ days in arrears / gross loans 2/	27.7	28.7	28.7
Provisions / loans 360+ days in arrears	85.2	87.7	90.7
Capital adequacy ratio	38.2	34.0	35.3
Return on assets	1.4	0.4	1.2
Return on equity	8.5	2.7	6.0

Sources: Central Bank of Mauritania; and Fund staff estimates.
1/ Liquid assets: cash, reserves, and treasury bills.
2/ A subset of nonperforming loans which have not seen payments of due interest or principal for 360 days or more.

25. **The authorities view the financial sector as a fundamental driver of growth.** They recently finalized a comprehensive financial sector strategy, which includes a well-sequenced reform plan. In line with the plan's strategic priorities, the authorities are continuing to focus on enhancing banking system stability (LOI, ¶16) by strengthening banking supervision, establishing higher bank capital requirements, and overhauling the regulatory framework. The mission also emphasized the need to closely monitor the risk profile of the banking sector, which may change significantly in response to the decline in T-bill yields and the possible entry of two new banks. It also encouraged the authorities to carefully monitor banks' compliance with prudential standards. Special attention should be paid to banks' FX positions, concentration risk, and related-party exposures—all risks that may rise markedly if local banks get involved in financing the new airport.

Mauritania: Regional Disparities in Pro-Poor Growth and Access to Financial Services

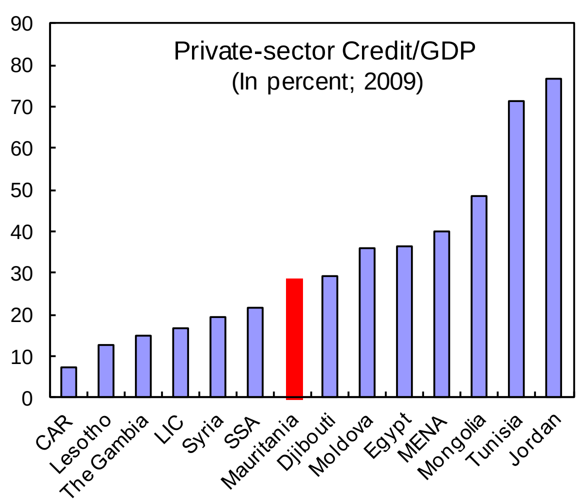


Source: Fund estimates based on 2004 and 2008 household surveys.

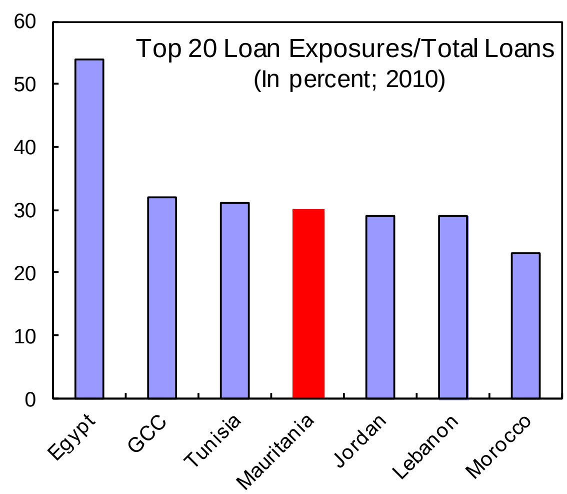
26. **Deepening financial intermediation in Mauritania is necessary to enable private-sector growth and increase the traction of monetary policy.** While calculations by the World Bank

(see SIP) show that Mauritania's private-sector credit as a share of GDP is above its structural benchmark, the level remains below the regional average. Moreover, high concentration risks in banks' loan portfolios and widespread related-party lending imply that banks only finance a limited number of economic activities and actors. Such business strategies limit people's access to banking services, a key ingredient for inclusive growth, and reduce the effectiveness of monetary policy (see SIP). To encourage banks to develop commercial relationships with a larger and more diversified customer base, the authorities agreed that the priorities are to:

- boost the potential for credit-worthy demand through more formalization of economic activity (other factors such as growth in real economic activity would also need to be present to make this channel effective);
- reinforce the supply of credit through more effective implementation of concentration and connected lending regulations; and
- improve the institutional infrastructure, notably the interbank market and creditor rights.



Source: World Bank (FinStat 2012).



Sources: Standard & Poor's (2010), Central Bank of Mauritania; and IMF staff calculations.

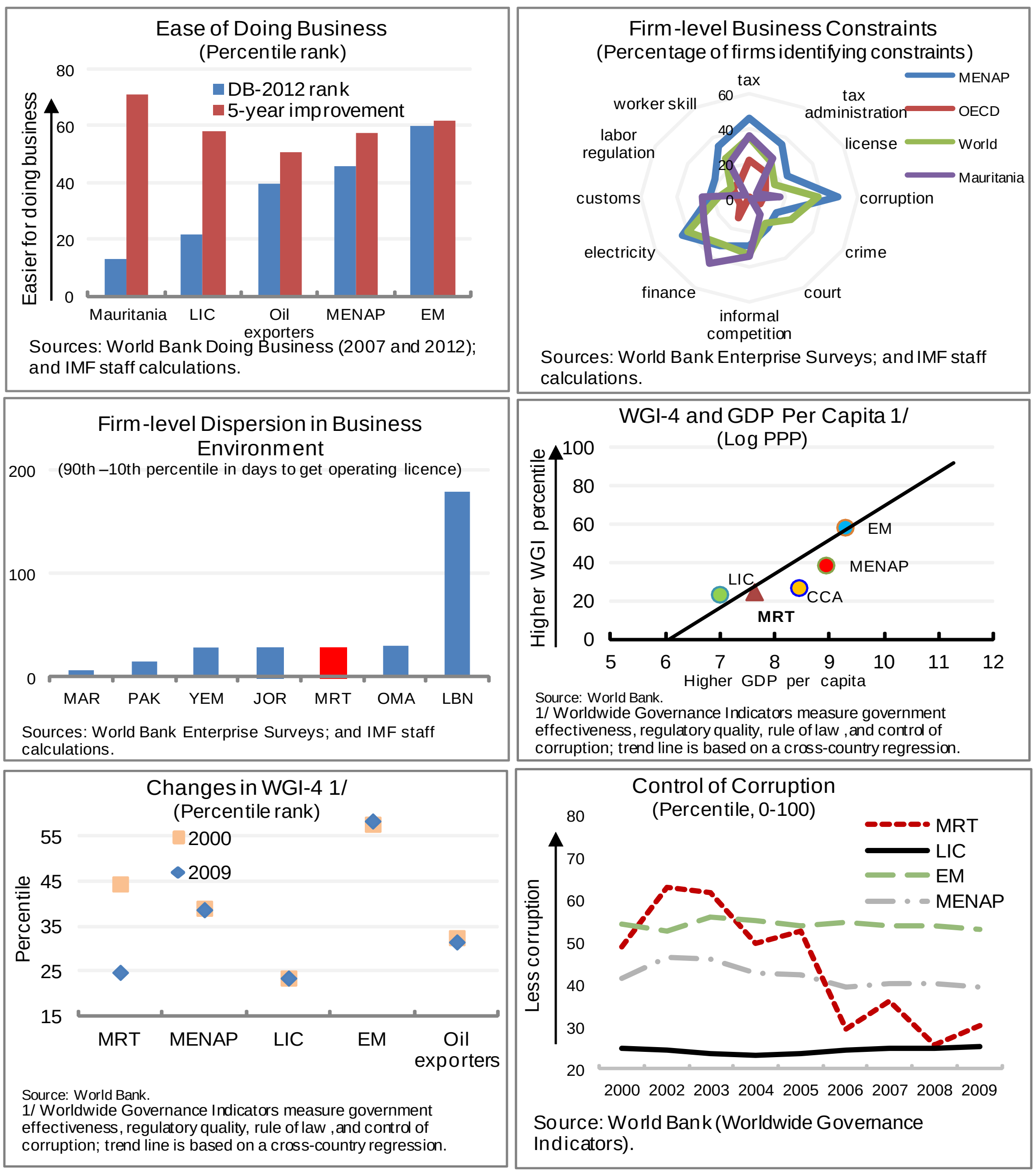
Structural reforms: Improving the weak business environment to boost private-sector growth and diversify the economy

27. **Structural impediments inhibit Mauritania's growth over the medium term.** Mauritania's concentrated export sector and underdeveloped manufacturing base limit spillovers to more labor-intensive sectors. Moreover, businesses report that corruption, regulatory quality, access to finance, costs of cross-border trading, and weak infrastructure and logistic systems all hamper private-sector performance (Box 5). Businesses have also regularly complained about the inadequacy of labor skills and rigid employment regulations.

Box 5. Business Environment and Governance

Mauritanian companies face severe bottlenecks when conducting business, particularly in accessing credit and dealing with customs administration. However, new streamlined procedures for obtaining operating licenses and recent reforms in tax administration and in construction regulations have helped lift Mauritania's ranking over the past five years (though from a very low initial level). The Mauritanian press can operate relatively freely according to the 2011 Press Freedom Index compiled by Reporters Without Borders. While other governance indicators are in line with income levels, Mauritania is one of the few countries that have experienced a deterioration in the quality of governance; particularly in the enterprise survey indicator that measures perceived corruption, which has worsened over the 2000–09 period, although it improved slightly in 2009.

Mauritania: Business Environment and Governance



28. **The authorities are taking a number of steps to enhance the investment climate.** These involve the implementation of the new investment code and the establishment of a one-stop shop for business registration. Moreover, while the mission welcomed the tax administration's collection efforts, it stressed the need to preserve taxpayers' rights to ensure that firms' ability to function is not hampered. To that end, the authorities agreed (LOI, ¶24–25) to modernize the appeal procedure, strengthen communications with the private sector, and repay regularly tax credits due (including VAT refunds for mining companies). The mission welcomed government steps to tackle corruption (LOI,¶38), but urged more action on the governance front, particularly in (i) quickly drawing up and implementing the action plan of their recently adopted anti-corruption strategy; and (ii) systematically applying the new procurement code procedures to all public projects.

29. **Additional labor market policies are necessary to create a sufficient number of employment opportunities.** Rapid population growth and a relatively weak education system make it difficult to absorb all new labor market entrants, thus keeping unemployment high (Annex IV). The authorities recognized the challenges in the labor market but underscored the importance of several initiatives underway: (i) a strategy that addresses the skill mismatch in the labor market; (ii) new professional programs for the young and unemployed; (iii) new investments and projects in the agricultural and fisheries sectors; and (iv) new microfinance programs. Staff emphasized that addressing high unemployment and poverty will require a more comprehensive reform strategy for the agricultural sector, given its potential as an employment generator in Mauritania. A more depreciated exchange rate could accompany agricultural reform to give greater incentives to domestic food processing businesses that substitute basic food imports.

IV. Program Implementation and Design

30. **Program implementation has been strong.** All relevant performance criteria for end-December 2011 were met by a relatively large margin except for one continuous performance criterion (LOI, Table 1). The continuous criterion on non concessional external debt was not observed because of a three-week delay in parliamentary approval of a nonconcessional loan that was programmed to take place in 2011. Staff supports the granting of a waiver as it considers the delay a minor deviation, which has no bearing on debt sustainability. Most of the authorities' ambitious structural reform agenda is progressing well, although benchmarks up to March 2012 on public enterprise audits, external debt strategy, and International Financial Reporting Standards (IFRS) quantification were missed, partly because of delays in procurement and administrative procedures. (LOI, ¶2 and Tables 2a and 2b).

31. **Program design and monitoring remain broadly unchanged.** However, the authorities are proposing to revise downward the end-June performance criteria for NIR accumulation by $33.5 million and increase the target for NDA by UM17 billion to account for higher reserve buffer stocks in 2011, allow for lower metals prices in 2012, and

accommodate the rebound in economic activity (LOI, ¶41 and Table 1). The end-June fiscal target will be revised upwards to account for higher mining revenues in Q2 2012. New quantitative targets for end-2012 are set in the attached LOI (Table 1). Structural benchmarks continue to focus on the following macro-critical areas: public financial management, subsidy reform, banking supervision, and CBM transparency and accountability (LOI, Table 2b).

32. **Capacity to repay and safeguards assessment.** Mauritania's capacity to repay the Fund is adequate (Table 7). The move toward IFRS adoption has recently stalled but is expected to accelerate once the exercise of quantification of differences between the IFRS and Mauritanian standards in CBM's 2011 financial statements has been completed. The CBM is making some progress in removing the qualifications expressed in the 2010 audit opinion regarding public-sector debt owed to the central bank. Meanwhile, the CBM's accounts and program targets will continue to be audited by an international firm, a key recommendation of the 2010 safeguards assessment update.

33. **Data provision.** It is broadly adequate for surveillance purposes, but data gaps, linked to capacity constraints, still encompass many areas, including national accounts, balance of payments and social and labor markets indicators. A plethora of new surveys (including a replacement for the outdated CPI index and on employment), as well as additional Fund and World Bank technical assistance, will help strengthen data quality (LOI, ¶39).

V. Staff Appraisal

34. **Mauritania's macroeconomic performance has been robust, but the outlook is subject to significant external risks.** Economic activity has been resilient, with the commodity price boom of the past two years and prudent policies more than offsetting a severe drought and high international food and fuel prices. The outlook for 2012 and beyond is encouraging, but remains highly vulnerable to shocks in external demand, metals prices, and donor support. Moreover, the persistence of high levels of poverty and unemployment is a clear warning sign that the country's productive and export bases need to become broader.

35. **Prudent monetary policy supported by a flexible exchange rate will be key to containing inflation.** Staff welcomes the CBM's intention to guard against inflationary pressures. The use of a new short-term monetary policy instrument will allow the CBM to absorb excess liquidity, thereby reducing macroeconomic risks. Staff estimates the exchange rate to be modestly overvalued, and the flexible exchange rate that has served Mauritania well should be maintained and used to resist any bias against depreciation.

36. **The government's fiscal consolidation strategy appropriately addresses long-standing vulnerabilities.** In the near term, a modest loosening of the fiscal stance in 2012 is appropriate, although relief expenditures will need to be quickly phased out once the drought emergency lapses. Moreover, financing additional expenditures through volatile mining

revenues is not sustainable, and fiscal policy over the medium term should be delinked from fluctuations in international commodity prices, notably through the envisaged creation of a new mining fund. The ongoing subsidy reform, accompanied by the expansion of well-targeted social safety nets, as well as greater revenue mobilization, will generate the needed fiscal space. Options to increase revenues from the resource-extractive industries should be explored, although any renegotiation of existing contracts should be balanced so as to protect Mauritania as a destination for foreign investors.

37. **Concessional financing and debt relief are critical for preserving debt sustainability.** Reaching agreement on outstanding debt relief is necessary to further reduce Mauritania's vulnerability to external shocks. The drawing up of a medium-term debt strategy will guide the authorities' future borrowing decisions. Care should be taken to guard against any potential contingent liabilities or macroeconomic risks that could emanate from large private infrastructure projects.

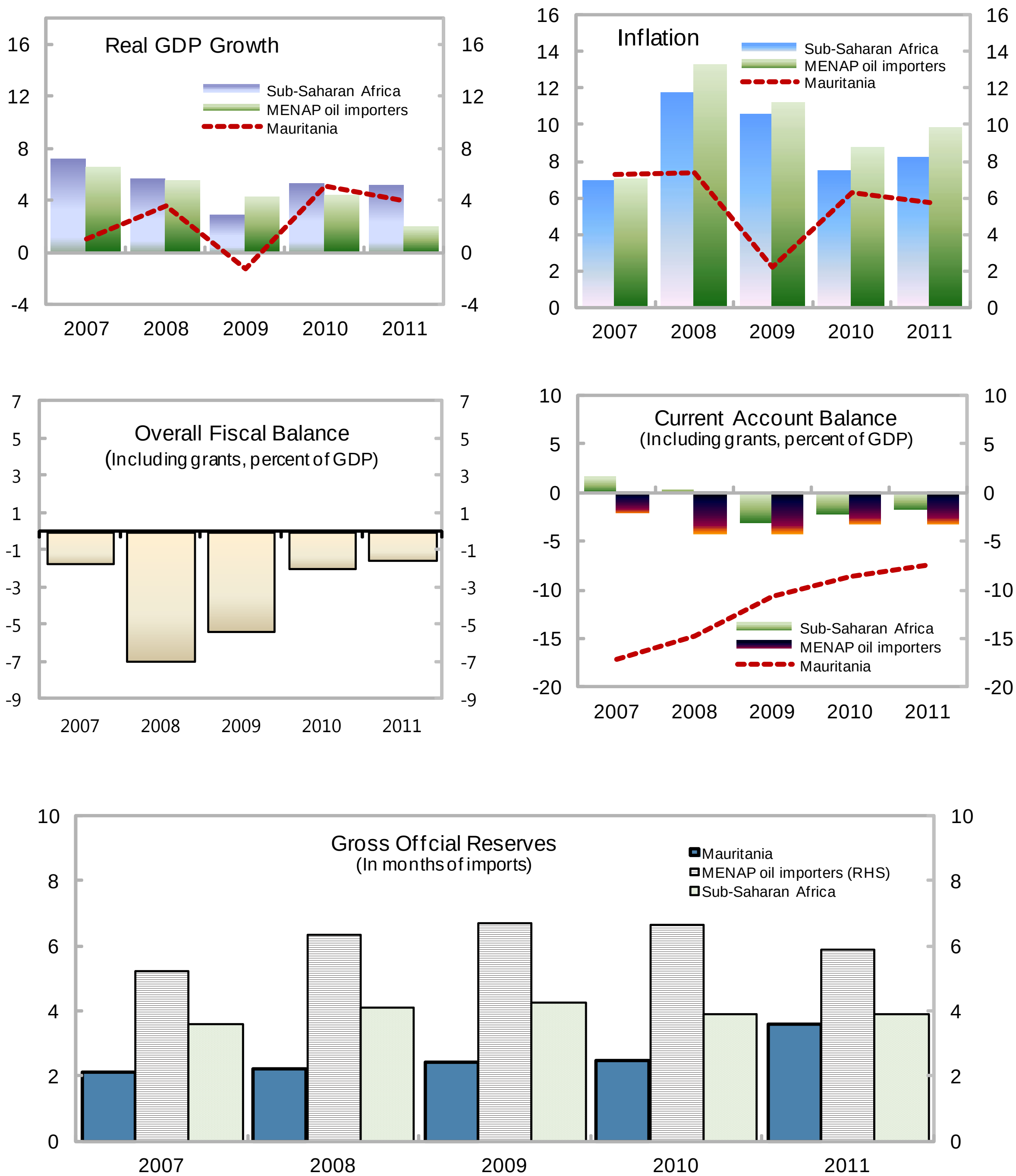
38. **Mauritania's banking system has been stable, but financial intermediation needs to deepen to make growth more inclusive.** Staff is encouraged by the authorities' ongoing efforts to strengthen bank supervision, which is crucial at a juncture where banks' risk profile may evolve rapidly. Strictly applying recently improved regulations on connected lending and concentration risk, encouraging potential borrowers to move into the formal economy, and enhancing better creditor rights will help make growth more inclusive by giving people access to financial services. In addition, these reforms will contribute to strengthening the monetary policy transmission mechanism.

39. **Structural reforms will be essential to raise private-sector growth, boost job creation, and diversify the economy.** The implementation of the new investment code and the establishment of a one-stop shop are welcome. Bolder and deeper reforms are needed to preserve taxpayers' rights, increase employment in the agricultural sector, and diversify the economy with the emergence of a domestic industrial base. The authorities' full compliance with EITI is a welcome step in strengthening governance and transparency, but implementation of the anti-corruption strategy should be pursued vigorously and the new procurement code should be consistently applied to all public projects.

40. **Based on the strong performance under the program, staff recommends completion of the fourth review under the ECF arrangement.** It also recommends approval of the request for modification of the end-June 2012 performance criteria, a waiver for the nonobservance of the continuous performance criterion on nonconcessional external debt and the establishment of new performance criteria for end-December 2012.

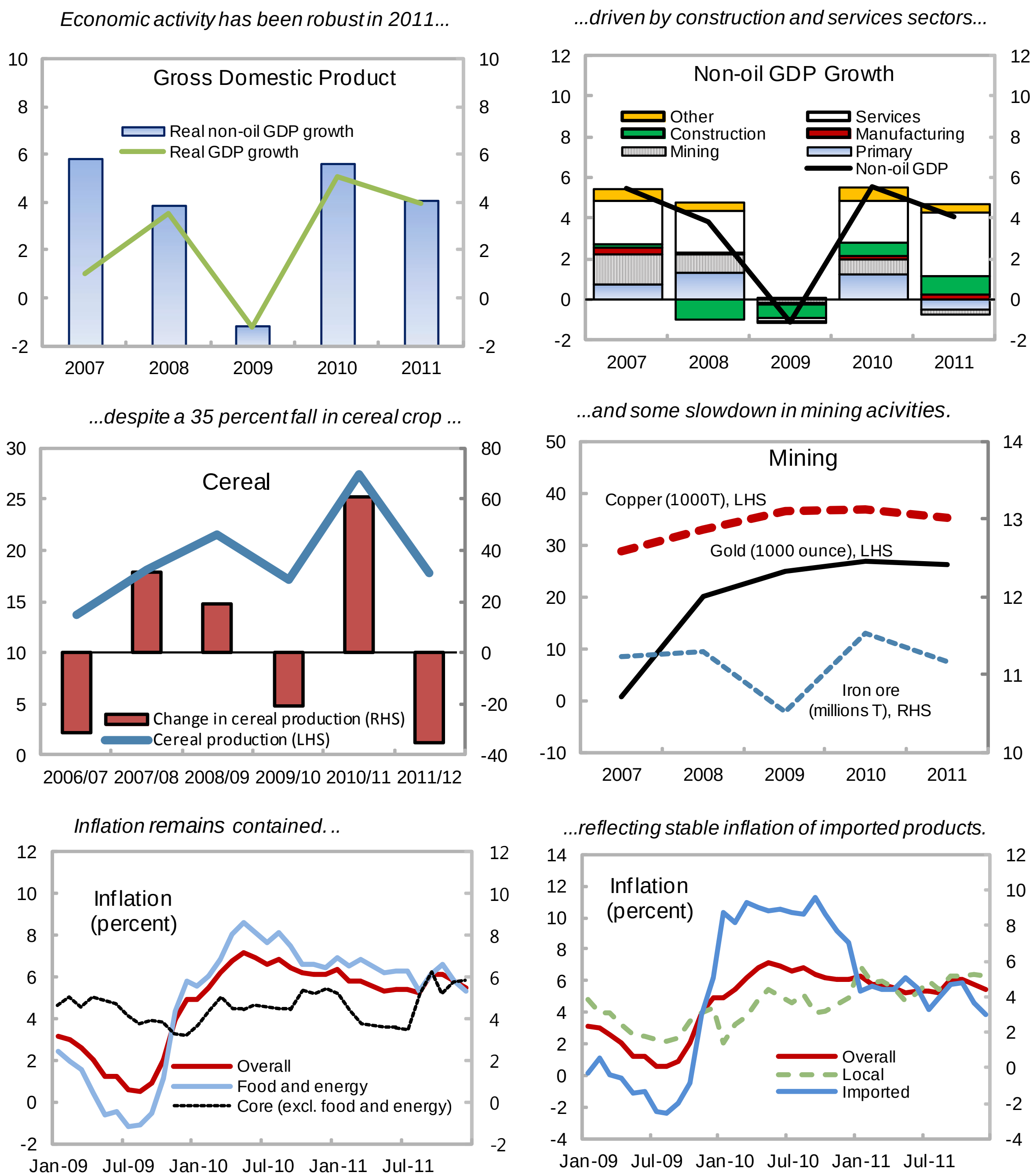
41. It is proposed that the next Article IV consultation be held within 24 months, in accordance with the decision on consultation cycles, Decision No. 14747–(10/96) (9/28/2010).

Figure 1. Mauritania: Recent Economic Developments, 2007–11
(Percent, unless otherwise indicated)



Sources: Mauritanian authorities; and Fund staff estimates.

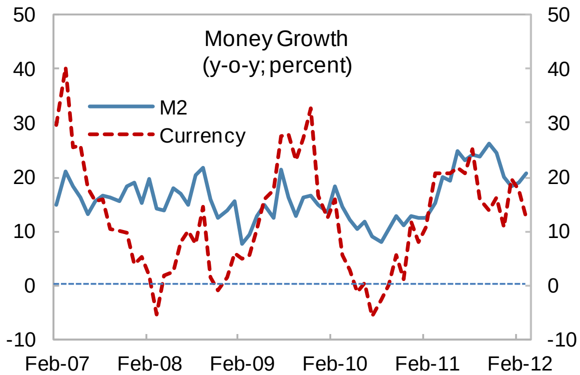
Figure 2. Mauritania: Real Sector Developments, 2007–11



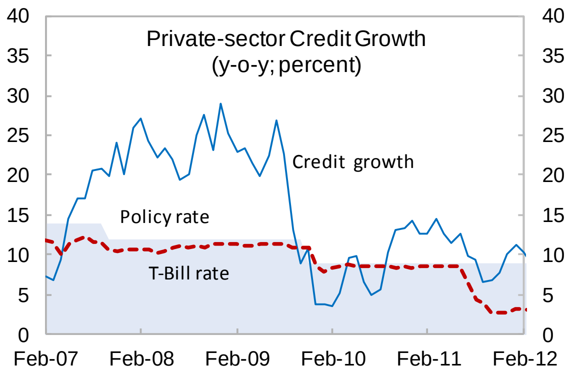
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 3. Mauritania: Selected Monetary and Financial Sector Indicators, 2007–12

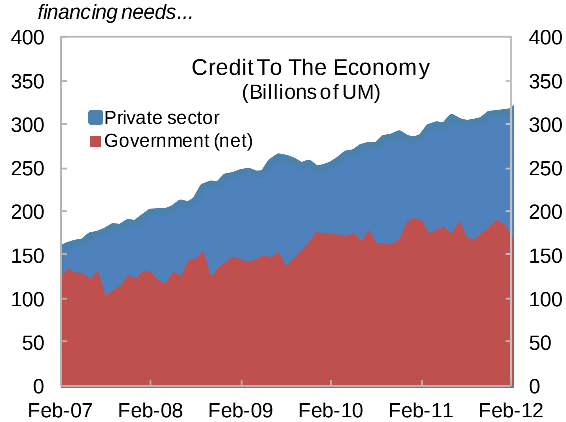
Broad money growth picked up strongly in 2011, reflecting unsterilized reserve accumulation of the central bank...



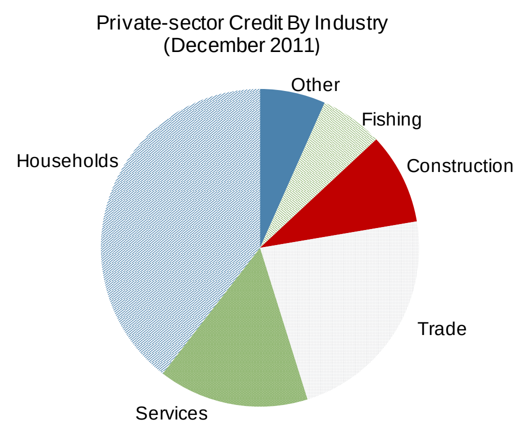
...while credit to the private sector stayed relatively subdued.



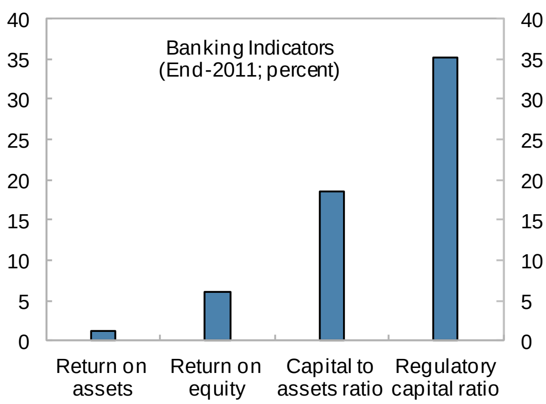
Government borrowing has stayed flat over 2011 as additional mining revenue reduced the Treasury's financing needs...



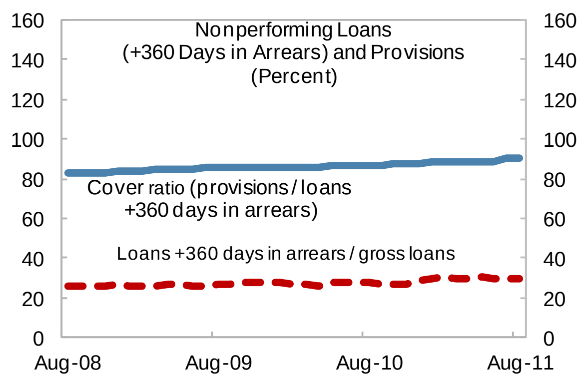
....mirrored by slowing activity in the most important segment of private-sector borrowing, short-term consumer loans to households.



Banks are relatively well capitalized, but profitability is weak...

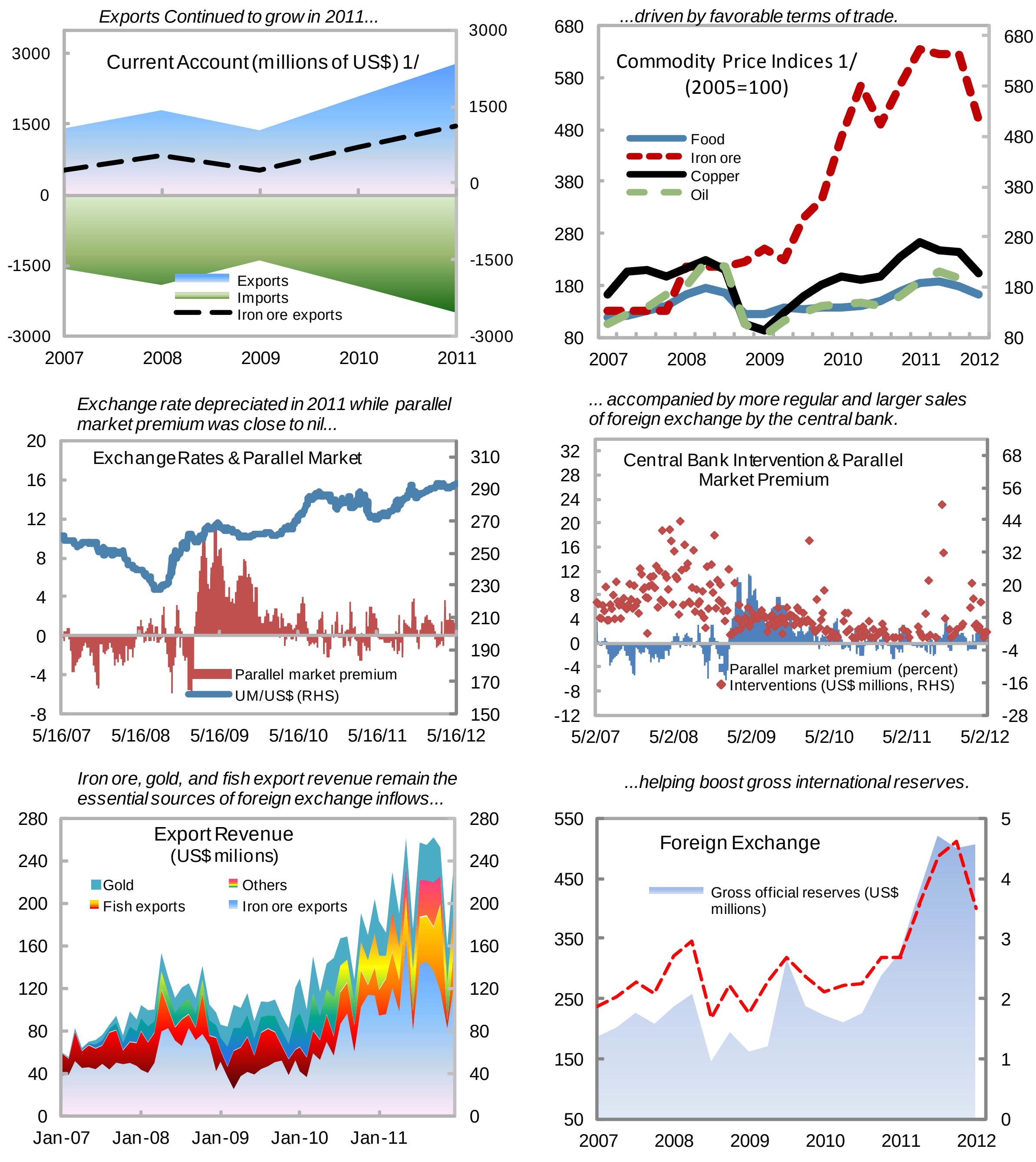


...due to ongoing problems with asset quality, which require high provisions.



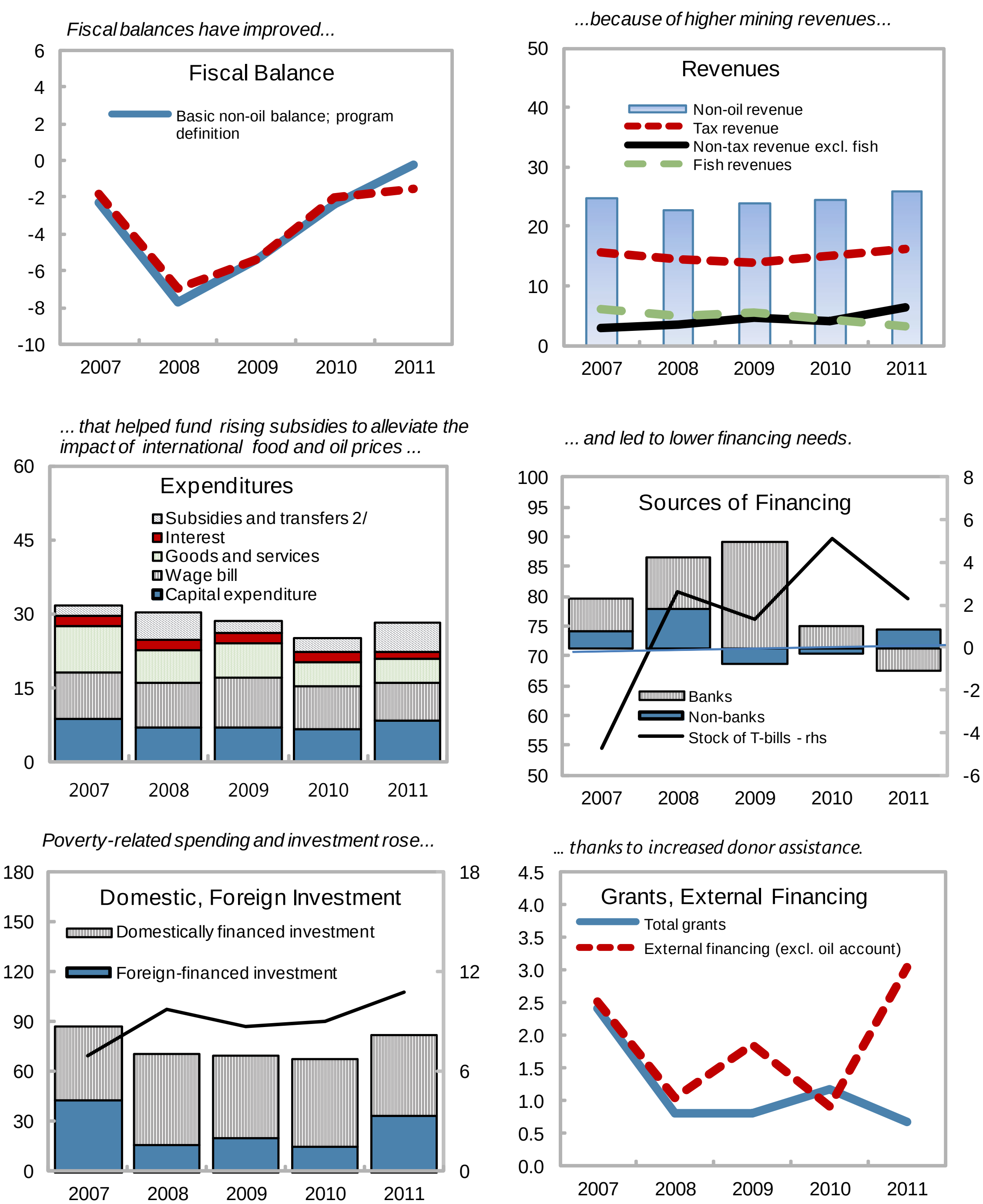
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 4. Mauritania: External Sector, 2007–12



Sources: Mauritanian authorities; and Fund staff estimates.
1/ Updated to first quarter of 2012.

Figure 5. Mauritania: Fiscal Sector Developments, 2007–11
(Percent of non-oil GDP, unless otherwise indicated



Sources: Mauritanian authorities; and Fund staff estimates.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2009–12
(Quota: SDR 64.4 million)
(Population: 3.46 million; 2010)
(Per capita GDP: $1,247; 2011)
(Poverty rate: 42 percent; 2008)
(Main exports: Iron ore, gold, fish; 2010)

	2009	2010	2011 Est.	2012 EBS/11/168	2012 Proj.
	(Percent; unless otherwise indicated)				
National income and prices (y-o-y growth)					
GDP at constant prices	-1.2	5.1	4.0	5.5	5.7
Non-oil GDP at constant prices	-1.1	5.6	4.1	5.6	5.7
GDP excl. extractive industries at constant prices	-1.1	5.6	4.9	5.0	6.1
GDP deflator	-5.9	21.8	12.1	5.5	-0.9
GDP excl. extractive industries deflator	1.0	6.6	2.2	4.2	4.4
Consumer price index (period average)	2.2	6.3	5.7	6.8	5.9
Consumer price index (end of period)	5.0	6.1	5.5	6.8	6.0
External sector					
Value growth of exports of goods, f.o.b.	-23.7	52.0	33.4	6.2	0.8
Value growth of imports of goods, f.o.b.	-27.2	39.1	28.9	7.8	16.6
Current account balance (in percent of GDP)	-10.7	-8.6	-7.4	-7.2	-19.5
Gross official reserves 1/					
In millions of U.S. dollars, end of period	238.5	287.8	501.6	513.8	523.5
In months of following year's imports excluding extractive industrie	2.4	2.5	3.6	4.2	3.8
PPG external debt (percent of GDP) 2/	96.5	83.7	76.8	51.9	62.4
Money					
Money and quasi-money (percentage change)	14.9	12.9	19.9	13.2	13.0
Credit to the private sector (percentage change)	3.7	14.2	10.1	12.4	14.4
Investment and savings					
Gross investment (percentage of GDP)	24.6	24.0	32.6	33.2	37.1
Gross savings (percentage of GDP)	13.9	15.4	25.2	26.0	17.7
	(Percent of non-oil GDP; unless otherwise indicated)				
Consolidated government operations					
Revenue and grants	26.7	27.1	28.7	26.8	32.3
Non-oil revenue	24.1	24.6	26.0	24.4	29.4
Oil revenue	1.8	1.4	2.0	1.2	1.5
Expenditure and net lending	32.1	29.1	30.2	30.2	35.9
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-0.7	-0.9
Overall balance including grants	-5.4	-2.0	-1.5	-3.4	-3.5
Public sector debt (percent of GDP) 2/	106.1	92.8	83.5	59.5	70.0
Memorandum items:					
Nominal GDP (in billions of UM)	794.2	1016.6	1184.3	1324.1	1239.9
Nominal non-oil GDP (in billions of UM)	757.6	972.4	1130.1	1271.0	1180.6
Nominal GDP (in millions of U.S. dollars)	3031.2	3700.1	4217.0	4538.3	4177.9
Price of iron ore (US$/Ton)	80.0	146.7	167.8	169.5	136.4

Sources: Mauritanian authorities; and Fund staff estimates and projections.
1/ Excluding the oil account.
2/ HIPC debt relief from Kuwait was initially programmed in 2011 and is now expected to take place in 2012.
3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 2. Mauritania: Balance of Payments, 2009–12

(In millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
			Est.	EBS/11/168	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	-26.7	138.2	270.5	534.7	-122.5	-105.4	80.5	250.0	291.8	338.5
Exports	1364.2	2073.5	2765.7	3042.4	2787.9	2655.2	2658.4	2678.7	2801.4	2932.9
Of which: Iron ore	521.6	997.0	1470.6	1501.9	1236.5	1214.7	1169.1	1174.8	1239.3	1313.6
Imports, fob	-1390.9	-1935.3	-2495.2	-2507.7	-2910.4	-2760.6	-2577.9	-2428.6	-2509.5	-2594.4
Of which: Imports of extractive industries	-477.3	-852.6	-1207.7	-1104.9	-1258.9	-1063.0	-961.5	-727.7	-740.5	-750.2
Of which: Imports for airport construction	-	-	-	0.0	-80.0	-120.0	-	-	-	-
Services and income (net)	-427.1	-619.5	-700.8	-1023.9	-850.4	-814.2	-800.6	-767.5	-763.3	-763.6
Services (net)	-479.2	-550.9	-524.7	-695.1	-504.3	-516.8	-488.7	-440.8	-452.4	-467.4
Income (net)	52.1	-68.5	-176.1	-328.7	-346.0	-297.4	-311.9	-326.7	-310.9	-296.2
Credit	118.0	113.7	126.9	100.5	28.3	96.4	98.8	100.5	103.7	108.7
Of which: EU fishing compensation	107.5	97.8	104.3	67.2	0.0	65.8	65.6	65.3	65.0	64.6
Debit	-65.9	-182.2	-303.0	-429.3	-374.3	-393.9	-410.7	-427.2	-414.6	-404.9
Current transfers (net)	130.8	162.1	116.5	160.5	159.9	123.2	131.2	123.0	124.7	149.3
Private unrequited transfers (net)	66.4	59.3	31.5	47.3	46.0	46.9	47.3	49.7	52.2	54.8
Official transfers	64.4	102.8	85.0	113.3	114.0	76.3	83.9	73.3	72.5	94.5
Current account balance	-323.0	-319.1	-313.9	-328.6	-813.0	-796.4	-588.9	-394.4	-346.8	-275.8
Capital and financial account	205.8	455.9	581.6	362.6	1673.0	813.6	635.8	458.3	427.2	421.2
Capital account	0.0	209.0	0.0	0.0	869.1	0.0	0.0	0.0	0.0	0.0
Financial account	205.8	246.9	581.6	362.6	803.9	813.6	635.8	458.3	427.2	421.2
Direct investment (net)	-3.1	128.3	776.4	549.2	527.5	606.6	354.7	411.5	370.0	486.8
Official medium- and long-term loans	166.3	79.5	280.3	443.0	458.6	329.4	168.3	91.7	68.6	63.4
Disbursements	240.7	135.2	349.2	524.0	536.7	459.6	414.9	341.2	329.8	329.1
Amortization	-74.4	-55.6	-68.9	-81.0	-78.1	-130.2	-246.7	-249.5	-261.2	-265.7
Other financial flows	42.6	39.0	-475.1	-629.6	-182.2	-122.4	112.8	-44.9	-11.5	-129.1
Of which: Change in deposits held abroad by state-owned mining company	27.0	-135.0	-519.0	-534.0	-111.6	-73.6	36.9	-15.9	-53.7	-110.8
Errors and omissions	108.8	99.2	-21.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-8.4	235.9	246.1	33.9	860.0	17.2	46.9	64.0	80.4	145.4
Financing	8.4	-235.9	-246.1	-33.9	-860.0	-17.2	-46.9	-64.0	-80.4	-145.4
Net foreign assets	-24.2	-46.0	-213.2	-48.5	-4.1	-30.9	-69.8	-76.0	-76.0	-122.9
Central bank (net)	32.3	-40.8	-186.1	-43.5	0.9	-15.9	-49.8	-56.0	-56.0	-102.9
Commercial banks (net)	-56.5	-5.2	-27.2	-5.0	-5.0	-15.0	-20.0	-20.0	-20.0	-20.0
Oil account flow	12.8	-1.8	-47.4	0.0	0.0	0.0	9.4	-1.5	-17.9	-36.0
Exceptional financing 1/	19.7	-188.2	14.6	14.6	-855.9	13.8	13.5	13.6	13.5	13.5
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (in millions U.S. dollars)	3031.2	3700.1	4217.0	4538.3	4177.9	4490.9	4743.5	5046.6	5445.7	5902.0
Trade balance (in percent of GDP)	-0.9	3.7	6.4	11.8	-2.9	-2.3	1.7	5.0	5.4	5.7
Current account balance (in percent of GDP)	-10.7	-8.6	-7.4	-7.2	-19.5	-17.7	-12.4	-7.8	-6.4	-4.7
Gross official reserves										
In millions of U.S. dollars	238.5	287.8	501.6	513.8	523.5	547.4	587.0	633.4	679.6	772.8
In months of imports excluding extractive industries	2.4	2.5	3.6	4.2	3.8	4.2	4.3	4.4	4.5	4.8
Oil account	33.6	35.4	82.8	52.6	82.8	82.8	73.4	74.9	92.8	128.8

Sources: Mauritanian authorities; and Fund staff estimates and projections.

1/ MDRI debt and assumed arrears relief (including passive debt owed to Kuwait and Libya) is treated as a one-time stock operation.

Table 3. Mauritania: External Financing Requirements, 2009–13
(In millions of U.S. dollars)

	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Total Requirements	378	355	367	872	870
Current account deficit	323	319	314	813	796
Scheduled public debt amortization	55	36	54	59	73
Total Sources	378	355	367	872	870
Capital inflows	368	346	525	811	843
FDI, net	-3	128	776	527	607
Disbursements from official creditors (WB, AfDB, FADES)	193	131	127	239	231
Other flows 1/	178	87	-378	44	5
Of which: SNIM disbursements	27	0	168	262	209
Financing Items	41	60	104	83	50
IMF	0	35	35	34	17
France	0	4	33	35	20
Arab Monetary Fund	22	0	22	0	0
Exceptional financing 1/	20	21	15	13	14
Change in oil account (- increase)	13	-2	-47	0	0
Change in reserves (- increase)	-44	-49	-214	-22	-24
Residual financing gap	0	0	0	0	0
Memorandum item:					
Overall balance 1/	-8	27	246	-9	17

Sources: Mauritanian authorities; and Fund staff estimates and projections.
1/ Arrears to Kuwait are not included.

Table 4a. Mauritania: Central Government Operations, 2008–17
(In billions of ouguiya, unless otherwise indicated)

	2008	2009	2010	2011 Proj.	2012 EBS/11/168	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Non-oil revenue and grants	189.0	188.5	250.3	301.2	325.3	364.6	358.5	387.0	415.4	452.3	495.3
Non-oil revenue	182.5	182.4	238.7	293.5	310.8	347.5	343.4	372.3	402.5	439.6	482.8
Tax revenue	114.7	106.6	145.6	183.7	195.8	218.2	239.7	265.2	293.5	326.1	361.4
Nontax revenue	67.8	75.8	83.1	109.8	114.9	127.2	103.7	107.1	109.0	113.5	121.4
Exceptional revenue 1/	0.0	0.0	10.0	0.0 -		2.1	0.0	0.0	0.0	0.0	0.0
Total grants	6.5	6.1	11.6	7.7	14.5	17.1	15.2	14.7	12.9	12.7	12.5
Of which: Projects	4.0	3.7	0.6	6.7	10.0	10.0	9.8	9.7	9.7	9.5	9.3
Expenditure and net lending	262.0	242.9	282.9	341.4	383.9	423.6	414.7	434.8	453.9	476.9	504.4
Current expenditure	206.4	186.7	204.5	247.4	258.1	292.7	278.0	286.6	297.1	309.4	325.1
Compensation of employees	71.3	77.0	83.6	90.1	95.0	95.0	101.8	109.1	117.6	127.5	138.1
Goods and services	54.0	51.6	47.2	51.6	55.4	55.4	59.5	65.1	70.1	75.4	80.8
Subsidies and transfers 2/	42.8	20.3	27.0	65.4	65.4	102.1	74.8	72.1	69.9	68.3	69.7
Of which: Emergency program	11.0	0.0	0.0	8.4	23.2	33.3	0.0	0.0	0.0	0.0	0.0
Energy subsidies	8.0	6.4	0.0	19.1	16.0	29.4	22.9	17.6	14.7	13.1	12.5
Arrears repayments	0.0	0.0	0.0	9.8	7.2	11.2	9.7	8.2	5.0	3.0	3.0
Interest	16.5	16.2	19.4	18.4	20.4	20.6	20.1	19.7	19.7	19.3	18.5
External	5.8	5.1	7.5	8.4	9.3	9.4	9.6	10.0	10.2	10.5	10.7
Domestic	10.7	11.1	11.9	10.0	11.1	11.2	10.5	9.7	9.5	8.8	7.8
Special accounts and others 3/	6.8	4.9	12.6	11.0	11.2	8.9	11.0	11.0	11.0	11.0	11.0
Capital expenditure	55.6	51.8	65.1	91.8	125.5	128.5	136.6	148.1	156.8	167.4	179.2
Foreign-financed investment	12.0	14.9	13.7	37.1	55.5	55.5	58.0	60.9	59.9	58.7	57.5
Domestically financed investment	43.6	36.9	51.5	54.7	70.0	73.0	78.6	87.2	96.9	108.7	121.7
Restructuring and net lending	0.0	4.4	13.4	2.2	0.3	2.4	0.1	0.1	0.1	0.1	0.1
Common reserves	15.1	16.6	13.2	10.9	10.8	10.8	10.8	9.7	8.7	7.9	7.1
Basic non-oil balance; program definition 4/	-61.7	-40.5	-23.0	-2.4	-8.4	-11.2	-3.7	8.4	18.7	31.9	46.6
Non-oil balance excluding grants (deficit -)	-79.5	-60.5	-44.2	-47.9	-73.1	-76.1	-71.3	-62.5	-51.4	-37.2	-21.6
Non-oil balance including grants (deficit -)	-73.0	-54.4	-32.7	-40.2	-58.6	-59.0	-56.2	-47.8	-38.5	-24.6	-9.1
Net revenue from oil	17.4	13.7	13.5	22.9	15.3	17.3	17.0	16.2	15.6	15.2	14.1
Overall balance including grants (deficit -)	-55.6	-40.7	-19.2	-17.3	-43.3	-41.7	-39.2	-31.5	-22.9	-9.4	5.0
Financing	55.8	42.5	20.4	20.6	43.3	41.7	39.2	31.5	22.9	9.4	-5.0
Domestic financing	44.3	25.0	12.0	-0.6	5.4	-8.3	-3.0	-9.6	-13.9	-20.3	-27.3
Banking system	19.2	37.7	10.1	-12.4	-0.1	-2.4	-1.2	-14.1	-4.8	-6.0	-12.0
BCM	20.0	20.4	-5.7	8.5	-2.5	0.6	-2.2	-7.0	-2.5	-4.0	-6.0
Commercial banks	12.5	3.0	15.8	-20.9	4.5	-3.0	1.0	-7.1	-2.3	-2.0	-6.0
Nonbanks	14.8	-5.9	-2.5	9.8	6.2	-3.1	1.0	7.3	-4.6	-9.8	-10.8
Privatization and other	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-4.4	-4.4	-4.4
Domestic arrears	-1.8	0.3	7.2	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	11.6	17.5	8.4	21.2	38.0	50.1	42.2	41.1	36.7	29.7	22.3
Oil account (net)	3.3	3.4	-0.5	-13.3	0.0	0.0	0.0	3.0	-0.5	-6.0	-12.3
Net revenue from oil (net)	-17.4	-13.7	-13.5	-22.9	-15.3	-17.3	-17.0	-16.2	-15.6	-15.2	-14.1
Oil account contribution to the budget	20.7	17.1	13.0	9.6	15.3	17.3	17.0	19.2	15.1	9.2	1.8
Other (net)	8.3	14.2	8.9	34.5	38.0	50.1	42.2	38.1	37.2	35.7	34.6
Net borrowing (net)	1.9	9.0	3.2	30.4	33.7	46.1	38.0	33.9	32.8	31.2	29.9
Exceptional financing	6.4	5.2	5.7	4.1	4.3	4.0	4.2	4.3	4.4	4.5	4.6
Errors and ommissions	0.3	1.8	1.2	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Mauritanian authorities; and Fund staff estimates and projections.

1/ Tax arrears from the public electricity company.

2/ Including transfers to public entities outside the central government. For 2012, it also includes payments arrears to hydrocarbon companies and SOMELEC.

3/ These include the development fund (FAID).

4/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 4b. Mauritania: Central Government Operations, 2008–17
(In percent of non-oil GDP, unless otherwise indicated)

	2008	2009	2010	2011 Proj.	2012 EBS/11/168	2012 Proj.	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Non-oil revenue and grants	23.7	24.9	25.7	26.7	25.6	30.9	27.1	26.6	26.0	25.5	25.1
Non-oil revenue	22.9	24.1	24.6	26.0	24.4	29.4	25.9	25.6	25.2	24.7	24.5
Tax revenue	14.4	14.1	15.0	16.3	15.4	18.5	18.1	18.2	18.4	18.4	18.3
Nontax revenue	8.5	10.0	8.5	9.7	9.0	10.8	7.8	7.4	6.8	6.4	6.2
Exceptional revenue 1/	0.0	0.0	1.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Total grants	0.8	0.8	1.2	0.7	1.1	1.4	1.1	1.0	0.8	0.7	0.6
Of which: Projects	0.5	0.5	0.1	0.6	0.8	0.8	0.7	0.7	0.6	0.5	0.5
Expenditure and net lending	32.9	32.1	29.1	30.2	30.2	35.9	31.3	29.9	28.4	26.8	25.6
Current expenditure	25.9	24.6	21.0	21.9	20.3	24.8	21.0	19.7	18.6	17.4	16.5
Compensation of employees	8.9	10.2	8.6	8.0	7.5	8.0	7.7	7.5	7.4	7.2	7.0
Goods and services	6.8	6.8	4.9	4.6	4.4	4.7	4.5	4.5	4.4	4.2	4.1
Subsidies and transfers 2/	5.4	2.7	2.8	5.8	5.1	8.6	5.7	5.0	4.4	3.8	3.5
Of which: Emergency program	1.4	0.0	0.0	0.7	1.8	2.8	0.0	0.0	0.0	0.0	0.0
Energy subsidies	1.0	0.8	0.0	1.7	1.3	2.5	1.7	1.2	0.9	0.7	0.6
Arrears repayments	0.0	0.0	0.0	0.9	0.6	0.9	0.7	0.6	0.3	0.2	0.2
Interest	2.1	2.1	2.0	1.6	1.6	1.7	1.5	1.4	1.2	1.1	0.9
External	0.7	0.7	0.8	0.7	0.7	0.8	0.7	0.7	0.6	0.6	0.5
Domestic	1.3	1.5	1.2	0.9	0.9	0.9	0.8	0.7	0.6	0.5	0.4
Special accounts and others 3/	0.9	0.7	1.3	1.0	0.9	0.8	0.8	0.8	0.7	0.6	0.6
Capital expenditure	7.0	6.8	6.7	8.1	9.9	10.9	10.3	10.2	9.8	9.4	9.1
Foreign-financed investment	1.5	2.0	1.4	3.3	4.4	4.7	4.4	4.2	3.7	3.3	2.9
Domestically financed investment	5.5	4.9	5.3	4.8	5.5	6.2	5.9	6.0	6.1	6.1	6.2
Restructuring and net lending	0.0	0.6	1.4	0.2	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Common reserves	1.9	2.2	1.4	1.0	0.8	0.9	0.8	0.7	0.5	0.4	0.4
Basic non-oil balance; program definition 4/	-7.7	-5.3	-2.4	-0.2	-0.7	-0.9	-0.3	0.6	1.2	1.8	2.4
Non-oil balance excluding grants (deficit -)	-10.0	-8.0	-4.5	-4.2	-5.8	-6.4	-5.4	-4.3	-3.2	-2.1	-1.1
Non-oil balance including grants (deficit -)	-9.2	-7.2	-3.4	-3.6	-4.6	-5.0	-4.2	-3.3	-2.4	-1.4	-0.5
Net revenue from oil	2.2	1.8	1.4	2.0	1.2	1.5	1.3	1.1	1.0	0.9	0.7
Overall balance including grants (deficit -)	-7.0	-5.4	-2.0	-1.5	-3.4	-3.5	-3.0	-2.2	-1.4	-0.5	0.3
Financing	7.0	5.6	2.1	1.8	3.4	3.5	3.0	2.2	1.4	0.5	-0.3
Domestic financing	5.6	3.3	1.2	-0.1	0.4	-0.7	-0.2	-0.7	-0.9	-1.1	-1.4
Banking system	2.4	5.0	1.0	-1.1	0.0	-0.2	-0.1	-1.0	-0.3	-0.3	-0.6
BCM	2.5	2.7	-0.6	0.7	-0.2	0.1	-0.2	-0.5	-0.2	-0.2	-0.3
Commercial banks	1.6	0.4	1.6	-1.8	0.4	-0.3	0.1	-0.5	-0.1	-0.1	-0.3
Nonbanks	1.9	-0.8	-0.3	0.9	0.5	-0.3	0.1	0.5	-0.3	-0.6	-0.5
Privatization and other	-0.4	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2	-0.3	-0.2	-0.2
Domestic arrears	-0.2	0.0	0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	1.4	2.3	0.9	1.9	3.0	4.2	3.2	2.8	2.3	1.7	1.1
Oil account (net)	0.4	0.4	0.0	-1.2	0.0	0.0	0.0	0.2	0.0	-0.3	-0.6
Net revenue from oil (net)	-2.2	-1.8	-1.4	-2.0	-1.2	-1.5	-1.3	-1.1	-1.0	-0.9	-0.7
Oil account contribution to the budget	2.6	2.3	1.3	0.8	1.2	1.5	1.3	1.3	0.9	0.5	0.1
Other (net)	1.0	1.9	0.9	3.1	3.0	4.2	3.2	2.6	2.3	2.0	1.8
Net borrowing (net)	0.2	1.2	0.3	2.7	2.7	3.9	2.9	2.3	2.1	1.8	1.5
Exceptional financing	0.8	0.7	0.6	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.2
Errors and ommissions	0.0	0.2	0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Non-oil GDP (in billion of ouguiya)	796.8	757.6	972.4	1130.1	1271.0	1180.6	1323.8	1453.5	1599.3	1776.4	1970.0
Total revenue	25.1	25.9	25.9	28.0	25.7	30.9	27.2	26.7	26.1	25.6	25.2
Revenue excluding extractive industries	25.0	24.6	26.8	28.3	26.2	28.7	28.8	28.4	28.0	27.6	27.3
Tax Revenue excluding extractive industries	15.9	15.3	17.2	18.6	18.8	22.1	21.8	22.0	22.0	22.1	22.2
Overall balance excluding revenues from extractive industries and foreign-financed investment 5/	-15.0	-12.0	-11.4	-13.7	-12.6	-15.3	-9.4	-7.6	-6.1	-4.9	-4.1
Oil fund balance (in billion of ouguiya)	11.7	8.8	9.7	23.3	15.3	24.6	25.5	23.3	24.5	31.1	44.0

Sources: Mauritanian authorities; and Fund staff estimates and projections.

1/ Tax arrears from national electricity company.

2/ Including transfers to public entities outside the central government.

3/ These include the development fund (FAID).

4/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

5/ In percent of GDP excluding extractive industries.

Table 5. Mauritania: Monetary Situation, 2008–12

(In billions of ouguiyas at end-of-period exchange rates, unless otherwise indicated)

	2008	2009	2010	2011	2012	2012
				Est.	EBS/11/168	Proj.
Monetary survey						
Net foreign assets	-9.5	-3.3	9.4	70.8	67.9	76.8
Net domestic assets	250.1	279.9	302.7	303.3	350.2	349.2
Net domestic credit	381.5	424.2	470.9	502.2	538.4	547.9
Net credit to the government	141.7	175.5	186.8	189.4	183.0	190.0
Credit to the economy	239.8	248.7	284.1	312.9	355.4	357.9
Other items net	-131.4	-144.4	-168.2	-198.9	-188.1	-198.7
Broad money	240.6	276.5	312.1	374.2	418.1	423.0
Monetary authorities						
Net foreign assets	10.1	1.6	13.3	67.1	65.1	71.1
Net domestic assets	100.5	124.3	113.6	110.8	97.7	122.0
Net domestic credit	115.3	146.2	141.1	163.9	132.1	161.9
Net credit to the government	95.6	127.1	122.3	144.9	113.3	142.5
Other items net	-14.8	-21.9	-27.5	-53.1	-34.3	-39.9
Reserve money	110.6	125.9	126.9	178.0	162.9	193.2
Currency in circulation	70.0	81.6	91.3	100.9	119.4	117.7
Reserves of banks	40.6	44.3	35.6	77.1	43.5	75.5
Of which: Banks deposits in FX	10.0	14.0	8.1	8.6	9.7	12.0
Commercial banks						
Net foreign assets	-19.6	-5.0	-3.9	3.7	2.7	5.6
Net domestic credit	269.6	280.7	334.0	342.6	410.5	385.8
Net credit to the government	46.1	48.5	64.5	44.5	69.7	44.5
Credit to the private sector	223.4	232.3	269.5	298.1	340.8	341.3
Other items net	-116.7	-122.5	-140.7	-145.8	-153.8	-158.8
Memorandum items:						
Velocity of broad money	3.3	2.7	3.1	3.0	3.0	2.8
Velocity of broad money (GDP excluding extractive industries)	2.5	2.2	2.2	2.0	2.0	1.9
Credit to the private sector (percent of non-oil GDP)	28.0	30.7	27.7	26.4	26.8	28.9
Net foreign assets of banks (in millions of U.S. dollars)	-74.8	-18.9	-13.8	13.4	9.3	18.4

Sources: Mauritanian authorities; and Fund staff estimates and projections.

Table 6. Mauritania: Banking System at a Glance, 2008–11

(Percent, unless otherwise indicated)

	2008	2009	2010	2011 Est.
Balance sheet				
Assets / GDP	36.0	42.7	36.6	37.9
Net private-sector credit / total assets	56.6	51.1	53.2	48.2
Public enterprise credit / total assets	15.0	13.1	13.0	-
Government securities / total assets	17.2	16.0	18.8	11.1
Private-sector credit growth (y-o-y)	23.6	4.0	16.0	10.6
Loans 360+ days in arrears / gross loans	26.4	27.7	28.7	28.7
Provisions / loans 360+ days in arrears	84.1	85.2	87.7	90.7
Uncovered loans 360+ days in arrears / gross loans	4.2	4.1	3.5	2.7
Deposits / total assets	55.5	57.4	59.3	60.9
Private-sector gross loans / private-sector deposits	127.4	115.3	118.4	105.9
Capital ratios				
Capital / total assets	16.9	17.9	18.2	19.8
Capital adequacy ratio	33.0	38.2	34.0	35.3
Foreign exchange exposure				
Fx assets / total assets	9.3	13.9	10.5	10.5
Fx assets / fx liabilities (on balance sheet)	75.0	123.7	112.1	135.2
Profitability and liquidity				
Return on assets	1.9	1.4	0.4	1.2
Return on equity	10.7	8.5	2.7	6.0
Liquid assets / total assets 1/	30.9	29.8	29.5	29.7
Memorandum items:				
Share of assets held by three largest banks	53.4	53.6	53.7	50.7
Number of banks	10	10	10	12
Bank private-sector credit / GDP	26.2	29.2	26.5	25.2

Sources: Mauritanian authorities; and Fund staff.
1/ Liquid assets: cash, reserves, and treasury bills.

Table 7. Mauritania: Indicators of Capacity to Repay the Fund, 2012–16

	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Projections				
Payments to the Fund based on existing credit					(In millions of SDRs)				
Principal	0.7	1.9	2.1	3.2	7.6	10.3	9.0	8.8	7.7
Charges and interest	0.0	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Payments to the Fund based on existing and prospective credit					(In millions of SDRs)				
Principal	0.7	1.9	2.1	3.2	7.6	11.4	14.6	15.5	14.4
Charges and interest	0.0	0.1	0.3	0.3	0.3	0.3	0.2	0.2	0.1
Total payments to the Fund based on existing and prospective credit									
In millions of SDRs	0.7	2.0	2.4	3.5	7.9	11.6	14.8	15.6	14.5
In millions of US$	1.0	3.0	3.6	5.3	12.0	17.7	22.5	23.9	22.1
In percent of exports of goods and services	0.0	0.1	0.1	0.1	0.3	0.4	0.4	0.4	0.4
In percent of debt service	0.4	0.7	0.7	1.1	2.4	3.5	4.8	5.1	4.4
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
In percent of Gross International Reserves	0.1	0.4	0.4	0.5	1.2	1.5	1.7	1.6	1.4
In percent of quota	1.1	3.0	3.6	5.4	12.2	18.0	22.9	24.3	22.5
Outstanding Fund credit									
In millions of SDRs	75.9	85.1	83.0	79.9	72.3	60.9	46.4	30.9	16.6
In millions of US$	115.5	129.6	126.6	121.9	110.3	93.0	70.8	47.2	25.3
In percent of exports of goods and services	2.5	2.9	2.9	2.7	2.4	1.9	1.4	0.9	0.4
In percent of debt service	42.2	32.5	25.7	24.9	22.1	18.5	15.1	10.1	5.0
In percent of GDP	1.8	1.9	1.7	1.6	1.3	1.0	0.7	0.5	0.2
In percent of Gross International Reserves	14.5	15.5	14.1	12.6	10.6	7.9	5.4	3.2	1.6
In percent of quota	117.9	132.1	128.9	124.0	112.2	94.6	72.0	48.0	25.7
Net use of Fund credit (in millions of SDRs)	21.4	9.2	-2.1	-3.2	-7.6	-11.4	-14.6	-15.5	-14.4
Disbursements	22.1	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.7	1.9	2.1	3.2	7.6	11.4	14.6	15.5	14.4
Memorandum items:									
Exports of goods and services (in millions of US$)	3023.0	2895.1	2903.6	2929.8	3052.5	3147.1	3316.2	3487.8	3684.5
Debt service (in millions of US$)	180.0	262.2	323.3	321.1	326.5	328.4	307.1	307.1	330.0
Nominal GDP (in millions of US$)	4177.9	4490.9	4743.5	5046.6	5445.7	5881.9	6344.8	6835.0	7353.0
Gross international reserves (in millions of US$)	523.5	547.4	587.0	633.4	679.6	772.8	866.0	959.2	1052.3
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4	64.4	64.4	64.4

Sources: Fund staff estimates and projections.

Table 8. Mauritania: Selected Economic and Financial Indicators, 2008–17

	2008	2009	2010	2011	2012	2012	2013	2014	2015	2016	2017
				Est.	EBS/11/168	Projections					
				(Percent; unless otherwise indicated)							
National income and prices (y-o-y growth)											
GDP at constant prices	3.5	-1.2	5.1	4.0	5.5	5.7	7.0	5.7	5.4	5.5	5.4
Non-oil GDP at constant prices	3.9	-1.1	5.6	4.1	5.6	5.7	7.1	5.8	5.5	5.5	5.4
GDP excl. extractive industries at constant prices	3.4	-1.1	5.6	4.9	5.0	6.1	6.2	5.3	5.3	5.3	5.3
Oil production (1000 barrels per day)	12.1	10.7	8.3	7.7	8.0	7.7	7.7	7.7	7.7	7.7	7.7
GDP deflator	12.4	-5.9	21.8	12.1	5.5	-0.9	4.1	3.2	3.9	4.9	4.9
Non-oil GDP deflator	13.0	-3.9	21.5	11.7	6.1	-1.2	4.7	3.8	4.3	5.2	5.2
GDP excl. extractive industries deflator	7.1	1.0	6.6	2.2	4.2	4.4	5.1	5.5	5.7	5.8	5.3
Consumer price index (period average)	7.3	2.2	6.3	5.7	6.8	5.9	6.1	6.1	5.7	5.3	5.1
Consumer price index (end of period)	3.9	5.0	6.1	5.5	6.8	6.0	6.3	5.9	5.5	5.1	5.1
External sector											
Value growth of exports of goods, f.o.b.	27.5	-23.7	52.0	33.4	6.2	0.8	-4.8	0.1	0.8	4.6	4.7
Value growth of imports of goods, f.o.b.	21.8	-27.2	39.1	28.9	7.8	16.6	-5.1	-6.6	-5.8	3.3	3.4
Current account balance (in percent of GDP)	-14.8	-10.7	-8.6	-7.4	-7.2	-19.5	-17.7	-12.4	-7.8	-6.4	-4.7
Gross official reserves 1/											
In millions of U.S. dollars, end of period	194.9	238.5	287.8	501.6	513.8	523.5	547.4	587.0	633.4	679.6	772.8
In months of following year's imports excluding extractive industries	2.2	2.4	2.5	3.6	4.2	3.8	4.2	4.3	4.4	4.5	4.8
PPG external debt (percent of GDP) 2/	80.8	96.5	83.7	76.8	51.9	62.4	60.6	61.5	58.0	56.7	51.6
Money											
Money and quasi-money (percentage change)	13.7	14.9	12.9	19.9	13.2	13.0	14.1	14.2	14.1	14.3	13.8
Credit to the private sector (percentage change)	28.9	3.7	14.2	10.1	12.4	14.4	14.2	13.3	12.5	12.6	12.6
Investment and savings											
Gross investment (percentage of GDP)	27.3	24.6	24.0	32.6	33.2	37.1	30.9	28.3	31.9	30.3	28.7
Gross savings (percentage of GDP)	12.5	13.9	15.4	25.2	26.0	17.7	13.2	15.9	24.1	23.9	24.1
				(Percent of non-oil GDP; unless otherwise indicated)							
Consolidated government operations											
Basic non-oil balance; program definition 3/	-7.7	-5.3	-2.4	-0.2	-0.7	-0.9	-0.3	0.6	1.2	1.8	2.4
Overall balance including grants	-7.0	-5.4	-2.0	-1.5	-3.4	-3.5	-3.0	-2.2	-1.4	-0.5	0.3
Public sector debt (percent of GDP) 2/	90.3	106.1	92.8	83.5	59.5	70.0	67.4	67.8	63.4	60.9	54.5
Memorandum items:											
Nominal GDP (in billions of UM)	854.0	794.2	1016.6	1184.3	1324.1	1239.9	1380.6	1507.0	1650.2	1825.5	2018.1
GDP per capita (in U.S. dollars)	1123.1	940.1	1120.7	1247.3	1310.8	1206.7	1266.7	1306.6	1357.5	1430.6	1514.1
Price of iron ore (US$/Ton)	61.6	80.0	146.7	167.8	169.5	136.4	127.3	110.0	107.0	106.0	106.0

Sources: Mauritanian authorities; and Fund staff estimates and projections.

1/ Excluding the oil account.

2/ HIPC debt relief from Kuwait was initially programmed in 2011 and is now expected to take place in 2012.

3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 9. Mauritania: Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	2008	2010	PRSP 2015	MDGs 2015
					(In percent of total population)				
1. Eradicate extreme poverty and hunger									
Overall poverty incidence	56.6	50.0	46.3	…	46.7	42.0	…	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	…	25.9	15.6	…	…	…
Prevalence of child malnutrition	43.3	20.3	32.0	…	30.2	15.9	…	21.0	23.5
					(In percent of primary school age group)				
2. Achieve universal primary education									
Net enrollment ratio in primary education	49.2	58.5	61.1	65.7	74.3	76.0	74.0	100.0	100.0
					(In percent of total enrollment in first grade)				
Proportion of pupils starting grade one who reach last grade of primary	63.8	42.6	54.7	…	52.8	81.8	…	100.0	100.0
					(In percent)				
3. Promote gender equality									
Ratio of girls to boys in primary enrollment	75.37	89.50	97.15	98.60	101.24	104.90	105.10	100.0	100.0
					(Per 1,000 live births)				
4. Reduce child mortality									
Child mortality (under five years)	124.1	118.2	115.2	114.2	113.8	112.4	111.2	55.0	45.0
					(Per 100,000 live births)				
5. Improve maternal health									
Maternal mortality	…	…	930.0	…	747.0	686.0	…	300.0	232.0
					(In percent of ages 15-24)				
6. Combat HIV/AIDS, malaria, and other diseases									
Incidence of HIV/AIDS among 15-49-year olds	…	…	0.5	0.6	0.5	0.6	…	< 1	1.0
					(In percent of population)				
7. Ensure environmental sustainability									
Proportion of population using an improved drinking water source	30.0	…	40.0	…	…	…	50.0	75.0	82.0
Proportion of population using an improved sanitation facility	16.0	…	21.0	…	24.0	…	26.0	…	70.0
Memorandum items:									
Population (in millions) 1/	1.95	2.29	2.64	2.80	2.96	3.30	3.46	…	…
UNDP Human Development Index	0.35	…	0.41	…	…	0.45	0.45	…	…
Gini index of inequality	…	0.34	0.39	…	0.41	0.40	…	0.41	…
Child vaccination rate (in percent)	…	30.00	40.00	70.00	79.00	68.80	…	…	…

Sources: Mauritanian authorities; World Bank (World Development Indicators); and UNDP Human Development Indicators.

1/ Estimates based on the population census data in 1988 and 2000.

Table 10. Mauritania: Access and Phasing Under the Three-Year ECF Arrangement, 2010–13 1/

Timing	Available		Conditions
	Millions of SDR	Percent of Quota	
March 15, 2010	11.04	17.14	Approval of the arrangement.
November 19, 2010	11.04	17.14	Completion of the first review (relevant PCs for end-June 2010).
June 22, 2011	11.04	17.14	Completion of the second review (relevant PCs for end-December 2010).
December 12, 2011	11.04	17.14	Completion of the third review (relevant PCs for end-June 2011).
June 1, 2012	11.04	17.14	Completion of the fourth review (relevant PCs for end-December 2011).
November 30, 2012	11.04	17.14	Completion of the fifth review (relevant PCs for end-June 2012).
March 13, 2013	11.04	17.14	Completion of the sixth (final) review (relevant PCs for end-December 2012).
Total	77.28	120.00	

1/ Mauritania's quota is SDR 64.4 million.

ANNEX I: MAURITANIA—NEW INTERNATIONAL AIRPORT

The Mauritanian authorities have long considered the construction of a new international airport in Nouakchott a strategic infrastructure investment. The need for such a project was first expressed in 1975 as a way to address limitations of the current runway and the airport's proximity to the city. The authorities hope that the new airport will become a hub for the sub-region, thereby boosting employment and tourism activity. This reasoning explains why the last two PRSPs (2006–10 and 2011–15) list the airport as a priority investment.

The government considered several financing alternatives over the last few years before settling for a "land for construction swap". First in 2005, several scenarios were presented by a Chinese company for the construction of a new airport, with costs varying from $460 million to $1 billion. Other companies were approached, but the government judged offers too costly. As a result, the government agreed in a convention signed in November 2011 to cede to a local private consortium ENNAJEH Major Works (NMW SA)[1]—which consists of a banking group (BNM) and Cement of Mauritania—lands totaling 451 hectares (4.51 million m^2) divided into a residential neighborhood (one third) and the old airport land (two thirds). In exchange, the consortium committed to building within 24 months[2] a modern airport that can receive up to two million passengers a year and be fully in line with international standards. The same public entity that is currently managing the old airport will run the new one.

Work on the new airport has already started. One runway of the new airport has been paved and ENNAJEH expects to complete construction works by January 2014. An international cabinet has been hired by the authorities to ensure the new airport meets all international standards (construction, safety). Data on the costs remains somewhat limited:

- **Airport cost:** Assessments conducted in the past by Chinese and French consulting firms have set the cost of a new airport between $0.4 and $1 billion. NMW SA expects its cost to be between $200–300 million (60 percent for runway construction and 40 percent for airport buildings). By prudence, staff's macroeconomic scenario assumes a cost of $300 million, of which about 40 percent will be borne the first year, with the remaining 60 percent during the second year.

[1] The project was granted to ENNAJEH without going through a public procurement process. According to Mauritanian officials, this particular arrangement is not governed by the public procurement code since no monetary transaction, external financing, or tax exemption were granted.

[2] The old airport land is only expected to be transferred back to the private operator once the new airport is fully operational (for a month).

- **Land valuation:** No data on an independent land appraisal (including for the old airport land) has been communicated to staff, which makes it difficult to measure the financial merits of the land for airport swap. However, the government currently considers the residential land to be worth only UM600 per m^2, as was the case for many similar transactions in the past and in conformity with prevailing regulations (e.g., for some road construction). Such a price would have generated revenues of UM2.7 billion (approximately $9 million or 0.2 percent of GDP). On the other hand, the residential land (156 hectares) could be sold for at least UM18 billion[3] ($65 million) following some minor rehabilitation work by the private operator. The value of the old airport land is not known, but private operators estimate that it could be valued at an even higher price, thus reportedly ensuring a substantial profit for the consortium once the international airport is operational.

The direct budgetary impact of the new transaction is expected to be minimal. The current contract implies no direct on-budget costs (except for some minimal logistical costs at the end of the project) and no contingent liabilities arising from the transaction—the government did not provide any guarantee and is under no obligation to finish work. If the construction halts: the contract explicitly states that the consortium would not obtain the old airport land until they complete the new international airport. Moreover, the new transaction would not impact the monitoring of the fiscal targets under the ECF-supported program, which are measured under a modified cash basis and using GFSM 1986.[4] However, the exclusion of this project from the budget weakens transparency since parliamentarians did not have a chance to approve this project.

Financing of the airport will be through land sale proceeds, operators' own resources and external financing; large associated imports will worsen the current account deficit:

- After some minimal rehabilitation, ENNAJEH has started to progressively sell off the residential land (156 hectares) (for which demand from Mauritanian immigrants abroad is reportedly high), up to as much as $100 million. Sales proceeds and available own resources leave a shortfall of $180 million that the private consortium expects to meet through trade financing facilities from EXIM banks in the GCC and India (for about $100–$140 million), with the remaining coming from local commercial bank loans (some banks not affiliated with the consortium have already

[3] Assuming a conservative price of 11,000 UM/m^2, which is prudent given that the first tranche of lands were reportedly sold for 15,000 UM/m^2.

[4] Under *GFSM 2001*, the transaction will be recorded as a disposal of nonfinancial assets and the counterpart will be an acquisition of a financial asset (shares), thus not affecting gross operating balance but improving the net lending/borrowing balance.

expressed interest in financing the project). These loans are expected to be paid off thorough proceeds from the sale of residential lands developed over the old airport.

- In the short term, this project could create 600 jobs and boost growth by 0.2 percentage points. Import costs are likely to total $200 million over a two-year period, thus worsening the current account deficit by about 2 percent of GDP in 2012 and 3 percent in 2013. Over the longer run, the authorities expect this project to help develop tourism in the country while promoting much-needed modern urban development.

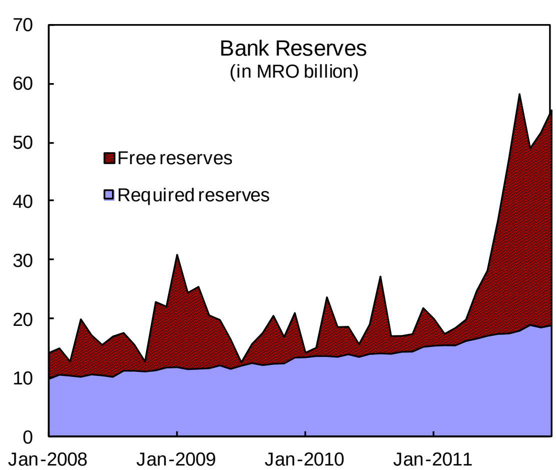
ANNEX II: LIQUIDITY MANAGEMENT IN MAURITANIA

The Mauritanian banking system is in a state of excess liquidity. Banks' free reserves held at the Central Bank of Mauritania (CBM) rose to UM 33 billion by the end of 2011, about 520 percent more than the 5-year average to end-2010. At the same time, T-bill yields fell to unprecedented lows of just below three percent. The fundamental cause of the surge in liquidity was an unsterilized influx of foreign exchange, which flowed into the banking system through three channels, all approximately equally important:

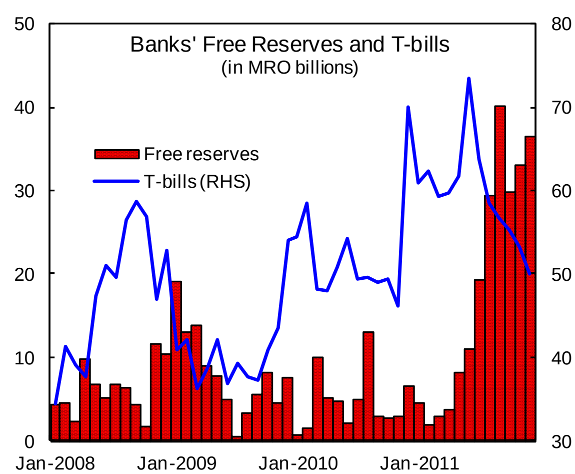
- **Higher spending by mining companies**. The producers of iron ore, copper, and gold surrender a share of their export receipts to the CBM, mainly to cover their expenses in local currency, which consist of: (i) salaries and fees of local employees and service providers; (ii) domestic investment projects; and (iii) taxes and dividends to local shareholders. These payments tend to be proportional to the turnover of these companies, which reached record highs in 2011.

- **Reduced bank borrowing by the Treasury and state-owned enterprises**. A stronger fiscal position, increased settlement of government arrears, and timely budget transfers to public enterprises have significantly lowered public sector borrowing needs.

- **Entry of two banks in 2011**. Externally-financed capital increases automatically raise free reserves, which are the asset counterpart to capital.



Source: Central Bank of Mauritania.



Source: Central Bank of Mauritania.

So far, abundant banking sector liquidity has had no negative macroeconomic effects. By end-2011, both 12-month inflation and credit growth have stayed relatively subdued at 5.5 and 10.1 percent, respectively. The main reason behind the benign unfolding to date is that banks' lending decisions do not seem, at the margin, to be driven by the amount of free reserves in the system; instead, banks mainly do business with a small number of economic actors active in a limited number of commercial activities (see Selected Issues Paper). In addition, banks' incentive to hold excess reserves has increased somewhat with the introduction of a rule restricting the access to the foreign exchange market to 130 percent of banks' free reserves.

An adequate operational toolkit to drain the excess liquidity is currently lacking. Historically, the main instrument for liquidity management has been T-bills, and the amounts issued to the banking sector for budget financing purposes usually coincided with the CBM's sterilization objectives. Conflicting objectives only manifested themselves last year when the Treasury was hesitant to issue T-bills solely for monetary purposes. However, the CBM was unable to act independently as it did not have sufficient financial resources to conduct large-scale sterilization operations. The only other two instruments left in its liquidity management toolkit—foreign exchange sales and reserve requirements—were not deemed suitable as their use would have either slowed reserve accumulation or created problems for a few individual banks without surplus liquidity.

Recent Fund TA identified two main options for enhancing the liquidity management framework. Option (i) is to introduce a new T-bill maturity that is under the sole control of the central bank but paid for by the Treasury. Option (ii) is to recapitalize the CBM to a degree that is sufficient for the CBM to pay for its own liquidity management instrument. The advantage of option (i) is that it can be implemented in the very short term, while option (ii) would require a lengthy political consultation process between the Treasury, CBM, and parliament.

The authorities have chosen to implement the first option, which will require close coordination between the Treasury and the CBM. A memorandum of understanding will specify the technical details of the new framework and will be adopted by June (structural benchmark). Operationally, this implies:

- **Regular coordination meetings:** The Treasury and the CBM will meet once per week at the Director General level to discuss total T-bill issuance. The Treasury informs the CBM of the amounts needed for budget financing purposes, at which point the CBM independently decides which residual amounts, if any, need to be sterilized.

- **A new instrument:** The amount corresponding to the CBM's weekly sterilization objective will be raised through the issuance of a new dedicated liquidity instrument—a 7-day maturity T-bill.

- **A sterilization account**: The issue receipts are credited to a sterilization account at the CBM, to which the Treasury has no access. At maturity, the 7-day T-bills are reimbursed by debiting the sterilization account for the principal and the Treasury's Single Account for the accrued interest.

- **Interest payments covered by the budget**: To ensure transparency and accountability, the CBM will provide to the Treasury at the time of the annual budget preparation process the estimates of yearly sterilization costs that are consistent with its monetary framework. These estimates will be fully reflected in the budget, and a memorandum of understanding between the CBM and the Ministry of Finance will summarize the operational details of the arrangement.

The new instrument will be introduced gradually to avoid destabilizing budget financing. An upfront communication campaign explaining the modalities of and motivation for the new instrument will be an integral part of the implementation of the new framework. Concretely, the CBM will make clear that the amounts offered at the 7-day horizon will initially be small to prevent banks from rebalancing their T-bill portfolio excessively towards the new maturity. This will enable all market participants to gather experience with the new instrument without negatively affecting the issuance of the traditional T-bill maturities for budget financing purposes. Costs to the budget in 2012—assuming a sterilization objective corresponding to a third of current levels of excess liquidity—would be manageable as it represents less than 0.1 percent of GDP. If necessary, the CBM will conduct fine tuning operations in between T-bill auctions to address excessive volatility in banks' resources.

In the medium-term, the CBM could envisage greater independence by bearing all monetary policy costs and issuing its own instrument. A prerequisite for this step is that the CBM regains financial independence on a sustainable basis, preferably through a recapitalization. From a technical perspective, the most straightforward way of transferring the necessary resources to the CBM would be to restructure its large nonnegotiable claim on the government at market conditions. This claim, which currently accounts for over a third of the CBM's balance sheet, carries nonmarket terms with an average yield of just over 3 percent and a weighted remaining maturity of 27 years. With its financial independence assured, the CBM could then use the restructured marketable claims to conduct monetary policy or develop its own instrument—remunerated term deposits, central-bank bills, or reverse repos—depending on market conditions.

Annex III: External Stability

Mauritania's real effective exchange rate (REER) has depreciated moderately over the last three years. The driving force was an 18 percent slide in the nominal exchange rate, whereas positive inflation differentials with the main trading partners in Europe and East Asia (about 10 percent) limited the extent of the depreciation in real terms. Compared to the beginning of the decade, the pace of the nominal depreciation has quickened in the last three years as the authorities have started to move away from a managed float system that tried to resist depreciation pressures and fluctuations of the ouguiya against the U.S. dollar.

Mauritania's exchange rate appears to be modestly overvalued. The macroeconomic balance approach suggests an overvaluation of 2.3 percent and 12 percent in the case of CGER framework and Beidas-Strom and Cashin (2011) methodology, respectively. The external sustainability and equilibrium real exchange rate approaches indicate an overvaluation of around 10–12 percent. The current account deficit over the medium term is consistent with the current account norm.

Exchange Rate Assessment

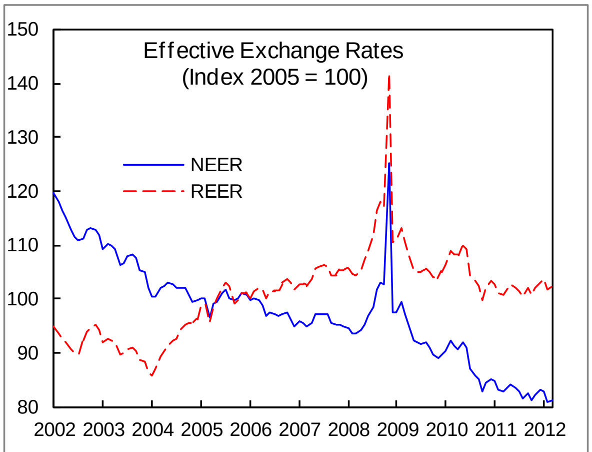
	Current account balance to GDP		REER
	Norm	Underlying	Degree of over(under)valuation 1/
Macrobalance approach			
CGER approach	-6.3%	-7.0%	2.3%
Beidas-Strom-Cashin	-3.2%	-7.0%	12.0%
External sustainability 2/	-3.8%	-7.0%	10.1%
Equilibrium REER			11.7%

Source: IMF staff estimates.

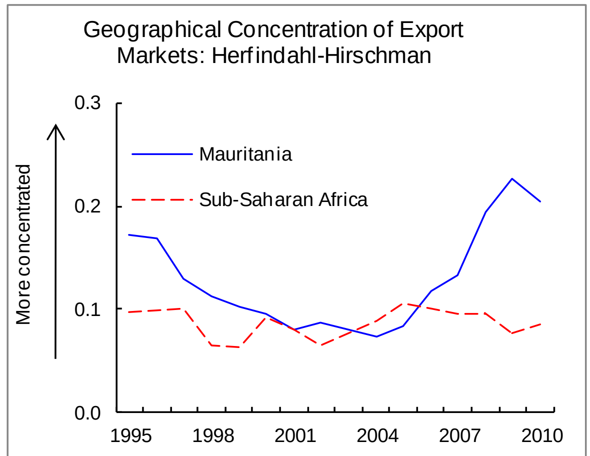
1/ Positive values correspond to overvaluations.

2/ NFA stabilizing at -61 percent of GDP (2010 level).

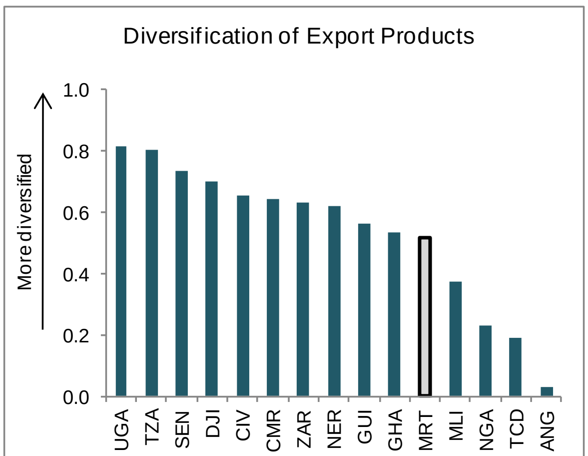
Exchange rate movements are not a primary driver of export performance. Mauritania's strong export growth in 2011 was mainly due to strong global demand. As a resource-rich country that almost exclusively exports mining products, oil, and fish, Mauritania currently has little scope for product or price differentiation in global markets, as shown by the little diversification of both export contents and their destinations, and by the lower degree of sophistication of its exports. However, over the medium term, a more depreciated exchange rate could help spur the development of new industries. Moreover, high dependence on imports of basic consumption goods including food indicates a potentially important role of import substitution industries in Mauritania's development.



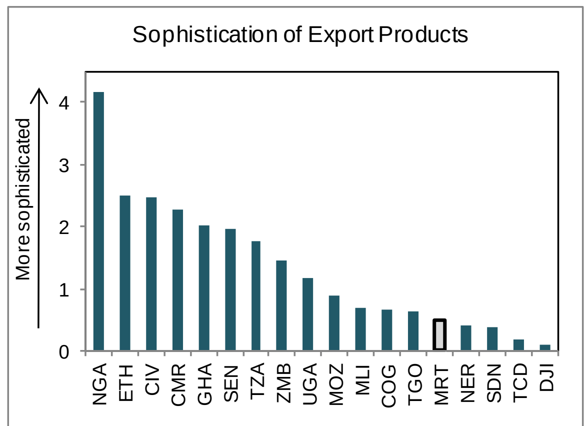
Source: Fund staff calculations.



Sources: IMF DOTS; and Fund staff calculations.

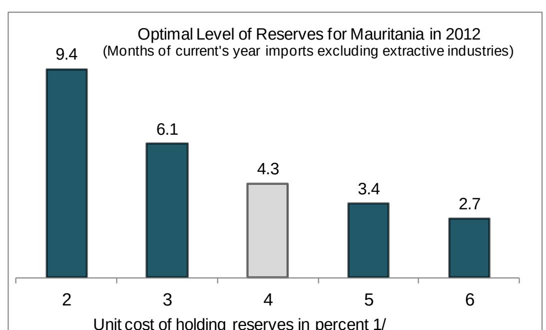


Sources: UNCTAD statistics; and IMF staff calculations.



Sources: BACI database; and IMF staff computations following Hausmann et al. (2007).

Limited export product diversification highlights the importance of foreign reserves in preventing and mitigating the impact of large external shocks. Staff's preliminary analysis indicates that the optimal level of reserves for Mauritania, estimated using a methodology on reserve adequacy that accounts for both costs and benefits of holding reserves (Dabla-Norris et al., 2011)[1]—averages about 4.3 months of imports at end-2011 (this



Source: IMF staff estimates.
1/ The unit cost of holding reserves is defined as forgone investment opportunities and is approximated by the marginal product of capital.

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[1] Dabla-Norris, Era ; Kim, Jun Il ; Shirono, Kazuko (2011). Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis, IMF Working Papers 11/249, International Monetary Fund.

assumes a cost of holding reserves of 4 percent for Mauritania, which is consistent with existing empirical studies on cross-country estimates of the marginal product of capital for low-income economies like Mauritania),[2] implying that reserve coverage in Mauritania is still below its optimal level.

Mauritania's current account deficit is mostly financed through concessional loans and long term foreign direct investment in the mining sector. These relatively stable flows—and a closed capital account—reduce the vulnerability of Mauritania's economy to capital flow movements.

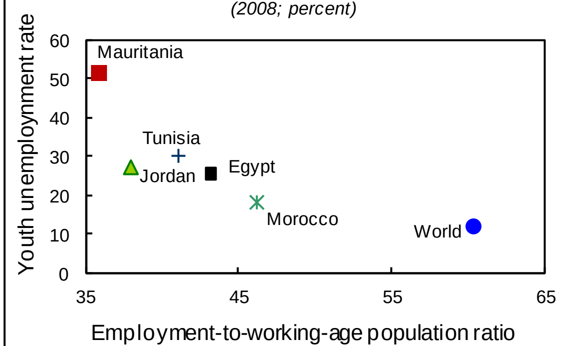
[2] Caselli, F. and J. Feyrer (2007). The Marginal Product of Capital. Quarterly Journal of Economics, 122(2), 535–568.

Annex IV: Challenges in Tackling High Unemployment in Mauritania

Unemployment remains high in Mauritania, particularly among the youth and women. Demographic dynamics, a severe skills mismatch, and a lack of labor intensive industries all contributed to keeping unemployment high. Broadening production in the agricultural sector, strengthening access to finance, and enhancing professional and technical education will help develop new job opportunities.

Unemployment in Mauritania is high, particularly among the young. Unemployment is currently estimated at about 31.2 percent, slightly lower than in 2004, but higher than all countries in the Middle East and North Africa (MENA) region, with the exception of Djibouti. While unemployment tends to be evenly distributed among rural and urban areas (about 31 percent each), young people—ages 15 to 24—and women account for about 60 percent and 66 percent of the unemployed, respectively. Unemployment rates in Mauritania tend to be highest among the least educated, exceeding 60 percent among those with no college degrees (in contrast to Arab Countries in Transition where the most unemployed are the most educated).

Employment-to-Working-Age Population Ratios and Youth Unemployment Rates
(2008; percent)

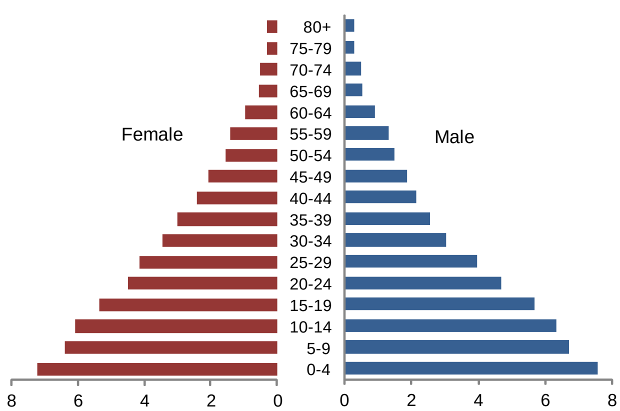


Source: International Labor Organization; national authorities; IMF, *World Economic Outlook*; and IMF staff estimates.

Tackling unemployment is likely to remain quite challenging. Pressures in the labor market are likely to continue over the medium term because of:

- **Demographic dynamics**. A young population (under 24 population represents 60 percent of the total) and increasing participation rates lead to 53,000 new job seekers each year, which corresponds to a 5 percent annual growth in the labor force.

Mauritania: Age Structure of the Population in 2011 (percent)

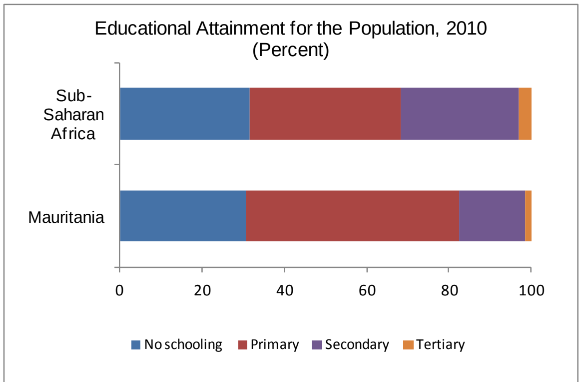


Source: National Statistical Office.

- **Lack of job opportunities in labor intensive industries.** The most developed sectors of the economy, such as the mining industry, have low spillovers to other sectors in the economy and generate few jobs (less than 1 percent of total employment). Low investment in the agricultural sector, which absorbs a quarter of all workers over the last few years was associated with tepid growth, further complicating prospects for new job seekers. Moreover, the lack of labor-intensive industries such as tourism and garment-textile leads to even fewer employment opportunities. Most of these jobs are however in the informal sector.

- **Skills mismatch.** More than 60 percent of Mauritania's SMEs rate job seekers' lack of skills as a severe obstacle to growth. This reflects the low education level of the labor force, with Mauritania lagging significantly the region particularly at the secondary and tertiary levels (see chart). Only 17 percent of the high school seniors obtained the baccalaureate degree necessary to access higher education, and those graduating with a technical and scientific degree represented less than one-third of the total.

Source: Statistical Office of Mauritania.



Source: Barro-Lee Educational Attainment Dataset.

Looking ahead, the primary sector will remain the main employer in Mauritania. Few job opportunities in the public sector (less than 2,000 workers are expected to retire in the next five years) and the capital-intensive nature of the mining sector will put most of the burden for absorbing new entrants in the labor force on the primary sector whose potential remains unexploited. To keep unemployment rate at the same level (31.2 percent), the primary sector will have to absorb 80 percent of new job seekers, implying that jobs in the agricultural, livestock and fishery sectors should increase by 6.5 percent annually, which corresponds to a 10 percent increase in their value-added (historical growth was 0.7 percent). This latter result—arrived at using a moderate employment elasticity of 0.7[1]—shows how challenging the unemployment situation is likely to remain in Mauritania.

Mauritania already implemented a number of initiatives to boost job creation and enhance youth employment. To make a dent in reducing unemployment, Mauritania has to

[1] This value corresponds to the estimate of S. Kapsos for the employment elasticity of the agriculture for sub-Saharan countries over 1991-2003, "the employment intensity of growth: trends and macroeconomic determinants, ILO 2005".

fully take advantage of its rich resources (underexploited fertile lands, lack of livestock and fishery-related industries). Recent government initiatives include:

- Rehabilitating about 6,000 hectares of agricultural lands and providing long-term concessions, notably to some unemployed educated people,

- Cleaning Nouadhibou seaport of wrecks, with the assistance of the EU, and build two fishing ports, which will improve the fisheries infrastructure.

- Creating a number of youth-oriented technical and professional schools, which will help reduce skills mismatch.

- Providing incentives to viable labor intensive industries, mostly in nascent industries such as poultry farming, modern slaughterhouses and dairy production; and

- Improving credit access, including by restructuring the agro-credit corporation (UNCACEM) and through microfinance.

Over the medium term, strengthening the business climate and reforming the educational system will be key to sustain job creation. Sustained growth will need to be driven by the private sector. To this end, addressing business climate weaknesses and infrastructure shortfalls, which hamper the development of high job generating industries (agri-food, garment, tourism…) is crucial. Improving the quality of education through reforming the teachers' training system, and reorienting the education curricula towards private sector needs would ultimately provide additional hiring incentives for firms.

APPENDIX I.

LETTER OF INTENT

Date: June 12, 2012

Madame Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street, NW
Washington, DC 20431
USA

Dear Madam Managing Director:

1. The government successfully addressed the challenges of consolidating growth and macroeconomic stability at a time of a severe drought, considerably higher food and energy prices, and volatile metals prices, particularly for iron ore, at the end of last year. In addition, the large influx of refugees from Mali has had a major humanitarian impact. By implementing appropriate economic policies, consistent with the priorities set in our Poverty Reduction Strategy Paper (PRSP), we have been able to foster an environment of macroeconomic resilience and maintain price stability, while renewing our efforts to improve the living conditions of our most vulnerable people. Although considerable efforts have been made to strengthen its ability to withstand exogenous shocks, the Mauritanian economy continues to face high unemployment and poverty rates, especially in rural areas.

2. Despite these difficult circumstances, we have met all the quantitative performance criteria for end-December 2011 (Table 1), with the exception of the criterion on nonconcessional external debt. This target was missed because of the busy schedule of the Parliament, which took until January 2012 to approve the nonconcessional loan for the electricity plant that already figured in the program targets for 2011. As a result, the government requests a waiver for the nonobservance of this performance criterion. Moreover, all structural benchmarks (Tables 2a and 2b) were met except for three whose implementation depends on coordination with donors and other private institutions. Concretely, these three structural benchmarks include the audit of public enterprises, the external debt strategy, and the quantification of differences between IFRS and local accounting standards in the CBM's financial statement.

3. This Letter of Intent (LOI) is based on the previous LOI approved by the IMF's Executive Board on December 12, 2011. Our macroeconomic policy program will continue to balance our efforts to consolidate economic stability with the need to respond effectively to the immediate challenges posed by the drought and high food prices. We are also determined to fight unemployment and poverty. To achieve the program's objectives, we are

committed to implement prudent, appropriate, and consistent macroeconomic policies, while making growth more inclusive.

I. Recent economic developments and the program for 2011

4. The Mauritanian economy successfully withstood several exogenous shocks in 2011. Annual economic growth was 4 percent. This was lower than forecast, but still one of the highest rates in the Sahel subregion that was hit by the drought. Dynamic activity in the fisheries, construction and public sectors, as well as in the services industry, partly offset the large drop in cereal production (35 percent y-o-y). Despite higher international food and oil prices, inflation was contained at 5.7 percent in 2011 (y-o-y) thanks to lower than expected credit growth and a smaller pass-through from international prices. Higher costs for oil and food imports were offset by rising export prices, which considerably reduced the current account deficit. However, the decline in the current account deficit was less than expected, owing to a drop in iron ore prices in the final quarter of 2011.

5. Our performance under the program was satisfactory despite the difficult national and international environment. All quantitative performance criteria for end-December 2011 were met except for the one on nonconcessional borrowing:

- The basic non-oil deficit, which stood at 0.2% of non-oil GDP, was better than expected (the program target was 1.6 percent of non-oil GDP). This over-performance was due to higher mining revenues and ongoing tax collection efforts, which more than offset additional expenditure linked to rising subsidies for petroleum products and an emergency program for the vulnerable. The government's cash surplus reduced the need to issue T-bills to the banking sector, sharply bringing down T-bill rates to just below 3 percent.

- We have focused on the execution of poverty-related spending, which we consider a priority; thus, the indicative target on pro-poor spending was met by a wide margin for the second consecutive time.

- Net international reserves well exceeded the program target due to high iron ore prices and our desire to build external buffers that are sufficiently high. Official reserves doubled in 2011, reaching an unprecedented $501.6 million, corresponding to 3.6 months of imports.

- Broad money grew by 20 percent y-o-y, in line with the program objectives. This enabled us to meet the program target for net domestic assets.

- Regarding the continuous performance criterion on nonconcessional external debt, a slight delay in our Parliament's timetable held up approval of the nonconcessional loan from the IsDB for the construction of an electricity plant that was part of the program for

2011. As a result, the loan did not become effective until January 2012, with a delay of only three weeks.

6. We made significant progress on a number of structural reforms. We achieved all the structural benchmarks (Tables 2a and 2b) included in the program up to end-April 2012, except for three: (i) the audit of public enterprises, which experienced some delays due to donor approval procedures for the recruitment of auditors; the delays have been resolved and the audits of the five companies will be completed by end-2012; (ii) the external debt strategy; a first draft has already been prepared but we are counting on technical assistance from the Fund and the World Bank, scheduled for early June 2012, to improve it and complete a full medium-term debt strategy, which will be submitted to the Council of Ministers for approval; and (iii) the quantification of differences in the CBM's financial statements between the IFRS and local accounting standards, which will be prepared together with a new auditor by September 2012. As planned, we also completed the poverty and vulnerability survey in Nouakchott at end-April, and we expect to extend it to the rest of the country starting in June 2012.

II. Program for 2012

7. In spite of the challenging outlook for the world economy, the Mauritanian economy is forecast to recover strongly in 2012. Led by a strong recovery in agricultural production, which will benefit from a normal rainy season, and the expected dynamism in the construction sector, real GDP growth is expected to be 5.7 percent. This forecast already reflects the slowdown in external demand from Europe and delays in the execution of investment projects in the gold mining sector. Inflation will remain contained at 6 percent (y-o-y), reflecting a consistent monetary policy stance and lower food and energy prices in international markets. The current account deficit will worsen considerably due to the combined effect of falling exports and sharply rising imports, resulting from the import needs for the emergency program 2012 (EMEL), the construction of the new electricity plant, and the new airport. That said, the Mauritanian economy will continue to increase its ability to withstand exogenous shocks through the accumulation of official reserves (equivalent to 3.8 months of imports at end-2012).

A. The Macroeconomic Program

Fiscal policy

8. Our fiscal policy for 2012 is based on the need to create additional fiscal space for emergency spending while maintaining debt sustainability in the short and medium term. For this reason, the 2012 budget as adopted by the Parliament established EMEL program to respond effectively to the drought, improve non-mining tax revenue, and phase-out nontargeted subsidies. Nevertheless, an amendment to the budget will be necessary to meet a number of pressing needs:

- **Emergency program for the most vulnerable.** The EMEL program, operational since February 2012, has doubled the number of dedicated food shops in rural areas (areas at a high risk of food insecurity), distributed livestock feed at subsidized prices, and begun distribution of free food. The total cost of the program was initially estimated at UM 43 billion, of which UM 23 billion was included in the 2012 budget law. Donors were able to commit about UM 12 billion, of which less than half has been disbursed, to be used mainly to supplement the free food distribution program and new cereal banks. Until additional donor support is fully mobilized, there is an immediate need for emergency spending of about UM 10 billion to cover deficits, in particular for the program of replenishing village cereal banks (SAVS). The costs related to the Malian refugees (currently more than 60,000) are borne entirely by development partners (HCR, WFP and UNICEF).

- **Hydrocarbon subsidies**. Despite our unwavering efforts to raise fuel prices, it will not be possible to bring domestic prices to international levels before the end of 2012 owing to soaring international prices (see below). Additional expenditure of at least 1 percent of non-oil GDP for fuel subsidies is therefore necessary. In addition, we plan to pay the subsidies associated with the last three quarters of 2011, which were delayed due to the approval and payment procedures of the Ministries of Energy and Finance. The new petroleum price structure, which came into effect in May 2012, immediately reduces the corrective margin by one-third, thereby driving it to about 10 percent of the full pass-through price. (See section on subsidies below.)

- **Clearance of arrears**: We have drawn up a plan for the clearance of domestic arrears payable to service providers and petroleum distributers. These payments are scheduled in 2012 though not initially included in the budget and amount to 0.7 percent of non-oil GDP. This amount also takes into account the early repayment of arrears for tax credits, including those of mining companies.

9. With regard to fiscal revenue, we intend to meet the target set in the 2012 budget, despite the uncertainty over the renewal of fisheries partnership agreement with the European Union that is currently being negotiated. In the spirit of prudence, and bearing in mind the higher than expected record profits of the national mining company (SNIM), its board of directors approved a dividend ratio of 25 percent. In addition, the company will make a special one-off dividend payment of 7.5 percent of net profits to support the government's needs, which would generate additional revenues of 1.3 percent of non-oil GDP. The granting of free fishing licenses (0.6 percent of non-oil GDP), ongoing tax collection efforts, which have led to a significant increase in taxpayers' declarations, and the increase in excise duties on tobacco will help meet the revenue target, which will be 29.4 percent of non-oil GDP. To simplify our tax system, we also intend to study the impact of eliminating the general tax on income (IGR) with a view to removing it in the 2013 budget law.

10. Taking all of the above developments into account, the fiscal position should register a slight deterioration. Thus, the basic budget deficit should reach 1 percent of non-oil GDP, compared with the programmed objective of 0.7 percent. The overall balance is also bound to deteriorate and should reach 3.5 percent of non-oil GDP in 2012, compared to 1.5 percent in 2011. The worsening of the overall balance in 2012 is temporary, driven by the need to address the urgent needs of the vulnerable in crisis year, and moderate compared to previous crisis responses. Financing requirements will be largely met through nonbank financing and concessional borrowing.

11. Moreover, to ensure medium-term fiscal sustainability, we will continue to control current expenditure through a number of actions, including by: (i) stabilizing the wage bill at 8 percent of non-oil GDP in 2012 (see below); (ii) increasing medium-voltage electricity tariffs following the tariff study planned in July 2012 (tariffs paid by the service sector already rose in January 2012); and (iii) reducing the corrective margin for LPG. In case of a revenue shortfall or the need to increase EMEL-related expenditure (which in any case is temporary), we are committed to make cuts in nonpriority spending, particularly goods and services.

12. The construction of a new international airport in Nouakchott will not entail any expenditure for the government, apart from the transfer of land and some minor expenditure related to the operation of the airport. The decision to build the airport, which the PRSP originally envisaged as a public-private partnership, was driven by the vision to create a modern aviation hub that allows Mauritania to play a leadership role in the region. The financing of this project (total cost are estimated at $200–300 million) will have no impact on the public treasury, since the government's payment consisted of a land transfer (including part of the location of the old airport) to a private consortium. The government has not provided and will not provide any guarantee or tax concessions to the consortium and the land transfer will take place gradually as the project progresses. An international firm specializing in airport construction is responsible for inspecting and certifying the construction works. When the work is complete, the government will pay around $25 million for navigation systems and the installation of public utilities. The private operator will not be able to sell any of the old airport land (including forward transactions) to third parties until the new airport is finished. Imports linked to this project (approximately $200 million over two years) and other related transactions are all subject to the standard tax system.

Monetary, fiscal, and exchange rate policies

13. Monetary policy will seek to ensure price stability and anchor inflation expectations. The banking system continues to have abundant liquidity (mainly stemming from the good performance of the export sector), but this has not been accompanied by a strong acceleration in credit that would generate inflationary pressures. For 2012, monetary policy will remain prudent, targeting a growth of money supply of 13 percent. This target accommodates a modest pickup in credit linked to the construction of the new airport. The monetary

authorities are prepared to tighten monetary policy to contain any inflationary pressures by using indirect instruments such as reserve requirements or T-bill issuances.

14. We will work to strengthen the independence of the Central Bank of Mauritania (CBM) by creating the preconditions for endowing it with a flexible and autonomous monetary policy instrument. For this purpose, and in accordance with the recommendations of the Fund technical assistance mission, we will introduce a new T-bill maturity (one week) solely destined to sterilize excessive excess liquidity. The legal framework will be such that the cost associated with the issuance of this instrument will be borne by the Ministry of Finance. To make this new framework operational, a memorandum of understanding between the Ministry of Finance and the CBM will be signed by June 2012 (new structural benchmark). The CBM will conduct an information campaign for commercial banks to explain the functioning of the new liquidity management framework. We also intend to improve central bank operations by:

- resuming the weekly meeting of the Coordination Committee between the CBM and the Treasury. The committee will play a crucial role in the coordination of monetary and fiscal policy;

- improving liquidity forecasts by systematically integrating the cash flows forecasts of the government and SNIM;

- renegotiate the terms of the government debt owed to the CBM with a view to recapitalize the CBM and provide it with substantial resources for the conduct of its monetary policy. An agreement between the Ministry of Finance and the CBM will be presented to Parliament during its next session.

15. As regards exchange rate policy, we will endeavor to consolidate the recent achievement that improved the functioning of the foreign exchange market. We are committed to the swift execution of foreign exchange transactions of commercial banks in accordance with regulatory time limits. Moreover, we adopted a new instruction aimed at improving foreign exchange repatriations by the fisheries sector, which improves the traceability of such transactions. In line with its mandate, the CBM will also continue its efforts in enhancing the functioning of the foreign exchange market as well as the transparency of its operations. In this context, it will continue to supply foreign exchange to the market by regularly selling a portion of the repatriated mining revenues. Sales of foreign exchange will take place during market sessions and off-market sales will be limited to exceptional urgent transactions. A detailed summary of the transactions made in the foreign exchange market will be published, together with a list of all foreign exchange operations undertaken by the CBM.

16. The reform of the financial system will be accelerated with a view to deepen financial intermediation, safeguard financial stability, and address the weaknesses identified by IMF technical assistance. Moreover, the recommendations of the comprehensive financial sector

reform strategy, prepared in collaboration with the World Bank and currently being validated, will help us to decide on the priorities and sequencing of reforms. The minimum capital requirement for banks, which was UM 5 billion in 2011, has been raised to UM 6 billion by the end of 2012, including for the two new Islamic banks that have received banking licenses by the CBM. Our focus will be on:

- ***Development of long-term saving.*** To allow banks to mobilize stable resources, we adopted a draft instruction aimed at removing the interest rate floor on savings accounts for all accounts exceeding UM 5 million. Similarly, the instruction foresees reducing the interest rate ceiling for small savers, which will now be linked to the T-bill rate.

- ***Continuous monitoring of risks*****.** With the assistance of the World Bank, we have launched the computerization of the credit bureau and initiated the setting up of a database on default payments. The international audit of commercial banks, financed by the World Bank, will be available during 2012 and will serve to monitor developments in the nonperforming loan portfolio.

- ***Related-party lending*****.** In March 2012, we issued a new instruction, approved by the Monetary Policy Council, on related-party lending (structural benchmark) and assessed its impact on the banking system. In accordance with the instruction, the three banks in breach with the new regulation will have until 2014 to bring themselves into compliance.

- ***Strengthening of banking system regulations and supervision*****.** In collaboration with the West AFRITAC technical assistance, the CBM has implemented a new instruction to phase in a new capital adequacy framework consistent with Basel II. In addition, a draft revision of the Banking Law in priority areas (in particular reinforcing the independence of the CBM) is currently in preparation. In the short term, the BCM will continue to strengthen the financial and human resources of the banking supervision department and ensure that all banks respect the existing prudential rules and regulations. Penalties for breaching thresholds on foreign exchange positions will be increased if they turn out not to be stringent enough. With the support of AFRITAC West, we will initiate a training program for our inspectors responsible for on-site supervision.

- ***Introduction of IFRS accounting.*** We have asked an audit firm to assist commercial banks during the transition to IFRS accounting. The final report of this project will be submitted at end-September 2012. As regards the quantification of the differences between the CBM's 201 financial statements under Mauritanian and IFRS accounting standards, it did not take place as planned at end-March 2012 because of difficulties in recruiting the auditor. However, we intend to ask the firm that is auditing commercial banks to perform this exercise or, if not possible, another international qualified audit firm, with the aim of having the audit finalized in the shortest possible timeframe (new structural benchmark).

- ***Enhancement of transparency***. The detailed and consolidated survey of the banking system is being posted on the CBM's website on a quarterly basis to keep the interested public informed about the situation of the banking system. In June 2012, we will publish the CBM's 2011 financial statements as well as the auditors' opinion. The CBM will continue to have its accounts—including its reserves—audited by an international audit firm selected through an international bidding process.

External sector and debt management

17. The current account balance should widen to approximately 20 percent of non-oil GDP in 2012, compared to 7 percent in 2011. This marked deterioration is due to a sharp increase in imports as a result of the 2012 EMEL program, investment in the energy and mining sectors, and the new airport, as well as the expected fall in iron ore exports. The deficit will be mainly financed by higher external financing as well as by significant foreign direct investment in the mining and oil sectors.

18. We are committed to protect external debt sustainability and we are ensuring that it stays at sustainable levels. To do this, we are committed to stepping up efforts to mobilize sources of concessional financing for our public investment program, and we have been able to mobilize two-thirds of the pledges at the Brussels round table in June 2010. We will take into account the recommendations of the joint IMF and World Bank mission when adopting a new medium-term external debt strategy by end-September 2012 (new structural benchmark). We will also work to strengthen the National Debt Management Committee, which will work in cooperation with other institutions (CBM, MAED, and MF) to coordinate a strategy for managing domestic and external debt. We will continue to actively deploy our best efforts to complete relief agreements with bilateral creditors. In this regard, we have moved forward in the discussions with the Kuwaiti authorities to achieve an acceptable treatment of the bilateral debt. With the support of international development partners, we hope to conclude these discussions in the coming months.

B. Structural Reforms

19. We attach considerable importance to structural reforms because of their positive effect on improving the business climate, promoting growth, creating jobs, and reducing poverty.

Strengthening the social protection system and gradually eliminating subsidies

20. Our social protection strategy, designed in collaboration with UNICEF, is being finalized. It has been validated at the regional level and will be adopted by the government by end-June 2012. The launching of the strategy's action plan will improve social security

coverage and better protect poor and vulnerable groups. Moreover, due to the negative effects of the drought on the food insecurity, we adopted a national food security strategy as well as an associated public investment program for the period 2015 to 2030 in March 2012. We hope to obtain the support of our technical and financial partners (TFPs) for this strategy and have requested financial contributions.

21. Our policy of phasing out subsidies that are generally poorly targeted continues. For this purpose, we have developed a new fuel price structure reflecting our goal of eliminating fuel subsidies. The simplified structure includes: distribution margins set on a specific basis and not linked to international prices, the exclusion of the minimum tax from the price structure, shorter maturities for letters of credit (from 180 to 90 days), an automatic price change every two weeks, and a pump price-smoothing mechanism. The Council of Ministers adopted this new price structure on May 9, 2012. Full pass-through of international prices will be applied to all large consumers by July 2012, and the corrective margin will be eliminated by the end of the year. To ensure that the pricing formula can automatically be applied if international prices increase sharply, a new instruction will establish a cap of 3 percent in the smoothing formula. In the same vein, to mitigate the impact of rising prices on the vulnerable, we have undertaken a number of additional initiatives:

- The evaluation of the 2011 food subsidy program (structural benchmark) allowed us to improve the design and implementation of the EMEL program 2012, which is currently in effect, including by reducing logistics costs and improving targeting in rural areas.

- We have also successfully completed the vulnerability and poverty survey among vulnerable groups in Nouakchott led by the Food Security Commission (CSA) in collaboration with World Food Program (WFP). We plan to extend this survey to the whole country before end-2012. We have started with help of WFP to exploit the results of this survey to initiate a cash transfer scheme for the 10,000 households identified in Nouakchott. Another cash transfer mechanism will be introduced in June 2012 in rural areas (which WFP staff judge to be high risk areas for food insecurity), pending the completion of the vulnerability survey for the rest of the country, which will further improve the targeting mechanism.

- We will strengthen, with help of developmental partners, existing conditional transfer programs, such as programs on school cafeterias, food for work, and in support for pregnant women.

Reform of government finances

22. In February 2012, we finalized and approved the strategic public finance plan that was prepared with the support of the development partners, including the IMF and the EU. We will put in place all the resources necessary to implement this plan, including the creation of the technical steering committee by end-June 2012.

Management of natural resources and mining taxation policy

23. The government is committed to ensuring total transparency in the exploitation and use of the financial resources originating from the mining industries. Our ultimate goal is to maximize the positive impact of mining revenues on our people and to make growth much more inclusive. Mauritania's membership of the Extractive Industries Transparency Initiative (EITI) since 2005 resulted in full compliance status in February 2012. We propose to increase awareness about EITI in the wider public to improve accountability. We also intend to further improve the quality of the documents produced and broaden the coverage of the initiative to new sectors, such as fisheries, and to issues related to the environment, which are of interest to local people. In the near term, we plan to publish on a monthly basis tax and nontax revenue from the mining sector (SNIM, TASIAST, and MCM) on the website of the Ministry of Finance, as is currently done for the oil sector.

24. The government will start discussing ways to further optimize the resources originating from the mining sector. The Fund technical assistance mission concluded that the Mauritanian mining sector remains under-taxed despite recent legislation introducing progressive royalty rates. Thus, the government has decided to evaluate the prospects of renegotiating the tax incentives in the mining sector with investors who so wish, while maintaining the stability of the business climate. The priority for now is to:

- Create an interministerial committee to improve coordination between the different government agencies involved in the mining sector (Ministry of Finance, Ministry of Mines and Petroleum, Ministry of Economic Affairs and Development, the national hydrocarbons commission, and the BCM).

- Stop giving tax and customs advantages in new agreement with foreign investors, and instead apply the current mining code. This would make tax and other granted advantages more transparent and help us eliminate the asymmetry of the stability clause that allows mine operators to benefit from any change in the legal framework that is favorable to them.

- Reimburse VAT credits due to mining companies. Thus, we intend to reimburse UM 2 billion this year, establish an escrow account to reimburse VAT credits monthly, and simplify our procedures by identifying two or three locally acquired assets that could be exceptionally exempt from VAT.

- Fill existing gaps in our tax code in order to tax capital gains as a result of transfers of ownership of assets in Mauritania.

- Create a mining fund by the end-2012, modeled on the example of the existing oil fund. The idea is release saved resources in the event of exogenous shocks to finance urgent development projects. An IMF mission scheduled in October 2012 will help us to put this mechanism in place.

Improving revenue collection

25. We are committed to improving tax collection. Thus, the tax department at the Ministry of Finance (DGI) has made considerable progress in: (i) adopting the principle of a Large Taxpayer Unit (LTU) with national jurisdiction; (ii) significantly increasing tax audits; and (iii) completing the census of approximately 20,000 potential taxpayers in Nouakchott. In 2012, we intend to extend the Tax Identification Number (TIN) to all taxpayers identified, increase the number of DGI staff and enhance their training, and improve the effectiveness of the DGE by increasing its jurisdiction threshold to at least UM 300 million by September 2012. While stepping up our tax audit efforts, we will modernize our collection and appeal procedures by November 2012 by creating independent joint committees to manage appeal procedures.

26. We will accelerate customs reform to strengthen its role in revenue collection, facilitate trade operations, and combat fraud. In this regard, we intend to establish a valuation office by end-2012 and, with French development assistance, operationalize the customs intelligence office. Furthermore, to make best use of ASYCUDA++, a system of selective inspection parameters will be established by end-June 2012, which should make customs control more effective. To strengthen performance-based management, we intend to introduce performance indicators for Customs staff (new taxpayers, recovery of arrears, customs clearance times, and number of seizures). Synergies with the DGI will be developed through a memorandum of understanding between the customs Department (DGD) and DGI by December 2012 to formalize exchanges of information on taxpayers. Work on the draft of the new Customs Code is at an advanced stage, which will allow the new code to be submitted to the Council of Ministers by September 2012. The vocational training center that became operational in 2011 will allow us to build human capacity at the DGD.

Managing public expenditure

27. After closing all sub-accounts, we have placed their balances in the Treasury Single Account, which became operational since end-2011. We have also taken, in consultation with the CBM, all necessary steps for the Treasury to be admitted to the clearing house as a full member. The Treasury/CBM computerized interface is close to fully functioning.

28. With regard to budget preparation and execution, we have started to use functional expenditure classification and itemized all subsidies included under the heading “common expenditures” (*dépenses communes*) in the 2012 budget law. We will continue to ensure that the budget clearly spells out all transfers to public enterprises (including public transport enterprises) as well as any new tax leveled on private companies. We will continue to avoid using exceptional spending procedures (*procédures dérogatoires*) and cash advance procedures, except in cases of extreme urgency. To this end, an inventory of existing imprest accounts *(régies d’avance)* will be made by end-June 2012 and we will ensure that the status of the General directorate of Treasury auditors will be adopted before end-September 2012.

We also intend to prepare a new organic budget law in 2013 with the help of IMF technical assistance.

29. To evaluate and solidify the financial situation of the government, we produced, as planned, a report on the government's pending payment disputes with private- and public-sector entities in March 2012. The conclusion of the report is that the government owes a sum of UM 6 billion, and a plan to settle these arrears over 2012–14 has been prepared. The lists of beneficiaries and the action plan will be published in July 2012. The rejection of applications for payments will be clearly explained to those concerned. Similarly, the inventories of government guarantees and the repayment schedule for the subset of activated guarantees will be established in 2012.

30. A new public procurement code came into force in 2012. The relevant decrees have all been adopted and implemented in early February 2012. Going forward, the code's provisions will be applied without exception to all contracts awarded by the public sector. Awarding contracts through private negotiation will remain exceptional and continue to be overseen by the monitoring committee set up by the new code. To encourage private-sector involvement in major projects, we intend to prepare a draft law on public-private partnerships.

Containing the wage bill and improving the quality of public services

31. We have made a considerable effort to make up the delay in implementing the civil service reform. We have reconciled the civil service database with the payroll file and cross-checked the entries that were the same in these two databases against the validated civil service census. This led either to the removal from the payroll or to the regularization in the civil service database. In the light of these results, we plan to have a payroll with a single database aligned with the census by June 2012 (structural benchmark). This database will feed into the forthcoming integrated system of human resources management that should promote a decentralized system at line ministries level.

32. We continue to ban any recruitment that is not governed by the civil service regulations. In the short term, we are working to put in place effective and permanent mechanism that controls the presence of civil servants and government employees in their offices. To strengthen human resource management, we plan, with World Bank technical assistance, to initiate an organizational audit of line ministries, beginning with the Ministries of Education, Finance, and Health. Furthermore, a methodology for forecasting the wage bill will be designed and implemented at the Ministry of Finance with assistance from AFRITAC West. In particular, we plan to make the tracking of personnel expenditure more effective and introduce forward-looking management of staffing levels. This will allow controlling the replacements of departing personnel with new recruits to reflecting actual government needs.

Improving public enterprise performance

33. To strengthen and improve the management of public enterprises, we are committed to conduct, together with the World Bank, a technical and financial audit of public enterprises. Unfortunately, these audits have not been carried out as planned in the program due to delays in procurement procedures. Nevertheless, the audit reports must ready by end-2012 so that we can start mending their financial positions and ensure that they are more effectively managed, notably through performance contracts. We will pay special attention to the new public transportation company to ensure that any budget impact remains minimal. We also intend to monitor more closely the government's wage payments to public institutions and enterprises by carrying out a personnel census and producing a centralized database of staff at the Department of Government Property. We will also organize regular financial audits of public enterprises and improve coordination between the various departments concerned.

Reforming the electricity sector

34. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC to the order of UM 20 billion in 2010, we formally adopted a restructuring plan in 2011 and recapitalized SOMELEC a second time for an additional UM 13.6 billion. We have adopted a plan for the repayment of government arrears to SOMELEC over two years in four installments. At the same time, the government has begun paying its electricity bills to SOMELEC on time and has paid a substantial proportion of the company's operating subsidy. The government has also made a commitment that the utility bills of all government agencies will be paid regularly. We will support SOMELEC's efforts to recover unpaid debt from other public entities. Furthermore, electricity tariffs for the service sector have been aligned with the tariffs for medium-voltage electricity since early 2012. This has enabled the company to limits its recourse to bank borrowing at high interest rates, which were a drain on its finances.

35. Additional measures will further improve SOMELEC's situation in 2012. In particular, the new short-term credit line granted by the IsDB will considerably reduce the company's procurement cost of fuel and ease its financing costs. A tariff study, conducted by an international firm, has been launched and the forthcoming report will probably lead to a revision of electricity tariffs, particularly of those paid by large consumers, which may increase as early as July 2012 (structural benchmark). Moreover, we have called on a consulting firm to implement a performance contract between SOMELEC and the government.

Promoting the private sector and employment

36. We are determined to significantly improve the investment climate and to identify constraints that hinder private-sector development, helping us to master the challenge of creating employment for our young people. The approval of the new investment code in June

2012, later than expected, and the implementation of the one-stop shop will further simply and shorten administrative procedures for new investments. The framework for coordinating government and the private-sector investment activities will be further strengthened through improved communication links.

37. We will continue to rely on a multi-pronged strategy to promote employment. We plan to introduce a national strategy for developing private-sector skills. This will accompany our efforts to modernize vocational training programs for the young and enhance labor-market integration of unemployed young graduates. Steps undertaken in the agricultural sector (such as the development of new irrigation areas) and a new strategic study of the telecommunications sector will help create new jobs. To truly understand labor market conditions and trends, we will complete studies on nationwide employment and the informal sector in Mauritania in 2012. Our technical and financial partners (ILO and UNDP) will assist us in the preparation of these studies.

Strengthening governance

38. Fighting corruption remains a government priority. After adopting a national anti-corruption strategy (SNLCC) in 2010, we organized a high-level meeting on combating corruption in March 2012, with many experts from neighboring countries and international institutions participating. In the meeting’s concluding declaration, we reiterated our commitment to finalize, in collaboration with the UNDP, the SNLCC action plan by June 2012 that will take account of Mauritania's international obligations, in particular with regard to the United Nations and African Union conventions on preventing and combating corruption. To operationalize the SNLCC, we plan to present a draft law by end-2012 to define the contours of the authorities' action against corruption. In addition, amongst other actions, we intend to create a technical commission by end-2012 that will make recommendations on streamlining the government’s control and computer system.

Improving economic statistics

39. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress towards the MDGs. Accordingly, we intend to launch a number of surveys in 2012: a complete revision of the CPI, an update of the directory of industrial companies, an employment survey (see above), and the fourth general census of household living conditions (EPCV). We have requested World Bank support to build statistical capacity by pressing ahead with the organizational and institutional reform of the national statistical office (ONS). Also in this context, we intend to launch statistical functions in ministerial departments and introduce training schemes.

C. Risks

40. The rebound in economic activity augurs well for our performance under the program in 2012. However, various risks may jeopardize our attainment of program objectives: (i) another rainfall deficit in 2012; (ii) an acceleration of the cyclical downturn in external demand and export prices (iron ore, copper, and gold) and volatility of import prices for wheat, rice, and oil; and (iii) shortfalls in concessional external financing. The government stands ready to take appropriate measures to mitigate the effects of such risks, should they materialize. Any such corrective measures will be taken in consultation with Fund staff.

III. Conclusion

41. As the principal objectives of the program for 2011 have been achieved (Tables 1 and 2a), the government requests approval of the fourth review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. To reflect the better than expected program performance in 2011, the new external environment, and the EMEL emergency program, the government requests modification of the end-June 2012 performance criteria relating to net international reserves, net domestic assets, and the non-oil basic balance.

42. We believe that the policies set forth herein are adequate to achieve the objectives of the program, but stand ready to take any further measures that may become appropriate for this purpose. We will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained herein, in accordance with the Fund's policies on such consultation. We will remain in close consultation with Fund staff and provide timely information necessary for monitoring economic developments and implementation of policies under the ECF-supported program. New performance criteria have been proposed for end-December 2012 (Table 1). New structural benchmarks have been proposed for 2012 (Table 2b). These quantitative criteria and structural benchmarks are described in the attached Technical Memorandum of Understanding. The fifth and sixth review under the program are expected to be completed on or after November 30, 2012 and on or after March 13, 2013, respectively.

Very truly yours,

Sid' Ahmed Ould Raiss /s/
Governor of Central Bank of Mauritania

Thiam Diombar /s/
Minister of Finance

Sidi Ould Tah /s/
Minister of Economic Affairs and of Development

ATTACHMENT I. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Letter of intention (LOI) and reported in Table 1. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.

2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference periods described in Table 1 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the CBM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 ($1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/$262.0), the SDR ($/SDR 1.61), the euro (Euro/$1.49), and other nondollar currencies as published in the IFS.

4. **Net domestic assets** (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., NDA = Reserve Money – NFA, based on the CBM balance sheet). NFA will be measured at the **program exchange rates** as described in Paragraph 3.

5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001)*, excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (*revenue recorded by Treasury*). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the CBM,

including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the CBM).

6. **The new medium- and long-term nonconcessional external debt contracted or guaranteed** by the government, the CBM, and State Owned Enterprises (excluding SNIM) is defined as debt to nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No 6230- (79/140), Point 9, as revised on August 31, 2009, and effective December 1, 2009 (Decision No.14416-(09/91); see Annex) but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

7. **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows**: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

8. **The short-term nonconcessional debt** is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the CBM. This definition applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) August 24, 2000; see Annex). This definition excludes foreign currency deposits with the CBM. It also excludes normal import-related credits.

9. **External payments arrears** are defined as overdue payments (principal or interest) on the external debt contracted or guaranteed by the government or the CBM after the expiration of the applicable grace period.

10. **Treasury float (outstanding payments at the Treasury)** is defined as the outstanding stock of payment orders registered at the Treasury and not yet executed by the Treasury. Once the RACHAD payment module is implemented, the float will be defined as the payment orders validated by the RACHAD payment module and not yet executed by the Treasury.

11. **Poverty reduction expenditures** will be estimated on the basis of the public expenditure functional classification based on the recommendations of the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("*Les réformes en cours de la gestion budgétaire et financière,*" March 2006). This estimate will only take into account domestically-financed expenditures.

B. Structural Benchmarks

12. **Structural benchmarks for the 2011 tranche of the program were:**

- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number.

- Full implementation and use of ASYCUDA++ in major customs offices by end-December 2011.

- Introduction of a Treasury Single Account by end-December 2011.

- Design by end-December 2011 an overall external debt management strategy **(differed to end-September 2012)**.

- Increase by end-December 2011 bank minimum capital to UM 5 billion ($18 million).

- Complete by end-December 2011 the study on the financial situation of major public enterprises. This will be based on the financial audit of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX **(differed to end-December 2012)**.

- Complete by end-December 2011 a government arrears repayment plan for SOMELEC.

- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

13. **Structural benchmarks for the 2012 tranche of the program are:**

- Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears by end-March 2012.

- Audit the CBM's NIR and NDA data as of end-December 2011 by end-March 2012.

- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.

- Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties by end-March 2012.

- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.

- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.

- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011 by end-June 2012.

- Update the payroll file with actual results from the census of employees by end-June 2012.

- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012.

II. PROGRAM ADJUSTORS

14. **NIR and NDA targets** are derived based on the projected amounts of **the FNRH contribution** to the budget and of the net **international assistance.** The latter is defined as the difference between (a) the sum of cumulative disbursements of official loans and grants (budget support; excluding HIPC assistance and project-related loans and grants) in foreign currency and of the impact of any additional debt relief obtained after June 30, 2006; and (b) the total amount of external cash debt service payments (including interest on foreign liabilities of the CBM).

15. In case **net international assistance or the contribution of the FNRH to the budget falls short** of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA ceiling, this amount will be converted into ouguiya at the program exchange rates. The cumulative

downward adjustments to NIR will be limited to $35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

16. **The floor on the basic non-oil deficit** will be adjusted upward—that is, the maximum deficit will be increased for any higher than programmed disbursement of budgetary grants.

III. Reporting Requirements

17. To allow for the monitoring of economic developments and program performance, the Mauritanian authorities will provide the IMF with the following specific information.

Central Bank of Mauritania (CBM)

- The monthly balance sheet of the CBM, and monthly data on (a) CBM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.

- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.

- Data on Treasury bills auctions and the new stock outstanding within a week following each auction.

- Monthly data on the level of liabilities of each public enterprise to the banking sector, within one month from the end of each month.

- Monthly external debt data within 30 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

  - The external debt data file: service of the external debt of the CBM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.

  - The monthly list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor, and by currency) within 30 days following the end of each quarter.

- Bi-monthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

Ministry of Finance

- The Treasury's monthly cash and liquidity management plan, updated by the fiscal and monetary policy coordination committee, will be reported on a monthly basis along with the minutes of the weekly meetings.

- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically-financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two (2) weeks following the end of each month.

- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.

- Monthly data on the execution of the foreign-financed part of the investment budget based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two (2) weeks following the end of each month.

- Monthly reports on oil- and other hydrocarbon-related production and financial flows, including data on oil sales and repartition of oil revenue among all partners involved in oil production within one (1) month from the end of each month.

- Annual balance sheets audited or certified by a statutory auditor of the accounts of public enterprises and autonomous public institutions.

- Quarterly data on the operations of oil sector enterprises and on those in the mining sector.

National Statistical Office

- Monthly consumer price index within two (2) weeks following the end of each month.

- Quarterly industrial production index within one (1) month of the end of each quarter.

- Quarterly note on economic activity and international trade.

Technical Monitoring Committee

18. Monthly report on program execution three (3) weeks at the latest after the expiration of the month.

19. All data will be transmitted electronically. Any revisions to previously reported data accompanied by an explanatory note shall be promptly communicated to the staff.

IV. Central Government Operations Table

20. The Treasury will prepare a monthly budget execution report in the format of a Central Government Operations Table (TOFE). In preparing this table, the following definitions shall be used:

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of CBM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (*EPA*) with the CBM).

- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.

- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims (beyond a period of three months) on government acknowledged by the Ministry of Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).

- **External financing** is defined as the sum of the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of technical arrears and passive debts as defined in Paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Table 1. Mauritania: Quantitative Benchmarks and Performance Criteria for 2010, 2011, and 2012

(Cumulative changes from end-December 2010 and 2011) 1/

	End-Dec. 2010			End-Dec. 2011			End-Mar. 2012			End-Jun. 2012		End-Sep. 2012		End-Dec. 2012	
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative target	Indicative target adjusted	Actual	Performance criteria	Proposed performance criteria	Indicative target	Proposed indicative target	Indicative target	Proposed performance criteria
Quantitative targets															
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	-6.9	22.5	-17.8	41.8	8.3	76.1	-4.0	37.7	-16.1
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-3.1	-10.8	-1.2	-13.6	4.0	-14.9	13.5	-0.8	19.8
Basic non-oil balance; in billions of ouguiya	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-1.7	-1.7	13.3	15.7	29.3	16.7	10.4	-8.4	-11.2
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 4/	0		0	105.0		0.0	0.0		105.0	0.0	0.0	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous quantitative	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Poverty-related expenditures; in billions of ouguiyas (indicative target)	106.7		89.9	106.5		107.9	24.3		24.9	56.4	68.2	87.1	107.3	115.7	133.8
Adjustors (in millions of U.S. dollars)															
Net international assistance	35.4		-9.4	32.8		-6.9	-7.2		23.1	-39.0	2.1		34.7	-50.0	8.1
Cumulative disbursements of official loans and grants in foreign	76.6		34.0	92.6		58.2	0.0		30.9	0.0	40.5	4.7	80.0	28.1	84.4
Impact of any additional debt relief	0		0	0.0		0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	-41.2		-43.4	-59.8		-65.1	-7.2		-7.8	-39.0	-38.4	-46.2	-45.3	-78.2	-76.3
FNRH contribution to the budget	47.2		110.7	34.8		33.5	0.0		29.4	0.0	29.4	0.0	29.4	50.6	56.8
Cumulative disbursements of official grants in foreign currency	46.9		34.0	24.6		3.5	0.0		0.0	0.0	9.6	4.7	21.8	14.0	26.3
Memorandum item:															
UM/US$ exchange rate (program)		262.0		262.0			262.0				262.0		262.0		262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.
2/ Adjusted upward by FNRH contribution to the budget and downward by net international assistance and FNRH contribution to the budget (see TMU).
3/ Adjusted upward by net international assistance and FNRH contribution to the budget (see TMU).
4/ The higher ceiling for 2011 only accommodates the financing of a hybrid power plant. Ceiling for other nonconcessional borrowing is still zero.

Table 2a. Mauritania: Structural Benchmarks, 2011

Item	Measures	Date (end-of-period)	Outcome	Comment
Tax administration				
1	Finalize a plan for recovering tax arrears.	June 2011	Met	A draft plan is already available and being used at the tax agency.
2	Conduct a census of all businesses, including SMEs.	September 2011	Met	Some SMEs are now also being processed by the large taxpayer unit. The Census has been completed.
3	Fully implement and use ASYCUDA++ in major customs offices.	December 2011	Met	ASYCUDA++ is already installed in all customs offices. Some minor technical problems occur from time to time but are resolved as soon as they show up.
4	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2011	Met, with delay	1788 tax payer identification numbers have already been distributed to taxpayers, of which 744 are new taxpayers. Taxpayer identification numbers will continue to be issued as results of the just completed census are being exploited. A database will be sent to the Fund once compiled.
Expenditure policy				
5	Modify petroleum price structure as defined in the TMU (TMU, paragraph 12).	June 2011	Met, with delay	Decree issued July 4, 2011.
Public financial management				
6	Introduce a Treasury Single Account.	December 2011	Met	The TSA is operational since October 2011 as sub-accounts have been closed down. Treasury and Central bank paying procedures have been coordinated. Some additional accompanying measures will be in place by end-March 2012.
7	Design an overall external debt management strategy.	December 2011	Not met	An interministerial national debt management committee has been created. It approved an external debt strategy in December 2011, which still needs to be improved according to IMF and WB recommendations. A new joint WB/IMF mission visited Nouakchott in June to help in the establishment of a debt strategy.
8	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2011	Not met	The ToRs for the public enterprise audits had to be resubmitted and go through the WB procurement procedures. Audits are now expected to be completed by end-2012.
9	By end-December 2011, finalize a repayment strategy for the debt owed by the government to SOMELEC over a period of three years.	December 2011	Met	The amount of unsettled obligations has been determined. A two-year repayment plan for arrears has been prepared, and the first payment will be executed before end-June.
Central bank transparency				
10	Audit the CBM's NIR and NDA data as of: end-December 2010.	March 2011	Met	End-December targets were audited by end-March. The completed audit report was not provided until April 2011.
	end-June 2011	September 2011	Met	The audit has been completed and the preliminary audit report has been submitted on time.
11	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2010.	June 2011	Met	
Financial sector				
12	Conduct an audit of commercial banks' financial statements (as of end-December 2010) by a firm hired through invitation to tender.	September 2011	Met, with delay	Staff received most audits on time, and the final two were sent via mail in early November.
13	Increase banks' minimum capital to UM 5 billion (US$18 million).	December 2011	Met, with delay	The only bank that had not met the new threshold at end-2011 completed a capital increase following shareholders' approval in the annual meeting in June 2012.
Social policy				
14	Conduct with the support of the World Food Program a vulnerability and poverty survey.	October 2011	Not met	As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to June 2012.
15	Assess effectiveness of the dedicated shops used in the solidarity program.	December 2011	Met	A full report was prepared and submitted to staff on time.

Table 2b. Mauritania: Structural Benchmarks, 2012

Item	Measure	Date (end-of-period)	Outcome	Objective	Comment
Expenditure policy					
1	Update the payroll file with actual results from the census of employees.	June 2012		Control public wage bill.	The payroll database has been reconciled with the census.
2	Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study.	July 2012		Phase out poorly targeted subsidies.	The consulting firm has been selected and the contract signed. The study itself started in April.
Public financial management					
3	Conduct an inventory of all domestic debt and formulate a plan to settle all domestic arrears.	March 2012	Met		A report on domestic arrears—and the action plan to settle these arrears—has been prepared.
4	Design an overall external debt management strategy.	September 2012		Safeguard fiscal and external sustainability.	
5	Complete a study on the financial situation of the main public enterprises, following financial audits of the following enterprises: SOMELEC, SOMAGAZ, SNDE, MAURIPOST, and SONIMEX.	December 2012		Ensure efficient use of public resources.	
Central bank transparency					
6	Complete the report on the quantification of differences between the CBM's 2010 financial statements prepared under national accounting principles and under IFRS, prepared with the assistance of an international audit firm.	March 2012	Not met	Enhance central bank transparency.	The contract with current external auditor was not secured in advance. Negotiations have been initiated with other audit firms, and the authorities expect to submit the report to the Fund by end-September 2012.
7	Audit the CBM's NIR and NDA data as of end-December 2011.	March 2012	Met		The audit has been completed, and the authorities have submitted the final auditor report to the Fund.
8	The CBM should publish on its website audited financial statements together with audit opinion for the year ended on December 31, 2011.	June 2012		Enhance central bank transparency.	
9	Sign a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.	June 2012		Improve monetary policy effectiveness.	
Financial sector					
10	Review the rules on connected lending practices and calculate the impact on banks of a tightening in the definition of connected parties.	March 2012	Met		The regulation on connected lending has been approved in early March by the Monetary Policy Council and signed by the governor on March 26, 2012. An assessment of the impact of the new instruction has been prepared with help from Fund TA.
Social Policy					
11	Conduct with the support of the World Food Program a vulnerability and poverty survey.	April 2012	Met		As agreed at the time of the 3rd review, the poverty survey will be conducted in two phases. The Nouakchott phase was completed in April 2012, while the survey for the rest of the country has been deferred to June 2012.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2012 Article IV Consultation, Fourth Review Under the Three-Year Extended Credit Facility Arrangement, and Requests for Waivers of Nonobservance and Modification of Performance Criteria

Informational Annex

Prepared by the Middle East and Central Asia Department

June 14, 2012

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ANNEX I. RELATIONS WITH THE FUND

As of May 31, 2012

I. Membership Status: Joined: September 10, 1963 — Article VIII

II. General Resources Account	**SDR Million**	**% Quota**
Quota	64.40	100.00
Fund holdings of currency	64.40	100.00
Reserve Position	0.00	0.00

III. SDR Department	**SDR Million**	**% Allocation**
Net cumulative allocation	61.67	100.00
Holdings	0.94	1.53

IV. Outstanding Purchases and Loans	**SDR Million**	**% Quota**
ECF Arrangements	54.47	84.58

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Disbursed (SDR Million)
ECF	Mar 15, 2010	Mar 14, 2013	77.28	44.16
PRGF	Dec 18, 2006	Nov 01, 2009[1]	16.10	10.31
PRGF	Jul 18, 2003	Nov 07, 2004[5]	6.44	0.92

VI. Projected Payments to Fund

(In millions of SDRs; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2012	2013	2014	2015	2016
Principal	0.7	1.9	2.1	3.2	7.6
Charges/Interest	0.0	0.1	0.2	0.2	0.2
Total	0.7	2.0	2.3	3.4	7.8

[5] Cancellation date.

VII. Implementation of HIPC Initiative

Enhanced

		Framework
I.	Commitment of HIPC assistance	
	Decision point date	Feb. 2000
	Assistance committed by all creditors ($millions)[6]	622.00
	Of which: IMF assistance ($millions)	46.76
	(SDR equivalent in millions)	34.80
	Completion point date	Jun. 2002
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	34.80
	Interim assistance	16.88
	Completion point balance	17.92
	Additional disbursement of interest income[7]	3.63
	Total disbursements	38.43

Decision point—point at which the IMF and the World Bank determine whether a country qualifies for assistance under the HIPC Initiative and decide on the amount of assistance to be committed.

Interim assistance—amount disbursed to a country during the period between decision and completion points, up to 20 percent annually and 60 percent in total of the assistance committed at the decision point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in the footnote above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

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[6] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. These two amounts cannot be added.

[7] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR million)[8]		32.91
Of which:	MDRI	30.23
	HIPC	2.68

II. Debt Relief by Facility (SDR Million):

	Eligible Debt		
Delivery Date	GRA	PRGF	Total
June 2006	n/a	32.91	32.91

IX. Safeguards Assessments

An update safeguards assessment of the Central Bank of Mauritania (CBM) was completed on April 30, 2010, highlighting that significant risks continued to exist. Since the completion of the safeguards assessment, the General Council was restored, timely publication of the audited financial statements resumed, and cash operations of the CBM foreign offices ceased—all key safeguard priorities. Further action is needed on developing capacity in the areas of financial reporting, information systems, and internal audit. To ensure the quality of program monetary data, external audits are conducted every six months at the time of program reviews. There are currently no plans to establish an audit committee or require the General Council to fulfill its oversight responsibilities.

X. AML/CFT

Mauritania recently changed its legal framework criminalizing money laundering and the financing of terrorism with a view to enhance compliance with international standards. The Financial Action Task Force for the MENA region (MENAFATF) has adopted Mauritania's 5th follow-up report to the initial 2006 mutual evaluation report without expressing any serious concern in April this year.

A financial intelligence unit ("Commission d'analyse des informations financières"), composed of experts from various ministries and the CBM, has been operational since 2006 and is responsible for analyzing suspicious transaction reports. To date, the unit has processed 54 reports, of which two ultimately led to criminal convictions. The authorities are currently receiving technical assistance from the World Bank.

[8] The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004, which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

XI. Exchange Rate Arrangement

The Mauritanian currency is the ouguiya (UM), and its de facto exchange rate classification is “other managed arrangement” with no pre-announced path. The rationing of foreign exchange introduced in late 2008 ended in mid-December 2009, thus allowing for greater exchange rate flexibility and removing all restrictions on current account transactions. Fish export receipts are subject to a repatriation requirement, under which the foreign exchange-denominated receipts have to be domiciled in an account at the CBM. Fish exporters remain otherwise unrestricted in their use of the foreign exchange receipts. All foreign exchange purchases and sales in excess of $100,000 by residents have to go through the foreign exchange market organized by the CBM.

XII. Last Article IV Consultation

Discussions for the 2009 Article IV consultation were held in Nouakchott during December 2-17, 2009. The Country Report No. 10/34 was considered by the Executive Board on March 15, 2010.

XIII. FSAP Participation, ROSCs and Offshore Financial Center (OFC) Assessments

A joint Fund/Bank FSSA, based on work undertaken during two visits to Mauritania in February 2005 and February-March 2006 as part of the Financial Sector Assessment Program (FSAP), was presented to the Executive Board in April 2006. As updated by subsequent Article IV and review missions, its main findings are:

- The financial sector, while not exhibiting any sign of distress, does not support economic development and presents significant challenges.
- Banks are vulnerable and inefficient; they primarily serve their affiliated economic groups.
- Nonbank financial intermediaries are underdeveloped; microfinance has increased, requiring more intensive supervision.
- Financial sector regulation and enforcement need to be improved, recent progress notwithstanding.
- The financial sector infrastructure—legal and judicial frameworks, accounting and auditing practices, and the payment system—needs to be modernized.

Some recommendations have already been implemented, including: bringing domestic financial sector regulation more in line with international standards and gradually increasing competition in the banking sector by encouraging entry of reputable international banks.

The fiscal transparency module of the Report on the Observance of Standards and Codes (ROSC) was based on two missions, conducted from May 14-24, 2002, and from

August 6-13, 2002, respectively. The final fiscal ROSC report is published on the IMF website.

XIV. Technical Assistance (since 2005)

1. MCM

TA mission on foreign exchange market issues: January 9 – 23, 2005.

Peripatetic TA missions by panel expert on foreign exchange reserves management: July13 – 26, 2005.

TA mission on money market instruments, March 7 – 19, 2006.

TA mission on foreign exchange market, December 17 – 19, 2006.

TA mission on Central Bank accounting, March 6 – May 4, 2007.

TA mission on securitization of government debt, September 9 – 21, 2007.

TA mission on Central Bank accounting, October 20, 2007 – October 20, 2008.

TA mission on foreign exchange market, April 28 – May 6, 2010.

TA mission on central bank accounting, June 6 – 16, 2011.

TA mission on liquidity management, February 5 – 15, 2012.

Joint WB-IMF TA mission on debt strategy, June 3 – 10, 2012.

2. FAD

TA mission on public expenditure management, April 3 – 19, 2005.

TA mission on fiscal administration reform, June 14 – 18, 2005.

TA mission on tax policy, May 25 – June 8, 2006.

TA mission on customs administration, June 5 – 16, 2006.

TA mission on oil revenue management, October 24 – November 7, 2006.

TA mission on tax administration, March 12 – 23, 2007.

TA mission on tax policy, February 27 – March 11, 2008.

TA mission on single treasury account and cash management plan, May 16 – 30, 2010.

TA mission on tax and customs administration, July 30 – August 12, 2010.

TA mission on tax policy, September 19 – 30, 2010.

TA mission on fiscal and trade tariff systems, February 8 – 22, 2011.

TA on subsidy reform, October 4 – 17, 2011.

TA on tax administration, January 15 – 26, 2012

TA on taxation of the mining sector, April 02 – 16, 2012.

TA on tax administration, April 12 – 27, 2012

TA on customs administration, June 24-July 5, 2012

3. **LEG**

TA mission on the drafting of laws to combat money laundering and the financing of terrorism, February 23–March 1, 2005.

4. **STA**

TA consultant on banking and monetary statistics, November 8 – 22, 2005.

TA mission on balance of payments statistics, April 5 – 18, 2006.

TA mission on monetary and financial statistics, July 13 – 26, 2006.

TA mission on National Accounts Statistics, April 16 – 27, 2007.

TA mission monetary and financial statistics, May 11 – 24, 2010.

TA mission on balance of payments statistics, April 10 – 21, 2011.

5. **AFRITAC West**

Several TA missions in 2005 – 12, including on national accounts and price statistics, tax and customs administration, central government operations, public financial management, public-sector wage bill, debt management, debt statistics, bank supervision, and microfinance supervision and regulation.

XV. Resident Representative

Mr. Najeh is the resident representative in Mauritania since January 2010.

ANNEX II—MAURITANIA: RELATIONS WITH THE WORLD BANK GROUP
(JMAP Implementation Matrix)

Title	**Products**	**Mission timing**	**Expected delivery**
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Public expenditure review validation workshop	July 2012	July 2012
	Preparation of CAS	Spring 2012, various	Dec 2012
	Food crisis response Project	May 2012	July 2012
	Port of Nouakchott Project	May 2012	Dec 2013
	Public Sector Capacity Building Project (PRECASP)	Various	March 2014
	State-owned enterprise and public agencies TA	June 2011	June 2012
	Phase II: EITI Implementation	Various	Oct 2012
	Public Enterprise Audits	Various	Dec 2012
IMF work program in next 12 months	Staff visit (budget discussions and follow-up on reform implementation)	July 2012	July 2012
	Mining taxation TA	Spring 2012	Summer 2012
	Foreign exchange market TA	Fall 2012	Fall 2012
	Follow-up mission on public financial management	Spring 2012	Spring 2012
	Fifth review under the ECF	September 2012	November 2012
	Sixth and final review under the ECF	March 2013	May 2013

B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Collaborate on LIC DSA	April 2012	April 2012
C. Agreement on joint products and missions			
Joint products in next 12 months	LIC-DSA		June 2012
	Medium-term debt strategy		June 2012
	Mining Taxation		
	Financial Sector Strategy		

ANNEX III. ISLAMIC REPUBLIC OF MAURITANIA—STATISTICAL ISSUES

As of May 31, 2012

I. Assessment of Data Adequacy for Surveillance

General: Data provision has some shortcomings, but is broadly adequate for surveillance. Most affected areas are: national accounts, balance of payments, external debt, and financial sector statistics. Since 2005, STA and AFRITAC West have been assisting the authorities with macroeconomic statistics.

National accounts: Substantial work is still required to implement the statistical methodologies of the *1993 System of National Accounts (1993 SNA)* and rebase constant price estimates to 1998. The National Statistical Office (ONS) has finalized estimates for 1998–2001 and produced provisional estimates for 2002-06. The ONS has completed the 2009 estimates and is working on 2010-2011. AFRITAC West is providing technical assistance.

Price statistics: The current edition of the consumer price index (CPI), developed with the assistance of AFRISTAT, has been published since May 2004. Geographical coverage of the CPI is limited to Nouakchott, the capital. The authorities plan to overhaul the consumer basket that underlies the CPI this year.

Government finance statistics: The adoption of systematic compilation practices has improved data comprehensiveness, but there is a need to operationalize a data validation process as a quality control measure. In view of ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts. Substantial work is needed to move towards GFS2001.

Monetary statistics: CBM monetary statistics are broadly in line with the statistical methodologies of the *Monetary and Financial Statistics Manual* and data dissemination recommendations of the GDDS. The CBM developed and implemented bridge tables from source data to the Standardized Report Form (SRFs) and since last year submits SRF 1SR (central bank) and 2SR (other financial institutions) to STA on a preliminary basis. The quality of these data needs to be further enhanced, and the scope of 2SR should be expanded to cover micro-finance institutions. With the assistance of an external audit firm, the CBM is preparing its financial reporting system for IFRS implementation in 2012, a key safeguards assessment recommendation. The CBM is committed to publish monetary statistics on its official website in a timely manner.

Balance of payments: Balance of payments statistics are affected by significant shortcomings, as many components are routinely based on estimates, and there are no systematic efforts to collect data on certain types of transfers, foreign direct investment, or tourism receipts. In addition non mining exports, services and short-term capital flows are not well measured. Similarly, under-reporting of external transactions by commercial banks is problematic. No balance of payments statistics are reported to STA. An April 2011 STA TA mission provided recommendations, which, if implemented by the authorities, would significantly address identified shortcomings.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS). Metadata need to be updated.	No data ROSC is available.

III. Reporting to STA (Optional)

Mauritania does not report government finance statistics to STA.
Monetary data using SRFs 1SR and 2SR are reported on a preliminary basis. The CBM also reports monetary data based on its own template to the *International Financial Statistics* database.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of May 2012

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	Apr. 2012	May 2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr. 2012	May 2012	M	M	NA
Reserve/Base Money	Apr. 2012	May 2012	M	M	NA
Broad Money	Apr. 2012	May 2012	M	M	NA
Central Bank Balance Sheet	Apr. 2012	May 2012	M	M	NA
Consolidated Balance Sheet of the Banking System	Apr. 2012	May 2012	M	M	NA
Interest Rates[2]	Apr. 2012	May 2012	W	W	I
Consumer Price Index	Apr. 2012	May 2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Mar. 2012	Apr. 2012	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Mar. 2012	Apr. 2012	M	M	I
External Current Balance	Dec. 2011	Mar. 2012	Q	Q	I
Exports and Imports of Goods and Services	Dec. 2011	Mar. 2012	Q	Q	I
GDP/GNP	2011 [7]	May 2012	A	A	I
Gross External Debt	Mar. 2012	Apr. 2012	M	M	I

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).
[7] Preliminary.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF MAURITANIA

Debt Sustainability Analysis

Prepared by the staffs of the International Monetary Fund
and the International Development Association

Approved by Daniela Gressani and Dhaneshwar Ghura (IMF)
and Jeffrey D. Lewis and Marcelo Giugale (World Bank)

June 14, 2012

This updated joint IMF-World Bank low-income country (LIC) debt sustainability analysis (DSA) continues to show a moderate risk of debt distress for Mauritania.[9] *Under the baseline scenario, debt burden indicators do not exceed their policy-dependent indicative thresholds, except for a minor and not protracted breach of the threshold for the present value (PV) of the debt-to-GDP ratio. The public sector DSA suggests that Mauritania's overall public sector debt remains sustainable over the medium term. The country's vulnerability to fiscal, FDI, exchange rate, and growth shocks highlights the importance of continuing to build fiscal and external buffers, follow a cautious borrowing strategy, and improve debt management. Lack of agreement on debt relief from Kuwait would raise Mauritania's vulnerability to an external shock but would not affect the risk of debt distress, which would remain moderate.*

V. Background and Assumptions

43. **This report follows the DSA prepared in June 2011 for Mauritania's Second Review under the Extended Credit Facility.**[10] This analysis is consistent with the medium-term macroeconomic framework presented in the 2012 Article IV Consultation and Fourth Review under the ECF. Compared to the previous DSA, this analysis includes:

- **Better starting position**. Historical averages for key macroeconomic variables (exports of goods and services, current account balance, primary fiscal deficit) in the

[9] The external and the public sector debt sustainability analysis presented in this document is based on the Debt Sustainability Framework for Low-Income Countries (LIC). Data up to 2011 underlying this analysis were provided by donors and the authorities. From 2012 onwards, projections represent staffs and authorities' views.

[10] See staff report for the second review http://www.imf.org/external/pubs/cat/longres.aspx?sk=25060.0

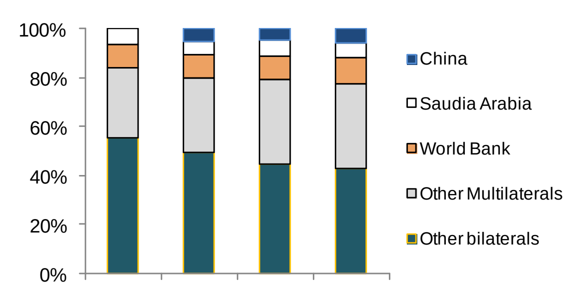
current DSA are slightly better thanks to the contribution of two recent exceptional years (2010 and 2011) characterized by unprecedented high commodity prices, and the authorities' ability to build fiscal and external buffers, which was helped by high dividends from the state-owned iron ore company. This has led to a modified pattern for most debt ratios under both the baseline and alternative scenarios.

- **Updated debt stocks.** The current DSA is based on stock as of end-2011 (Box 1), while the previous one was based on the stock of debt as of end-2009. Amortization and principal payments for 2012 onwards were also updated based on the most recent data.

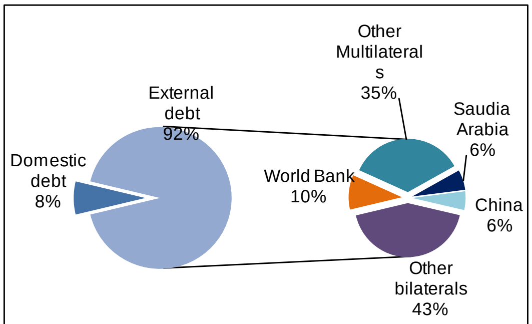
Box 1. Evolution of External Debt

As of end-2011, total external debt amounted to 90 percent of GDP.[1] Gross public and publicly-guaranteed (PPG) external debt was at about 76.8 percent of GDP, compared with a projection of about 55 percent in the previous DSA, due to delays in resolving a long-standing debt with Kuwait. To date, Mauritania has never accessed the international bond market, and 85 percent of its total external debt is held externally by official multilateral and bilateral lenders. The composition of debt has been relatively stable over time and has shifted slightly toward more multilateral donors.

Figure 1. Evolution and Composition of External Debt and Total Debt in 2011



Sources: Mauritanian authorities; and IMF staff estimates.



Sources: Mauritanian authorities; and IMF staff estimates.

1/ This includes central government and state-owned enterprises debt (excluding the IMF SDR allocation and the public iron ore company SNIM, which is treated as a private commercially-run company).

- **Revised macroframework** (Box 2). The fiscal position will continue to strengthen as fiscal consolidation efforts—anchored by a nonmineral fiscal balance—persist, and public financial management and debt monitoring improve. The current account deficit will worsen in the next two years due to large one-off operations but will stabilize at a sustained level over the longer term thanks to the expanding capacity of the mining sector.[11] The overall growth rate for the period 2012–32 remains broadly unchanged although the ongoing expansion of the mining sector and the country's investments in the energy sector are expected to boost growth.

- **Infrastructure projects.** The previous DSA already incorporated the expansion of Mauritania's electricity generation and distribution system. The external borrowing for the electricity project covers 2012–14 and is structured as one nonconcessional and one concessional loan, each for $105 million.[12] The DSA continues to incorporate conservative assumptions regarding the growth dividend from the expansion of the electrical network,[13] and other projects to factor in potential risks associated with delays in implementing those projects and other internal bottlenecks. Resort to concessional borrowing from multilateral and bilateral donors will continue to guide the authorities' debt strategy in the near term—with nonconcessional borrowing remaining the exception. Over the longer run, new borrowing will gradually shift away from concessional financing (Box 2), but the country's debt will remain sustainable, thanks to improved debt management and coherent macroeconomic policies. Private external debt will also increase slightly in the medium term to finance the new airport (staff assumed an additional $200 million in private-sector debt related to this project, of which 40 percent is expected to come in 2012 and 60 percent in 2013) and the modernization of the iron ore company.

- **Debt relief from Kuwait**. The previous DSA scenario assumed that the debt owed to Kuwait will be cancelled in 2011; however, discussions on this issue are still ongoing. The current scenario assumes that full debt relief under HIPC terms will occur in 2012 (about $1 billion). To date, negotiations with Kuwait are at an advanced stage for the portion owed to the central bank of Kuwait (about 17 percent of total). A number of proposals have been made by the Mauritanian government, in line with the most recent letter from the Paris Club, and discussions on various scenarios are still ongoing. Treatment of the debt under the HIPC terms would represent the first best option, but staff estimated the impact of various scenarios on debt sustainability (see paragraph 8).

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[11] Baseline macroframework factors in the positive impact of the ongoing large mining expansion capacity projects (iron ore and gold), which would arrive at completion by 2015 and would boost the country's productive and export capacities. This would somewhat offset the impact of the declining commodity prices projected in the medium term.

[12] The program ceiling on nonconcessional borrowing was raised to allow for this strategic priority project. The project was judged critical to increase electricity supply, was evaluated by a study of the Arab Development Fund, and does not lead to a rise in the risk of debt distress.

[13] The concessional loan has a 35 percent grant element, while the nonconcessional loan has a grant element of 18 percent. The loans are disbursed over the 2012–14 period.

Box 2. Baseline Macroeconomic Assumptions

Real GDP growth: Real GDP growth is projected to be sustained at 5.8 percent per year on average over 2012–17, supported by a rebound in agriculture and strong activity in the mining sector. Significant investment programs will boost production capacity of the national iron ore company, as well as private copper and gold production. Upon completion of these projects, we expect growth to converge to about 4.4 percent per year by 2032 (slightly above the 4 percent historical average). Near-term risks include volatility in commodity prices, a fall in external demand, and unfavorable climate conditions. On the upside, accelerated structural reforms to improve the business environment and higher return on ongoing investment could spur growth outside the traditional extractive industries sector.

Inflation: Prudent monetary and fiscal policies will lead to an inflation rate converging to about 5 percent in 2018 and thereafter.

Current account balance: After widening in 2012 amid falling metal export prices and increased imports associated with the drought and the implementation of major mining and infrastructure projects, the current account deficit is expected to narrow to around 4.7 percent of GDP in 2017. The longer-term current account deficit follows the increase in mining companies' export capacities and is broadly consistent with estimates of the norm (a deficit of about 6 percent of GDP) for Mauritania's current account based on the methodology developed by the IMF's Consultative Group on Exchange Rates (CGER).

Government balances: The framework assumes the following: (a) non-oil revenue remains stable at about 27 percent of non-oil GDP throughout the period; and (b) grants are expected to stabilize at about ½ percent of GDP in the long run. The government's non-oil balance including grants is projected to improve gradually from a deficit of 5.4 percent to a surplus of 0.3 percent of non-oil GDP over the 2012–32 period. The projected primary balance improves from a deficit of 1.8 percent of GDP in 2012 to a surplus of about 0.1 percent of GDP in 2032.

External financing: The baseline scenario assumes that, with the exception of the nonconcessional loan undertaken to finance the electricity generation plant ($105 million), Mauritania will borrow essentially on concessional terms in the medium term. However, it is expected that new borrowing will gradually shift away from concessional financing over the longer term. As a result, the average grant element on new borrowing will decline to 10 percent by 2032.

Domestic debt, mainly treasury bills held by the banking sector and the national iron ore company, stood at just under 6.7 percent of GDP at end- 2011 and is projected to decline in line with the improvement in the fiscal position.

Real interest rates. The real interest rate on new short term domestic debt approaches 4 percent in 2017 and gradually declines thereafter.

1/ The CGER framework assesses the consistency of a country's exchange rate with medium-term fundamentals, based on three complementary methodologies. Two of the three approaches involve estimating an equilibrium current account or "norm".

VI. External Debt Sustainability

44. **The baseline scenario shows that most debt indicators remain well below their policy-dependent thresholds**, **except for a short hiatus where the present value (PV) of the debt-to-GDP ratio is breached.** External debt is projected to decrease significantly over the medium term from an estimated 91 percent of GDP in 2011 to about 67 percent in 2017, assuming the Kuwait debt is cancelled and that borrowing diminishes in line with projected improvements in the fiscal and external positions (DSA Table 1). The stock of total external debt is projected to drop further in the longer term, reaching 26 percent of GDP in 2032. Most of the external debt is public and publicly guaranteed debt. After an initial jump reflecting new large investments, almost all debt burden indicators are declining, and remain below their policy-dependent indicative thresholds throughout the period, except for a marginal and non protracted breach of threshold for the PV of debt-to-GDP ratio between 2012 and 2016 (Figure 1). Debt service ratios, which capture liquidity risks, remain below their indicative thresholds.

45. **Risks to the external debt outlook are broadly balanced**. On the *upside*, continued fiscal discipline and stronger economic growth would further improve the external debt profile. On the *downside*, negative trade shocks, recurrence of natural disasters, and loose fiscal policy would push external debt higher than in Staff projections.

Alternative scenario and stress tests

46. **Mauritania's external debt indicators remain sensitive to historical trends and less favorable lending** (Figure 1, Table 2). Under both scenarios, the PV of debt-to-GDP rises initially 7 percentage points above the threshold, before declining steadily. On the other hand, the PV of debt-to-exports and debt-to-revenue ratios remain below their thresholds throughout the projection period. Moreover, using historical trends—which include two droughts, high energy and food prices, political instability, and one global crisis—may not accurately account for long-run debt dynamics.

47. **Bound tests highlight the country's high vulnerability to non-debt-creating flows and exchange rate shocks.** Stress tests show that a one-standard deviation shock to non-debt-creating flows in 2013–14 represents the most extreme scenario where the NPV debt-to-GDP indicator would rapidly breach the threshold, before declining rapidly to sustainable levels. This contrasts with previous DSAs, which highlighted the dominance of export shocks.[14] Stress tests also show that a one-time 30 percent nominal depreciation relative to

[14] This is explained by a much larger current account deficit in 2013–14 that is in part triggered by mining expansion projects that are self-financed through FDI. Simulating a large contraction in FDI would significantly impact debt, although this result should be nuanced as the scenario does not correct for the fact that those mining-related imports would likely not occur in the absence of FDI.

the baseline increases the PV of debt-to-GDP ratio by 20 percent of GDP, thus causing a breach in the policy-dependent threshold until 2021, before declining significantly. Regarding other debt indicators (the PV of debt-to-exports and the PV of debt-to-revenues ratios), the bound tests do not indicate any threshold breach.

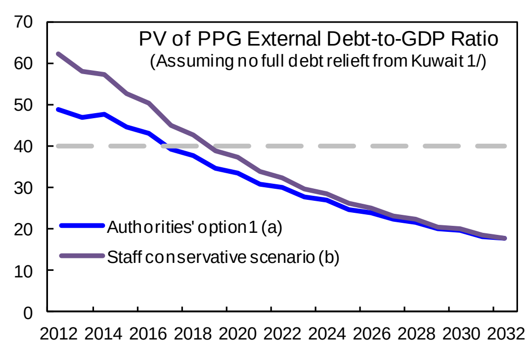
VII. PUBLIC DEBT SUSTAINABILITY

Baseline

48. **The public debt outlook mirrors that of external debt because of its predominance.** Public debt is projected to fall from 70 percent of GDP in 2012 to 54 percent of GDP by 2017, and would remain on a declining path over the long term. This represents a marked difference compared to the 2011 DSA update, in which the public sector debt was projected to increase as the fiscal deficit rose. The revised projections therefore allow for an even larger decrease in the public debt ratio after 2020, owing to a relatively stronger primary fiscal balance and sustained economic growth. The PV of public debt is projected to decline continuously to 18.3 percent of GDP in 2032, down from 54.7 percent of GDP in 2012.

Alternative scenario and stress tests

49. **Stress tests highlight some vulnerability to permanently lower growth, fiscal slippages, and large exchange rate shocks.** Under the permanently lower growth scenario,[15] the PV of public debt would reach 44 percent of GDP in 2032, compared with a baseline projection of 18 percent of GDP. The public debt path is also vulnerable to shocks to the primary fiscal balance and exchange rate volatility, which suggests that fiscal consolidation, prudent monetary policy, and appropriate exchange policy are essential for keeping debt sustainable over the medium term. For example, if the primary deficit remains at about 1.4 percent of GDP (as in 2012), the PV of public-debt-to-GDP ratio would almost double to 36 percent of GDP by the end of the projection period. By 2032, the PV of debt-to-GDP ratio remains almost unchanged under historical real GDP and primary balance averages.



1/ (a) Cancellation of 84 percent of the arrears on interest and principal ($1 billion) and the rescheduling of the remaining amount over 23 years with a grace period of 6 years and a 0.5% interest rate. (b) Repayment of $1 billion over a period of 20 years without a grace period.

50. **The absence of debt relief from Kuwait would not lead to a protracted breach of the applicable threshold indicator.** The current DSA assumes so far a full cancelling of arrears and full

[15] This scenario assumes that real GDP growth is at its baseline level minus one standard deviation.

debt relief provided by the Kuwaiti authorities to Mauritania in 2012 (about $1 billion, nearly 40 percent of Mauritania's outstanding stock of external nominal debt in 2011). Staff's analysis shows that the PV of external PPG debt-to-GDP ratio breaches the policy-dependent threshold briefly (within five or six years in the medium term before returning back under the policy-dependent threshold) under various scenarios.[16]

VIII. CONCLUSION

51. **Staffs consider that Mauritania faces a moderate risk of debt distress.**[17] This reflects the expectation that most thresholds for debt stocks and debt service would be respected under the baseline and stress scenarios. The PV of debt-to-revenue and PV of debt-to-exports ratios would remain well below the policy-dependent thresholds throughout the period, while the PV of debt-to-GDP ratio exhibits a temporary breach in the indicative threshold until 2016.[18] The authorities agreed with this assessment.

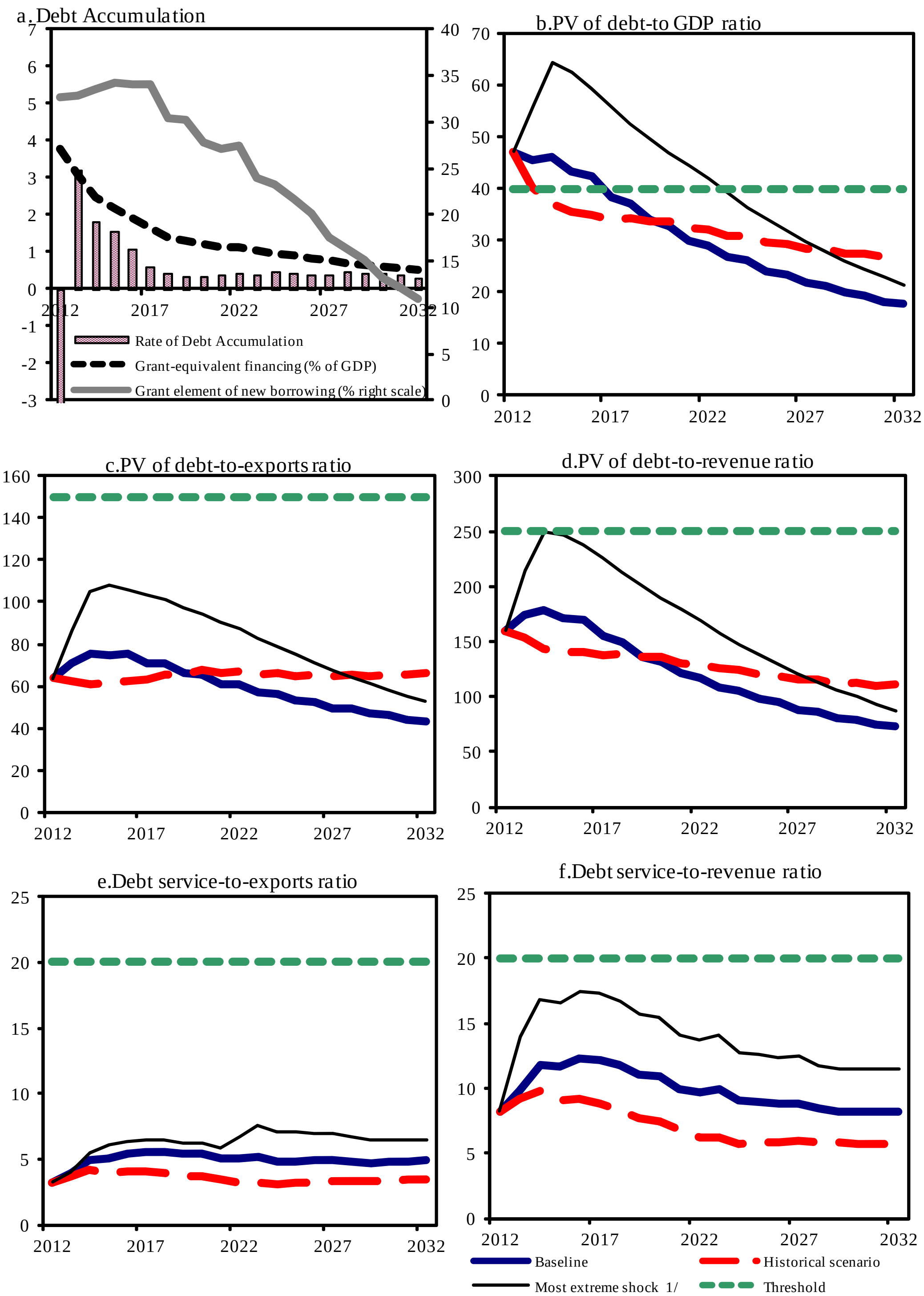
52. **Debt dynamics remain subject to risks.** The country's vulnerability to fiscal, FDI, large exchange rate fluctuations, and growth shocks highlights the importance of continuing to build fiscal and external buffers, follow a cautious borrowing strategy and a prudent monetary policy, and improve debt management. On the upside, the ongoing large investment projects, both inside and outside the mining sector, are expected to result in an acceleration of growth, which has not been fully incorporated in the macroeconomic framework.

[16] *Scenario 1:* no HIPC but cancellation of 84 percent of the outstanding accumulated arrears on interest rate payments and principal and the rescheduling of the remaining amount over 23 years with a grace period of six years and a 0.5 percent interest rate; *scenario 2:* a repayment of the total amount of outstanding arrears (of about $1 billion) over a period of 20 years.

[17] According to the LIC DSA guidelines, the existence of arrears could suggest that a country is in debt distress, unless there are other reasons than debt-service burden for not servicing its debt. Despite having substantial arrears to external creditors, Mauritania is not assessed as being in debt distress because its arrears are related to debts that were previously categorized as "passive".

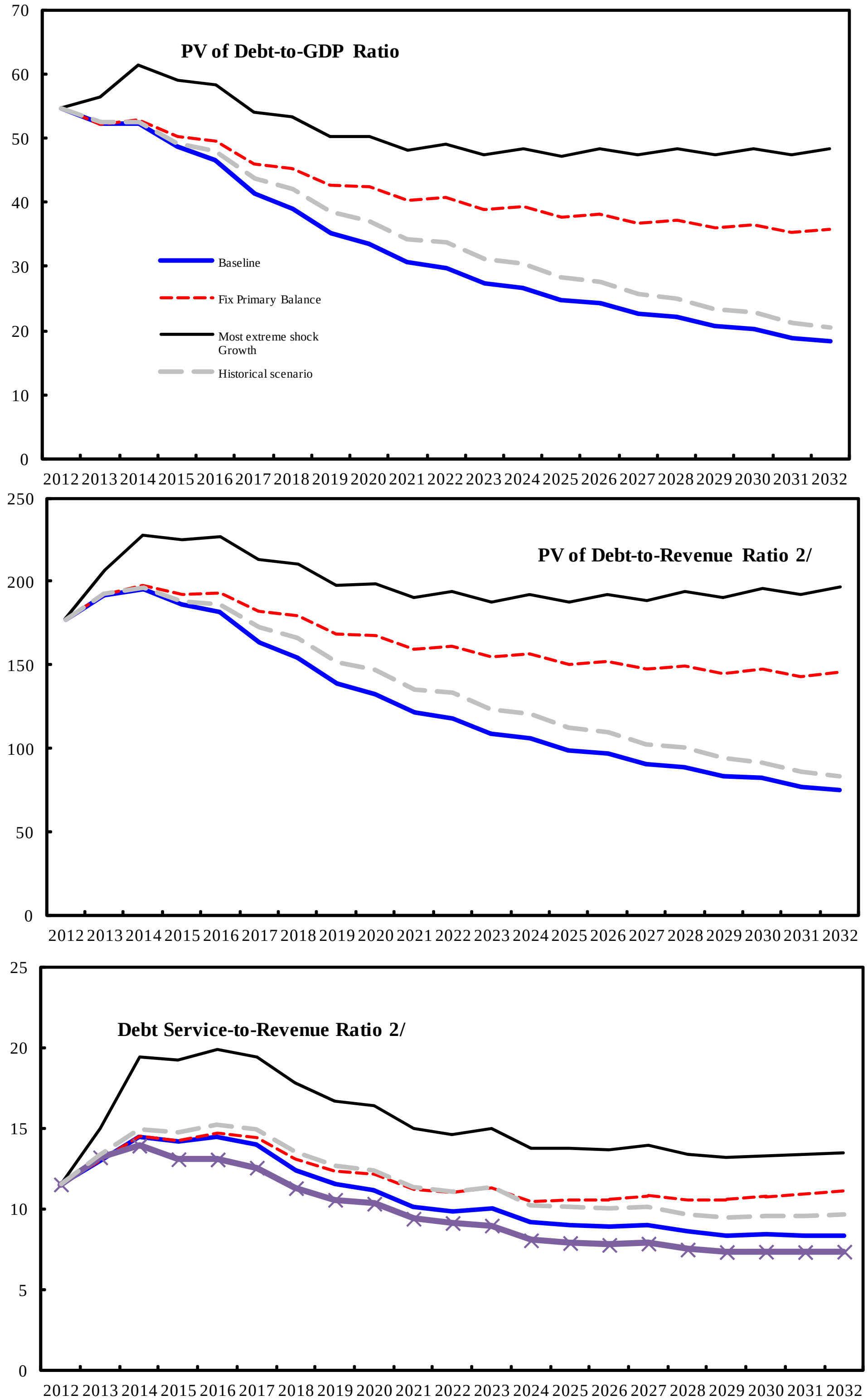
[18] In the LIC DSA framework, the quality of a country's policies and institutions is measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index, and classified into three categories: strong, medium, and poor. Mauritania ranks as a "medium performer" according to that criterion as the updated average CPIA rating for Mauritania over 2008–11 is 3.24 (against a threshold of 3.25). The country's performance rating will not change because the breach was only in effect for one year (2010) and 2011 CPIA numbers are not available yet. Policy-dependent thresholds are set according to the country's CPIA classification.

Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a shock on non-debt creating flows; in c. to a shock on non-debt creating flows; in d. to a shock on non-debt creating flows; in e. to a shock on non-debt creating flowsand in figure f. to a shock on non-debt creating flows

Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2012-2032 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2022.

2/ Revenues are defined inclusive of grants.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2009-2032 1/
(In percent of GDP, unless otherwise indicated)

	Actual						Historical 0 Average	0 Standard Deviation	Projections									
	2006	2007	2008	2009	2010	2011			2012	2013	2014	2015	2016	2017	2013-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**89.3**	**89.2**	**88.6**	**106.7**	**95.4**	**90.6**		**-7.3**	**83.3**	**84.6**	**81.3**	**76.3**	**73.4**	**66.7**	76.5	**45.7**	**25.9**	39.8
Of which: public and publicly guaranteed (PPG)	86.9	82.9	80.8	96.5	83.7	76.8		**-14.4**	62.4	60.6	61.5	58.0	56.7	51.5	57.6	38.5	21.9	33.2
Change in external debt	-86.8	-0.2	-0.6	18.1	-11.3	-4.7			-7.3	1.3	-3.3	-5.0	-2.9	-6.7	-3.3	-2.5	-0.8	-2.7
Identified net debt-creating flows	-59.3	0.5	-5.1	25.9	-7.4	-10.2			12.1	1.6	-0.9	-3.1	-4.4	-5.5	-2.4	-2.1	-1.2	-1.9
Non-interest current account deficit	**0.5**	**16.3**	**14.8**	**10.8**	**7.1**	**6.1**	**16.7**	**14.7**	**17.9**	**16.3**	**10.8**	**5.9**	**4.4**	**2.9**	8.0	**3.9**	**4.1**	3.9
Deficit in balance of goods and services	4.7	22.4	22.2	16.7	11.2	6.0			15.0	13.9	8.6	3.8	2.9	2.2	6.3	2.5	4.0	3.0
Exports	53.6	51.1	54.5	50.2	59.3	71.5			74.0	64.4	61.1	57.9	56.1	53.9	58.7	47.9	40.4	45.7
Imports	58.3	73.4	76.6	66.9	70.4	77.5			89.0	78.2	69.7	61.7	59.0	56.1	65.0	50.5	44.4	48.7
Net current transfers (negative = inflow)	-5.9	-5.0	-5.6	-4.3	-4.4	-2.8	-6.2	2.3	-3.8	-2.7	-2.8	-2.4	-2.3	-2.5	-2.6	-1.3	-0.9	-1.2
Of which : public and publicly guaranteed (PPG)	-3.4	-2.5	-3.5	-2.1	-2.8	-2.0			-2.7	-1.7	-1.8	-1.5	-1.3	-1.6	-1.6	-0.5	-0.3	-0.4
Other current account flows (negative = net inflow)	1.7	-1.1	-1.9	-1.5	0.4	2.8			6.7	5.1	4.9	4.6	3.7	3.2	4.3	2.7	1.0	2.1
Net FDI (negative = inflow)	**-5.7**	**-10.8**	**-5.0**	**-1.3**	**3.2**	**-6.0**	**-11.0**	**13.9**	**-8.3**	**-10.5**	**-8.9**	**-6.1**	**-5.3**	**-4.6**	-7.1	**-5.0**	**-4.8**	-4.9
Endogenous debt dynamics 2/	**-54.1**	**-5.1**	**-14.8**	**16.4**	**-17.7**	**-10.2**			**2.5**	**-4.2**	**-2.7**	**-2.9**	**-3.5**	**-3.7**	-3.4	**-1.0**	**-0.5**	-0.9
Contribution from nominal interest rate	0.8	1.4	1.0	1.6	1.6	1.5			1.6	1.6	1.8	2.0	2.1	2.0	1.9	1.1	0.6	0.9
Contribution from real GDP growth	-13.9	-0.8	-2.6	1.3	-4.4	-3.3			-5.2	-5.4	-4.6	-4.2	-3.9	-3.6	-4.3	-2.1	-1.1	-1.8
Contribution from price and exchange rate changes	-41.1	-5.6	-13.2	13.5	-14.8	-8.4			6.0	-0.4	0.1	-0.7	-1.7	-2.0	-0.9	-0.7	...	-0.7
Residual (3-4) 3/	**-27.5**	**-0.6**	**4.5**	**-7.9**	**-3.9**	**5.4**			**-19.4**	**-0.3**	**-2.5**	**-1.9**	**1.4**	**-1.2**	-0.9	**-0.4**	**0.4**	-0.8
Of which: exceptional financing	1.2	1.2	1.2	0.7	-5.1	0.3			-20.5	0.3	0.3	0.3	0.2	0.2	0.3	0.1	0.1	0.1
PV of external debt 4/	...	...	...	...	...	73.9			68.0	69.5	65.9	61.7	59.0	53.6	61.9	36.2	21.6	32.0
In percent of exports	...	...	...	...	...	103.4			91.9	107.9	107.8	106.5	105.3	99.4	105.4	75.6	53.4	69.1
PV of PPG external debt	**...**	**...**	**...**	**...**	**...**	**60.0**			**47.1**	**45.4**	**46.0**	**43.4**	**42.3**	**38.3**	43.1	**29.0**	**17.6**	25.4
In percent of exports	**...**	**...**	**...**	**...**	**...**	**84.0**			**63.6**	**70.6**	**75.3**	**74.9**	**75.4**	**71.1**	73.4	**60.5**	**43.5**	54.9
In percent of government revenues	**...**	**...**	**...**	**...**	**...**	**224.7**			**159.9**	**174.0**	**178.4**	**171.2**	**169.7**	**155.7**	169.8	**117.4**	**72.7**	103.1
Debt service-to-exports ratio (in percent)	**2.8**	**2.7**	**5.8**	**6.0**	**5.7**	**4.2**			**4.5**	**5.3**	**6.5**	**8.1**	**10.2**	**10.1**	8.0	**7.6**	**5.8**	7.0
PPG debt service-to-exports ratio (in percent)	**2.2**	**1.8**	**4.5**	**3.7**	**3.8**	**2.9**			**3.3**	**4.0**	**5.0**	**5.1**	**5.5**	**5.6**	5.0	**5.0**	**4.9**	5.0
PPG debt service-to-revenue ratio (in percent)	**1.9**	**3.8**	**10.5**	**9.0**	**9.4**	**7.7**			**8.2**	**9.8**	**11.8**	**11.7**	**12.3**	**12.2**	11.5	**9.7**	**8.2**	9.3
Total gross financing need (Billions of U.S. dollars)	0.0	0.3	0.5	0.5	0.7	0.3			0.7	0.7	0.6	0.5	0.5	0.4	0.5	0.4	0.5	0.5
Non-interest current account deficit that stabilizes debt ratio	87.3	16.5	15.3	-7.2	18.4	10.8			25.2	15.0	14.1	10.9	7.3	9.5	11.4	6.4	4.9	6.6
Key macroeconomic assumptions																		
Real GDP growth (in percent)	11.4	1.0	3.5	-1.2	5.1	4.0	4.1	3.5	5.7	7.0	5.7	5.4	5.5	5.4	5.8	4.6	4.2	4.4
GDP deflator in US dollar terms (change in percent)	30.4	6.7	17.4	-13.2	16.2	9.6	10.3	11.6	-6.3	0.4	-0.1	0.9	2.3	2.8	1.3	2.6	2.5	2.6
Effective interest rate (percent) 5/	0.7	1.7	1.3	1.6	1.8	1.8	1.0	0.7	1.8	2.1	2.2	2.7	3.0	2.9	2.6	2.4	2.2	2.3
Growth of exports of G&S (US dollar terms, in percent)	105.2	2.8	29.6	-20.9	44.0	37.5	26.7	36.3	2.6	-6.6	0.3	0.9	4.4	4.3	0.7	5.0	5.2	5.1
Growth of imports of G&S (US dollar terms, in percent)	-12.9	35.8	26.9	-25.1	28.4	25.4	21.2	28.0	13.8	-5.6	-5.9	-5.8	3.2	3.1	-2.2	5.8	6.9	5.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	32.6	32.9	33.6	34.3	34.1	34.1	33.8	27.5	10.9	21.1
Government revenues (excluding grants, in percent of GDP)	62.1	25.0	23.4	20.6	23.8	26.7			29.4	26.1	25.8	25.3	24.9	24.6	25.4	24.7	24.2	24.6
Aid flows (in Billions of US dollars) 7/	0.1	0.1	0.0	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Of which: Grants	0.1	0.1	0.0	0.0	0.0	0.0			0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
Of which: Concessional loans	0.0	0.0	0.0	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...			3.8	3.1	2.5	2.2	1.9	1.6	2.3	1.1	0.5	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...			43.2	43.3	45.5	44.9	44.8	45.6	44.8	41.1	24.0	34.9
Memorandum items:																		
Nominal GDP (Billions of US dollars)	2.7	2.9	3.5	3.0	3.7	4.2			4.2	4.5	4.7	5.0	5.4	5.9		8.5	16.7	
Nominal dollar GDP growth	45.3	7.8	21.5	-14.3	22.1	14.0			-0.9	7.5	5.6	6.4	7.9	8.4	7.2	7.3	6.8	7.2
PV of PPG external debt (in Billions of US dollars)						2.5			1.9	2.0	2.1	2.2	2.2	2.3		2.4	2.9	
(PVt-PVt-1)/GDPt-1 (in percent)									-13.7	3.2	1.8	1.5	1.1	0.6	1.6	0.4	0.3	0.5

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-2032
(In percent)

	Projections											
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	**2022**	2032
PV of debt-to GDP ratio												
Baseline	47	45	46	43	42	38	37	34	33	30	**29**	18
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2012-2032 1/	47	40	37	36	35	34	34	34	34	32	**32**	27
A2. New public sector loans on less favorable terms in 2012-2032 2	47	47	48	47	46	44	42	40	39	37	**36**	28
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	47	48	49	48	45	42	40	37	35	33	**31**	18
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	47	47	52	51	48	45	42	40	38	35	**33**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	47	46	46	45	42	39	37	35	32	30	**29**	17
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	47	56	64	62	59	56	53	50	47	44	**42**	21
B5. Combination of B1-B4 using one-half standard deviation shocks	47	40	29	28	26	24	22	20	19	17	**16**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	47	64	63	61	58	54	51	48	45	42	**39**	24
PV of debt-to-exports ratio												
Baseline	64	71	75	75	75	71	71	66	65	61	**61**	44
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2012-2032 1/	64	63	61	61	62	63	66	66	67	66	**67**	66
A2. New public sector loans on less favorable terms in 2012-2032 2	64	73	78	82	82	82	81	79	78	76	**75**	69
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	64	70	73	74	73	71	68	65	63	60	**58**	41
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	64	75	98	100	99	96	93	90	86	83	**80**	52
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	64	70	73	74	73	71	68	65	63	60	**58**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	64	87	105	108	106	103	101	97	94	91	**87**	52
B5. Combination of B1-B4 using one-half standard deviation shocks	64	54	38	38	37	36	34	32	30	29	**27**	25
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	64	70	73	74	73	71	68	65	63	60	**58**	41
PV of debt-to-revenue ratio												
Baseline	160	174	178	171	170	156	150	137	132	121	**117**	73
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2012-2032 1/	160	154	144	140	140	138	139	136	136	131	**129**	111
A2. New public sector loans on less favorable terms in 2012-2032 2	160	180	184	187	185	179	171	164	157	151	**146**	115
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	160	183	191	189	182	172	160	150	140	132	**124**	76
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	160	180	203	201	194	183	172	161	152	143	**135**	77
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	160	177	178	176	170	160	149	140	131	123	**116**	71
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	160	214	249	246	238	226	213	201	190	180	**169**	88
B5. Combination of B1-B4 using one-half standard deviation shocks	160	155	111	109	104	97	90	82	76	70	**66**	53
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	160	247	246	242	234	220	206	192	180	169	**160**	98
Debt service-to-exports ratio												
Baseline	3	4	5	5	5	6	6	5	5	5	**5**	5
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2012-2032 1/	3	4	4	4	4	4	4	4	4	3	**3**	3
A2. New public sector loans on less favorable terms in 2012-2032 2	3	4	5	5	5	5	5	5	6	5	**5**	6
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	3	4	5	5	5	6	6	5	5	5	**5**	5
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	3	4	6	6	7	7	7	7	7	6	**6**	6
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	3	4	5	5	5	6	6	5	5	5	**5**	5
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	3	4	5	6	6	6	6	6	6	6	**7**	6
B5. Combination of B1-B4 using one-half standard deviation shocks	3	3	4	3	4	4	4	4	4	3	**3**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	3	4	5	5	5	6	6	5	5	5	**5**	5
Debt service-to-revenue ratio												
Baseline	8	10	12	12	12	12	12	11	11	10	**10**	8
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2012-2032 1/	8	9	10	9	9	9	8	8	7	7	**6**	6
A2. New public sector loans on less favorable terms in 2012-2032 2	8	10	11	11	12	12	11	11	11	10	**10**	10
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	8	10	13	13	14	13	13	12	12	11	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	8	10	12	13	13	13	12	12	12	11	**11**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	8	10	12	12	13	13	12	11	11	10	**10**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	8	10	13	14	14	14	14	13	13	12	**13**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	8	10	11	10	10	10	10	9	9	8	**7**	6
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	8	14	17	17	17	17	17	16	15	14	**14**	11
Memorandum item:												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	18	18	18	18	18	18	18	18	18	18	**18**	18

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3.Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-2032
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	106.1	92.8	83.5			70.0	67.4	67.8	63.4	60.9	54.5	64.0	39.2	22.6	34.1
Of which foreign-currency denominated	96.5	83.7	76.8			62.4	60.6	61.5	58.0	56.7	51.5	58.4	38.5	21.9	33.2
Change in public sector debt	15.8	-13.3	-9.4			-13.5	-2.6	0.4	-4.4	-2.5	-6.4	-4.8	-1.3	-0.9	-2.1
Identified debt-creating flows	16.9	-19.8	-10.1			-16.4	-3.5	0.4	-4.2	-2.4	-6.3	-5.4	-1.5	-0.8	-2.1
Primary deficit	7.1	0.8	-0.2	-0.4	13.5	1.4	1.1	0.5	-0.1	-0.9	-1.5	0.1	-0.5	-0.3	-0.4
Revenue and grants	21.3	25.0	27.4			30.8	27.2	26.8	26.1	25.6	25.2	27.0	25.2	24.5	25.0
Of which: grants	0.8	1.1	0.7			1.4	1.1	1.0	0.8	0.7	0.6	0.9	0.5	0.3	0.5
Primary (noninterest) expenditure	28.4	25.8	27.2			32.2	28.3	27.2	26.0	24.7	23.8	27.1	24.7	24.2	24.6
Automatic debt dynamics	9.1	-15.4	-10.3			3.3	-5.0	-0.4	-4.3	-1.8	-5.0	-2.2	-1.1	-0.6	-1.8
Contribution from interest rate/growth differential	3.7	-5.7	-4.4			-3.2	-3.3	-2.6	-2.8	-2.8	-2.9	-2.9	-2.0	-0.9	-1.7
Of which: contribution from average real interest rate	2.6	-0.5	-0.9			1.3	1.3	1.1	0.7	0.4	0.2	0.8	-0.2	0.0	-0.1
Of which: contribution from real GDP growth	1.1	-5.1	-3.5			-4.5	-4.6	-3.7	-3.5	-3.3	-3.1	-3.8	-1.8	-0.9	-1.6
Contribution from real exchange rate depreciation	5.4	-9.7	-5.9			6.5	-1.7	2.2	-1.6	1.1	-2.1	0.7	...	...	-0.3
Other identified debt-creating flows	0.7	-5.2	0.4			-21.2	0.3	0.3	0.3	0.3	0.2	-3.3	0.1	0.1	0.1
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	0.7	-5.2	0.4			-21.2	0.3	0.3	0.3	0.3	0.2	-3.3	0.1	0.1	0.1
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	-1.0	6.5	0.7			2.9	0.9	0.0	-0.2	-0.1	-0.2	0.6	0.2	0.0	0.0
Other Sustainability Indicators															
PV of public sector debt	9.6	9.1	66.7			54.7	52.2	52.3	48.7	46.5	41.3	49.3	29.7	18.3	26.3
Of which: foreign-currency denominated	0.0	0.0	60.0			47.1	45.4	46.0	43.4	42.3	38.3	43.7	29.0	17.6	25.4
Of which: external	...	...	60.0			47.1	45.4	46.0	43.4	42.3	38.3	43.7	29.0	17.6	25.4
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	
Gross financing need 2/	25.3	16.2	10.8			11.4	11.5	10.6	9.3	7.7	5.9	9.4	2.7	2.5	3.0
PV of public sector debt-to-revenue and grants ratio (in percent)	45.0	36.6	243.9			177.6	191.9	195.5	186.5	181.6	163.7	182.8	117.9	74.7	104.8
PV of public sector debt-to-revenue ratio (in percent)	46.7	38.4	249.8			185.9	200.0	202.9	192.3	186.7	167.9	189.3	120.3	75.7	106.8
Of which: external 3/	…	…	224.7			159.9	174.0	178.4	171.2	169.7	155.7	168.2	117.4	72.7	103.1
Debt service-to-revenue and grants ratio (in percent) 4/	37.7	31.4	11.5			11.5	13.0	14.5	14.2	14.4	14.0	13.6	9.8	8.4	9.6
Debt service-to-revenue ratio (in percent) 4/	39.1	32.9	11.8			12.1	13.5	15.0	14.6	14.8	14.3	14.1	10.1	8.5	9.7
Primary deficit that stabilizes the debt-to-GDP ratio	-8.7	14.1	9.2			14.9	3.8	0.1	4.3	1.6	5.0	4.9	0.8	0.5	1.7
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-1.2	5.1	4.0	4.1	3.5	5.7	7.0	5.7	5.4	5.5	5.4	5.8	4.6	4.2	4.4
Average nominal interest rate on forex debt (in percent)	0.8	1.1	1.1	0.6	0.4	1.3	1.7	1.7	1.7	1.7	1.6	1.6	1.6	1.9	1.7
Average real interest rate on domestic debt (in percent)	20.8	-5.1	-0.8	5.9	10.5	15.2	9.8	9.4	8.4	7.6	8.4	9.8	...	1.6	1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	6.5	-10.6	-7.4	-7.8	7.8	8.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	-5.9	21.8	12.1	10.9	11.2	-0.9	4.1	3.2	3.9	4.9	4.9	3.3	5.0	5.3	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-2.2	-4.7	9.5	-2.0	8.9	25.3	-5.9	1.6	0.6	0.5	1.3	3.9	5.0	3.4	4.6
Grant element of new external borrowing (in percent)	...	...	...	…	…	32.6	32.9	33.6	34.3	34.1	34.1	33.6	27.5	10.9	...

Sources: Country authorities; and staff estimates and projections.

1/ Non-financial public sector gross debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4.Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, 2012-2032

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	55	52	52	49	47	41	30	18
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	55	52	53	49	48	44	34	21
A2. Primary balance is unchanged from 2012	55	52	53	50	49	46	41	36
A3. Permanently lower GDP growth 1/	55	53	53	50	49	44	38	44
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	55	56	61	59	58	54	49	48
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	55	60	69	64	62	55	41	26
B3. Combination of B1-B2 using one half standard deviation shocks	55	58	64	61	60	54	47	41
B4. One-time 30 percent real depreciation in 2013	55	70	70	64	61	54	40	26
B5. 10 percent of GDP increase in other debt-creating flows in 2013	55	59	59	55	52	47	34	21
PV of Debt-to-Revenue Ratio 2/								
Baseline	178	192	195	187	182	164	118	75
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	178	192	196	188	187	173	133	84
A2. Primary balance is unchanged from 2012	178	192	198	192	193	182	161	146
A3. Permanently lower GDP growth 1/	178	193	198	191	189	174	149	177
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	178	207	228	225	227	213	194	197
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	178	222	258	246	241	219	164	105
B3. Combination of B1-B2 using one half standard deviation shocks	178	213	238	232	232	215	185	168
B4. One-time 30 percent real depreciation in 2013	178	258	260	245	239	214	159	108
B5. 10 percent of GDP increase in other debt-creating flows in 2013	178	217	220	210	205	185	135	86
Debt Service-to-Revenue Ratio 2/								
Baseline	12	13	14	14	14	14	10	8
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	13	15	15	15	15	11	10
A2. Primary balance is unchanged from 2012	12	13	14	14	15	14	11	11
A3. Permanently lower GDP growth 1/	12	13	15	14	15	15	11	12
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	12	14	16	16	17	16	13	14
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	12	13	15	16	17	16	11	10
B3. Combination of B1-B2 using one half standard deviation shocks	12	14	16	16	17	16	12	13
B4. One-time 30 percent real depreciation in 2013	12	15	19	19	20	19	15	13
B5. 10 percent of GDP increase in other debt-creating flows in 2013	12	13	15	15	15	15	10	9

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

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IMF Executive Board Concludes 2012 Article IV Consultation with Mauritania

On July, 2, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritania.[1]

Background

Mauritania staged a solid recovery from the global crisis. The commodity price boom of the last two years, combined with prudent policies, helped Mauritania restore macroeconomic stability and build reserve and fiscal buffers. However, both poverty and unemployment remain high, highlighting the need to make growth more inclusive through greater employment creation and economic diversification.

The Mauritanian economy weathered well the Sahel drought and the economic slowdown in Europe. Real GDP grew 4 percent in 2011, less than the 5.1 percent recorded in the previous year but still one of the best performances in the sub-region. Buoyant activity in construction and services helped compensate for the drought-related downturn in agriculture and stalling mining production. Inflation was contained to 5.7 percent (y-o-y), reflecting low pass-through of international food and energy prices. The positive terms of trade shock associated with the run-up in metals prices in the first three quarters of 2011 narrowed the current account deficit to 7.4 percent of GDP and boosted foreign exchange reserves to a recent high of $501.6 million at the end of 2011.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Prudent policies contributed to maintaining macro-stability despite high international fuel and food prices. Fiscal consolidation continued for a third consecutive year, with higher mining revenues and strong tax collection more than offsetting the cost of the emergency program put in place in 2011 to alleviate the impact of higher food and energy prices on the most vulnerable. Monetary policy remained accommodative, although the excess liquidity in the banking system, associated with the unsterilized accumulation of net foreign assets, has not translated into high private-sector credit growth, which remained subdued at just over 10 percent (y-o-y). With a smaller fiscal financing requirement, T-Bill yields fell to unprecedented low of just below 3 percent.

Growth will pick up this year amid a rebound in the agricultural sector and several large-scale investment projects. The recovery in cereal production and major infrastructure projects are projected to offset the expected decline in demand from Europe, lifting growth above 5 percent. Inflation is estimated to remain well contained on the back of declining energy and food prices and prudent monetary and exchange rate policies. The external position is expected to significantly deteriorate in 2012 due to one-off effects linked to the emergency drought-relief program, major energy investments, and the construction of the new airport—before recovering in the medium term as new mineral production comes on line and nonmetals commodity prices fall.

Going forward, maintaining macroeconomic stability in an economy highly vulnerable to exogenous shocks is essential. To accommodate pressing social needs in the aftermath of the drought, the fiscal stance will temporarily loosen, but return to the pre-drought consolidation path as ill-targeted subsidies are phased-out while more effective social safety nets are introduced. Mauritania's narrow export base keeps its economy highly exposed to falls in metals prices and shifts in global demand. Over the medium term, Mauritania's overarching objective is to diversify the economy away from commodity exports to make growth more inclusive and reduce poverty.

Executive Board Assessment

Executive Directors commended the authorities for their strong program performance, noting that sound policies contributed to the accumulation of significant fiscal and external buffers, which helped the economy withstand a severe drought, a slowdown in external demand, and high international fuel and food prices. However, progress in tackling unemployment and poverty has been limited, and the economy remains vulnerable to external shocks due to its dependency on commodity exports.

Directors welcomed the authorities' commitment to maintain macroeconomic stability in the short run. In this regard, they noted the intention to introduce a new short-term T-bill maturity to absorb excess liquidity in the banking sector. They also agreed that the modest loosening of the fiscal stance in 2012 to meet drought relief needs is appropriate, but advocated a quick phase-out once the drought emergency lapses.

Directors praised the authorities' determination to consolidate the fiscal position over the medium term. In particular, they welcomed their intention to replace universal price subsidies with well-targeted social safety nets. They agreed that fiscal policy should be delinked from volatile commodity prices, notably through the creation of a well-managed mining fund, and urged a continuation of efforts to improve non-mining tax collection and seek new revenue from the natural resource sector while protecting Mauritania as a destination for foreign investors. To safeguard debt sustainability, Directors stressed the importance of avoiding non-concessional borrowing and new contingent liabilities, and encouraged the authorities to reach agreement on debt relief with remaining creditors on HIPC terms.

Directors noted that the banking system is relatively stable but emphasized that deeper financial intermediation would increase the effectiveness of monetary policy and promote more inclusive growth. In this context, Directors encouraged the strict application of recently overhauled regulations on connected lending and concentration risk. This, coupled with ongoing improvements in banking supervision, will help prevent the build-up of financial stability risks.

Directors welcomed the implementation of the new investment code and the one-stop shop as useful first steps toward improving the business climate. Structural reforms are needed to diversify the economy away from commodity exports and foster more inclusive growth, particularly in labor-intensive sectors like agriculture. They also urged the authorities to tackle remaining governance problems, notably through the systematic application of the procurement code.

Mauritania: Selected Economic and Financial Indicators, 2009–12

(Quota: SDR 64.4 million)
(Population: 3.46 million; 2010)
(Per capita GDP: $1,247; 2011)
(Poverty rate: 42 percent; 2008)
(Main exports: Iron ore, gold, fish; 2010)

	2009	2010	2011 Est.	2012 Proj.
	(Percent; unless otherwise indicated)			
National income and prices (y-o-y growth)				
GDP at constant prices	-1.2	5.1	4.0	5.7
Non-oil GDP at constant prices	-1.1	5.6	4.1	5.7
GDP excl. extractive industries at constant prices	-1.1	5.6	4.9	6.1
Oil production (1000 barrels per day)	10.7	8.3	7.7	7.7
GDP deflator	-5.9	21.8	12.1	-0.9
Non-oil GDP deflator	-3.9	21.5	11.7	-1.2
GDP excl. extractive industries deflator	1.0	6.6	2.2	4.4
Consumer price index (period average)	2.2	6.3	5.7	5.9
Consumer price index (end of period)	5.0	6.1	5.5	6.0
External sector				
Value growth of exports of goods, f.o.b.	-23.7	52.0	33.4	0.8
Value growth of imports of goods, f.o.b.	-27.2	39.1	28.9	16.6
Current account balance (in percent of GDP)	-10.7	-8.6	-7.4	-19.5
Gross official reserves 1/				
In millions of U.S. dollars, end of period	238.5	287.8	501.6	523.5
In months of following year's imports excluding extractive industries	2.4	2.5	3.6	3.8
PPG external debt (percent of GDP) 2/	96.5	83.7	76.8	62.4
Money				
Money and quasi-money (percentage change)	14.9	12.9	19.9	13.0
Credit to the private sector (percentage change)	3.7	14.2	10.1	14.4
Investment and savings				
Gross investment (percentage of GDP)	24.6	24.0	32.6	37.1
Gross savings (percentage of GDP)	13.9	15.4	25.2	17.7
	(Percent of non-oil GDP; unless otherwise indicated)			
Consolidated government operations				
Revenue and grants	26.7	27.1	28.7	32.3
Non-oil revenue	24.1	24.6	26.0	29.4
Oil revenue	1.8	1.4	2.0	1.5
Expenditure and net lending	32.1	29.1	30.2	35.9
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-0.9
Overall balance including grants	-5.4	-2.0	-1.5	-3.5
Public sector debt (percent of GDP) 2/	106.1	92.8	83.5	70.0
Memorandum items:				
Nominal GDP (in billions of UM)	794.2	1016.6	1184.3	1239.9
Nominal non-oil GDP (in billions of UM)	757.6	972.4	1130.1	1180.6
Nominal GDP (in millions of U.S. dollars)	3031.2	3700.1	4217.0	4177.9
Price of iron ore (US$/Ton)	80.0	146.7	167.8	136.4

Sources: Mauritanian authorities; and Fund staff estimates and projections.

1/ Excluding the oil account.

2/ HIPC debt relief from Kuwait was initially programmed in 2011 and is now expected to take place in 2012.

3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
July 2, 2012

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review Under Mauritania's Extended Credit Facility Arrangement and Approves US$16.78 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today the fourth review of the economic performance of the Islamic Republic of Mauritania under the program supported by a three-year Extended Credit Facility arrangement.

Completion of the review makes SDR 11.04 million (about US$16.78 million) available to the Islamic Republic of Mauritania. This would bring total disbursements under the arrangement to SDR 55.2 million (about US$83.89 million).

The Executive Board approved a three-year arrangement for Mauritania in March 2010 for an amount equivalent to SDR 77.28 million (about 120 percent of the country's quota in the IMF, (see Press Release No. 10/89).

Executive Directors noted the progress made by the authorities on their reform objectives under the ECF-supported program despite a severe drought and difficult economic conditions.

In completing the review, the IMF's board also approved the authorities' request for waivers of nonobservance and modification of performance criteria.

Following the Executive Board's discussion, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, stated:

"Mauritania's performance under the ECF-supported program was strong in 2011. Sound policies contributed to the accumulation of significant fiscal and external buffers, which helped the economy withstand a severe drought, a slowdown in external demand, and high international fuel and food prices. However, progress in tackling unemployment and poverty has been limited, and the economy remains vulnerable to external shocks due to its dependency on commodity exports.

“In the short run, Mauritania’s main challenge is to maintain macroeconomic stability. In this regard, the introduction of a new short-term T-bill maturity to absorb excess liquidity in the banking sector will help guard against inflation. The modest loosening of the fiscal stance in 2012 to meet drought-relief needs is appropriate, although these additional expenditures should be phased out once the drought is over to ensure fiscal sustainability.

“The authorities’ determination to consolidate the fiscal position over the medium term is commendable. Replacing universal price subsidies with well-targeted social safety nets is a key component of this strategy. To further reduce vulnerabilities, fiscal policy should be delinked from volatile commodity prices, notably by creating a well-managed mining fund. In addition, efforts aimed at improving non-mining tax collection and seeking new revenue from the natural resource sector should be sustained, while protecting Mauritania as a destination for foreign investors.

“Structural reforms to create employment, reduce poverty, and diversify the economy away from commodity exports remain crucial. The implementation of the new investment code and the one-stop shop are useful first steps toward improving the business climate. Remaining governance problems should also be tackled, notably through the systematic application of the new procurement code.”

Statement by Kossi Assimaidou, Executive Director for Mauritania
July 2, 2012

I. Introduction

Mauritania was hit by a severe drought in 2011 that tipped a quarter of the total population into food insecurity. As the authorities continue to alleviate the effects of the drought on the poor and the vulnerable, they reiterate their commitment to the prudent policies and reforms under the program, and thank staff for the candid discussions and helpful advice during the recent mission in Nouakchott.

The implementation of the ECF-supported program continues to be satisfactory. All quantitative performance criteria for end-December 2011 were met, including the target on poverty-related expenditures, and the target on international reserves, both with a wide margin. On the structural front, all but three of the eight structural benchmarks at end-December 2011 were met (further progress was since achieved on the remaining three unmet benchmarks). The criterion on non-concessional borrowing, for which my authorities request a waiver, was missed by only three weeks.

In spite of the severity of the recent drought and the difficult international environment—Europe being a key destination for Mauritania's exports and an essential development partner—, the authorities are determined to pursue their efforts to stabilize the economy and improve the population's living standards. However, as growth continues to be mostly driven by extractive industries—which are not inclusive by nature—, further reducing poverty and providing employment opportunities especially for the youth, remains a challenge. Continued support from the international community to assist my authorities in their efforts to diversify the economy, along with well-targeted social safety nets is therefore crucial.

II. Recent Economic Developments

Growth decelerated slightly in 2011 at 4 percent (compared to 5.1 percent in 2010) as the consequences of the drought severely affected agricultural production. Real GDP growth is however projected to reach 5.7 percent this year as agricultural production recovers thanks to a favorable rainy season, and led also by the dynamism of the construction sector. On the fiscal front, the overall deficit improved to 1.5 percent of non-oil GDP from 2 percent in 2010 driven by strong fiscal revenues from the booming mining sector. Inflation decelerated to 5.7 percent from 6.3 percent as a result mainly of the slower pace of the increase in credit to the private sector.

Relatively high international prices of the main commodities exported helped narrow the current account deficit to 7.4 percent of GDP from 8.6 in 2010. The deficit will however widen in 2012 driven by higher imports related to the emergency program and sizeable infrastructure projects underway (a new power plant; a new international airport), and also the projected decline in iron ore prices. Foreign exchange reserves increased substantially in

2011, nearly doubling to $501 million (compared to a year before), as the authorities continue to strengthen buffers to shield the economy from potential shocks.

III. Policies Under the ECF

A. Fiscal Policy

Drought-related emergency spending and the need to increase fuel subsidies have put pressure on this year's budget. Thus, government expenditures rose by 1.1 percentage point of non-oil GDP compared to 2010. My authorities are grateful to the donor community for the sizeable pledges under the emergency program. However, given delays in disbursement and also higher than initially anticipated costs and subsidies, spending in favor of the affected poor was further revised upwards. On the revenue side, high international iron ore prices led to record profits at the national mining company which translated into higher dividend payouts to the government. Overall, fiscal revenues improved in 2011.

For 2012, the authorities remain firmly committed to their fiscal consolidation efforts, and insist that the increase in the fiscal deficit projected for this year is temporary, mainly driven by the need to address the effects of the drought. Efforts to rein in overall spending through the stabilizing of the wage bill (civil service reform) or the introduction of new fuel price formula to better align domestic fuel prices with international price and significantly reduce subsidies remain high on my authorities' agenda. In this regard, they would also like to stress that the construction of the new international airport granted to a private consortium will have no impact on the budget (except for minor expenditures) as it is paid for by a transfer of land and no guarantee or tax incentives were given to the consortium by the government.

B. Monetary and Financial Sector Policies

Liquidity continues to be abundant in the banking sector resulting from high exports receipts from the mining sector (unsterilized) and also high fiscal revenues which have reduced the government's need to issue T-bills.

In their efforts to ensure price stability and anchor inflation expectations, the monetary authorities target a moderate 13 percent growth of money supply this year. The central bank will continue to closely monitor inflationary pressures and if necessary will tighten the monetary policy stance through an increase of reserve requirements or T-bills emissions. In this regard, and in accordance with the recommendations of Fund TA a new T-bill maturity of one week will be introduced to sterilize excess liquidity (the cost will however be borne by the Ministry of Finance).

On reforming the financial system, the authorities are addressing a number of weaknesses identified by recent IMF and World Bank TA missions. In particular, the government will seek to develop long-term savings by further loosening the regulation on interest rates on savings accounts. Efforts are also underway to strengthen regulations and supervision of the banking system through the introduction of a new capital adequacy framework consistent with Basel II. The authorities are also making progress in the generalization of IFRS accounting, and an audit firm is currently assisting commercial banks in their transition to IFRS.

C. Poverty Reduction and Structural Reforms

Major steps have recently been taken to more effectively target social safety nets to the poor. With the assistance of UNICEF, the authorities have designed a social protection strategy aimed at better protecting the poor and vulnerable groups, and should be adopted by the government by end-June 2012. Furthermore, a poverty survey of vulnerable groups in the capital, Nouakchott, was recently completed with the help of the World Food Program. On the basis of this survey, a cash transfer scheme for 10,000 poor households was launched, and will be extended to the rest of the country as soon as the vulnerability survey for the reminder of the country is completed (scheduled before the end of this year).

The government has also developed a new fuel price structure with the goal of phasing out and eliminating poorly targeted fuel subsidies. In this regard, the full pass-through of international prices is expected to take place at the end of the year, but in meantime will be applied to all large consumers by July 2012.

IV. Conclusion

My Mauritanian authorities have continued to make satisfactory progress under the ECF-supported program, and the overall economic performance remains strong. In light of their achievements, I would like to request the Board’s support for the favorable completion of the fourth review.