



# ISLAMIC REPUBLIC OF MAURITANIA

## STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

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

*Mauritania's risk of debt distress is rated high due to a breach of the debt-to-GDP ratio threshold under the baseline scenario. This represents a downgrade from the moderate risk of debt distress at the time of the 2012 Debt Sustainability Analysis. The downgrade is mostly due to a combination of higher projected debt disbursements and a more stringent level of the policy-dependent debt thresholds as measured by the World Bank CPIA score. The expected resolution of bilateral debt relief with Kuwait and a hike in export-led growth are projected to lower Mauritania's debt level and enhance the capacity of carrying debt over the next years; however, strengthening the quality of policies and institutions—and particularly debt management capacity—will prove critical to rapidly revert to a moderate risk of debt distress. Overall, external debt dynamics tend to follow public debt dynamics, while private sector debt represents a modest portion of external debt.*

## INTRODUCTION

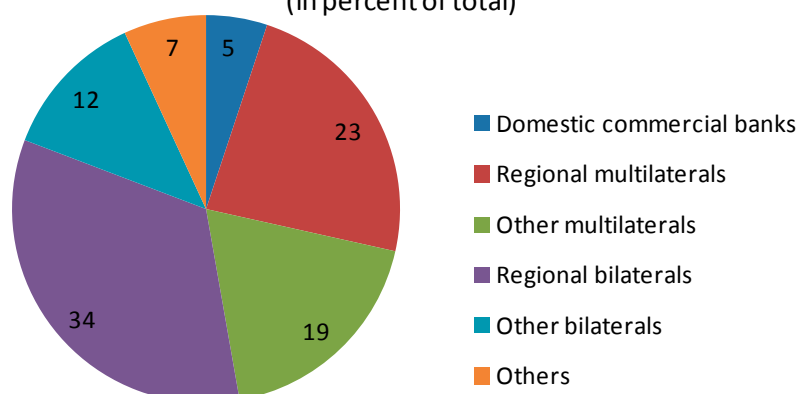
|   |      |
|---|------|
| <b>Risk of external debt distress:</b>  | High |
| <b>Augmented by significant risks stemming from domestic public and/or private external debt?</b> | No   |

## BACKGROUND

**1. Debt level remains elevated and mostly represented by public and publicly guaranteed (PPG) debt.** Private sector's access to finance remains limited. Public debt is mostly of an external nature, in the form of official lending with multilateral or bilateral institutions at concessional terms. Debt peaked during 2012 as the central government put in place large investment projects to address Mauritania's infrastructure gap. The public and publicly guaranteed (PPG) debt includes the debt of the central government, central bank and few state-owned enterprises (SOEs); and it is mainly constituted of external debt as the domestic debt is small. The non-publicly guaranteed external debt includes the state-owned mining company SNIM (which does not need government guarantees) and commercial banks' debt. In 2012, the PPG external debt rose 7 percentage GDP points to 73½ percent of GDP (2012) due to higher external debt disbursements for the central government financing of large infrastructure projects and it is projected to decline to about 52 percent of GDP over the medium term. The non-publicly guaranteed external debt, at 17 percent of GDP in 2013, has recently increased as SNIM has borrowed externally to finance its mining expansion plans.

**2. Mauritania's debt structure remains broadly sound.** Despite its high level, Mauritania's debt structure remains solid. Debt is contracted with bilateral and multilateral institutions, a stable creditor base, and mostly at concessional terms. Multilateral and bilateral creditors account for 42 and 46 percent of total debt, respectively. Mauritania's exposure to regional Arab lenders, with about 60 percent of the total debt portfolio, could make it vulnerable to a change in their lending policies. Its debt structure includes very limited guaranteed borrowing by SOEs and debt is contracted on fixed terms, with long maturities. Sources of risks in the debt structure relate to foreign currency exposure due to the size of the external debt, as 95 percent of its debt stock is denominated in foreign currency (mainly US dollar, Kuwaiti Dinar, and SDR). Domestic debt remains small (about 5 percent of stock) and consists of treasury bills for budgetary and liquidity management purposes. It is, nevertheless, issued at short maturity (up to six months) with some limited rollover risks. The debt service profile remains stable and relatively benign, but a term-of trade shock could hamper Mauritania's ability to servicing its external debt.

**Text Chart 1. Creditor base, 2013**  
(in percent of total)



**3. The authorities are actively seeking debt relief from Kuwait.** An agreement has not yet been reached on this longstanding issue between the Kuwait Investment Authority (KIA) and Mauritania. Both parties are seeking agreement about the valuation of the passive debt, including interest in arrears. In accordance with Paris Club's debt relief, Mauritania is seeking comparability of treatment consistent with the HIPC Initiative.

## UNDERLYING ASSUMPTIONS

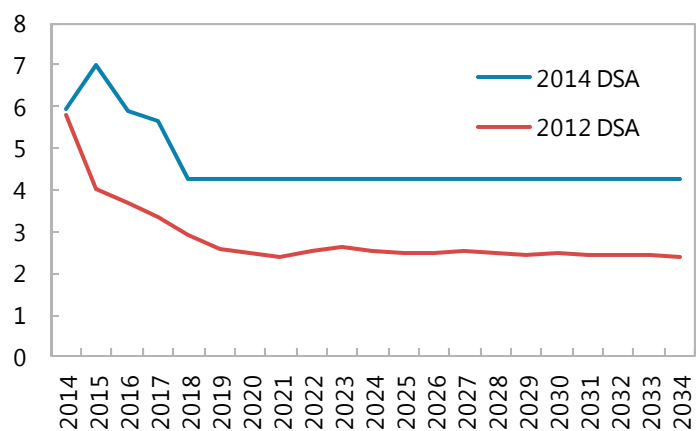
**4. This debt sustainability analysis (DSA) updates the joint IMF-World Bank DSA produced in June 2012 for the fourth review under the Extended Credit Facility (ECF).** The previous DSA concluded that the risk of debt distress was moderate but borderline high. It also highlighted that the debt dynamics were subject to risks emanating from country vulnerability to fiscal, FDI, exchange rate fluctuations and growth shocks, underscoring the need to continue improving debt management to safeguard medium-term sustainability. Key changes to the DSA inputs since the last exercise are as follows:

- **Real GDP growth** is expected to be higher mainly due to a large expansion in the extractive industry and in particular in iron mining. Existing and new producers are already undergoing a large expansion of mining capacity which will increase production capacity from 11,000 to 18,000 tons by 2016. Another planned expansion will bring the country's extraction capacity to over 60,000 tons by 2025. The mining projects result in a pronounced hump-shaped investment plan that will boost growth dynamics over the medium and long term. In addition, scaled-up public investment in agriculture aims at doubling the arable land.
- **Current account balances** in the long run have been revised to account for the more ambitious mining expansion plans that could triple iron ore exports over the next ten years against forecasts of a much smaller 40 percent hike in the last DSA. In particular, during 2016-20, substantial FDI-financed current account deficits are projected as the mining capacity is expanded; to be followed by a sharp improvement as investment-related imports abate and

exports expand, before stabilizing at a long-run level marginally better than forecast in the 2012 DSA (between 4 and 5 percent of GDP).

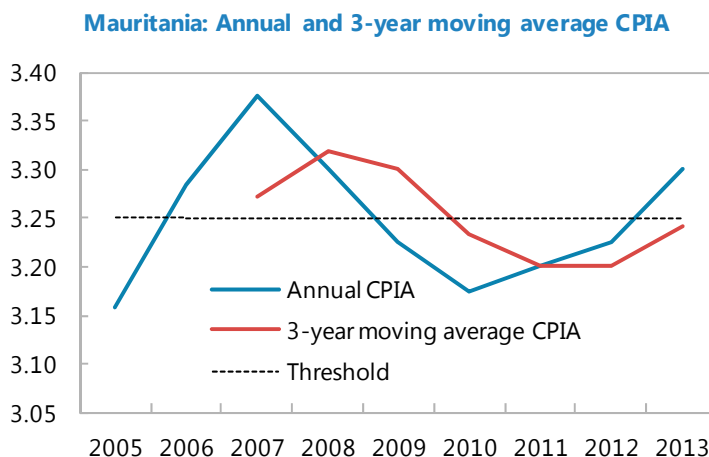
- **Level of GDP** has been revised upwards as the authorities improved the national account statistics with the help of technical assistance from the AFRITAC West. On average, GDP has increased by about 20 percent compared to previously reported GDP series used in the previous DSA. Average real GDP growth will average 7 percent over the medium term and expected to anchor around 6 percent afterwards.
- **Metal prices** have considerably changed since the previous DSA. Mauritania benefitted until recently from high iron ore prices and positive terms of trade. Iron prices sharply decreased during 2014 both due to a rise in global mining capacity and lower global demand (mainly driven by the heightened uncertainty associated with China and Europe's growth prospects). Medium-term projections suggest iron ore prices about 32 percent lower than forecasted at the time of the 2012 DSA (at US\$72 per ton). Therefore, medium-run terms of trade are therefore expected to deteriorate relative to the expectations at the time of the last DSA.
- **Public financing needs** have increased as the authorities have embarked on a program of public investments, with central government capital expenditure averaging over 12 percent of non-extractive GDP in the coming years (up from 9 percent in 2011). Projected new debt disbursements have been revised upwards starting in 2015, when they will reach around USD 360 million (7 percent of GDP). They will gradually decline afterwards to stabilize at about 4 percent of GDP by 2018. It is envisaged that most of the initial new borrowing will be on concessional terms, with the share of non-concessional borrowing in the total growing over the forecast horizon.

Projected new debt disbursements, percent of GDP



Source: IMF staff. Note: Both series use updated GDP projections

- **CPIA** scores determine a country's quality of policies and institutions which, in turn, affect debt thresholds against which the various debt ratios calculated in the DSA are compared. The CPIA score of Mauritania has reported significant gains in the institutional environment since 2011. However, the DSA considers a three-year moving average of the CPIA score and small fluctuations in the moving average have to be maintained



Source: World Bank.

for at least 2 years to have an effect on the DSA.<sup>1</sup> According to this rule, Mauritania's debt ratio thresholds have moved down to the weak institutional performers in this DSA due to the lagged impact of the low CPIA score the country received in 2011. This includes a move from 40 to 30 percentage points for the ratio of the present value of PPG external debt to GDP. The latest three-year average CPIA score (at 3.24 for 2011-13) has now been below the threshold for weak performers of 3.25 for over two years (which had not been the case at the time of the 2012 DSA). This precipitated the reclassification.<sup>2</sup>

- **KIA debt relief** is assumed to take place in 2015 and incorporated into the analysis since Mauritania had reached the HIPC completion point. The last DSA assumed the debt relief to take place in 2012.

## EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

**5. PPG external debt ratios remain below indicative thresholds in the baseline scenario over the medium term except for the debt-to-GDP ratio** (Figure 1 and Tables 1 and 2). The debt profile of the country has improved relative to the 2012 DSA despite the higher projected disbursements mainly due to the upward revision of the GDP<sup>3</sup>. Yet under the baseline scenario, the ratio of PV of PPG external debt to

<sup>1</sup> The methodology is described in <https://www.imf.org/external/np/pp/eng/2013/110513.pdf>. The new methodology incorporates, among others, revised debt thresholds and benchmarks for public sector debt, and revised guidance for the incorporation of remittances in the DSA. The latter is, however, not relevant in Mauritania due to low private remittances.

<sup>2</sup> The use of the 3-year moving average aims at avoiding frequent changes in the risk of external debt distress ratings as a result of small changes in the CPIA around the thresholds used to determine the institutional quality classification. If only the current CPIA rating (at 3.3) were used, Mauritania would have maintained the moderate risk of debt distress.

<sup>3</sup> With the new national accounts, GDP numbers have been revised upwards by 20 percent on average, and the 2013 PPG external debt-to-GDP ratio has been revised from 84 percent to 69.2 percent.

GDP breaches its threshold through 2025 because this threshold has been lowered to 30 percent from 40 percent due to the reclassification of the country's institutional quality. The ratio will reach slightly over 39 percent in 2015-16 (after a decline due to the assumed KIA debt relief) and then decline slowly to stabilize at around 35 percent. The decrease over time is driven by the pick-up in exports which will translate into both stronger growth and fiscal revenues. The breach of the relevant threshold by the ratio of PV of PPG external debt to GDP is, at over 9 percentage points in 2015, somewhat larger but much more sustained than the breach of the threshold for the same ratio in the 2012 DSA.

**6. Standardized stress tests lead to breaches of three debt ratio thresholds and point to the vulnerability of projected debt reduction** to both domestic and external factors. A currency devaluation and failure to secure the projected non-debt creating flows would be particularly damaging to the ratios, even though the latter would probably be partially offset by lower imports.

**7. The historical scenario produces unrealistically large swings in the level of projected external debt.** This result is driven by the large discrepancy between changes in external debt and identified net debt-creating flows in the baseline scenario. This scenario involves a substantial change in the current account balance from a large FDI-financed deficit while the mining capacity is being expanded in the short run to a much diminished one once mining exports have increased. A large portion of the projected current account deficits in the short run will be financed by SNIM and a substantial share of the improvement in current account balances in the medium run will accrue to SNIM. The former will not raise the PPG external debt and the latter will not be necessarily used to rapidly decrease the external indebtedness of the sovereign. The large residuals in the analysis arise from the fact that a large share of SNIM's project financing as well as use of the resulting higher export proceeds is unlikely to fall under the identified net debt-creating flow categories, which include non-interest current account balance.

**8. The outlook for overall external debt has worsened in absolute terms compared to the last DSA.** This can be attributed to the public external borrowing disbursements planned for infrastructure projects as well as increased borrowing from SNIM—whose significant debt-financed expansion plans could further raise external debt vulnerabilities. In addition, the 2012 DSA assumed that the now-delayed KIA debt relief would have been completed by this point.

## PUBLIC DEBT SUSTAINABILITY ASSESSMENT

**9. Indicators of overall public debt (external and domestic) and debt service mirrors the vulnerabilities associated with the external debt.** The total public debt mildly breaches its indicative benchmark after the assumed KIA debt relief even though the breach steadily declines over the forecast horizon. The stress scenarios show that this projection is particularly vulnerable to currency depreciation and depends on the materialization of the expected export-led growth.

**10. Overall public debt is largely comprised of PPG external debt.** Almost 90 percent of total public debt in Mauritania is PPG external debt. Domestic public debt has hovered around 5 to 7 percent of GDP and is not a significant contributing factor to the overall public debt level.

## CONCLUSION

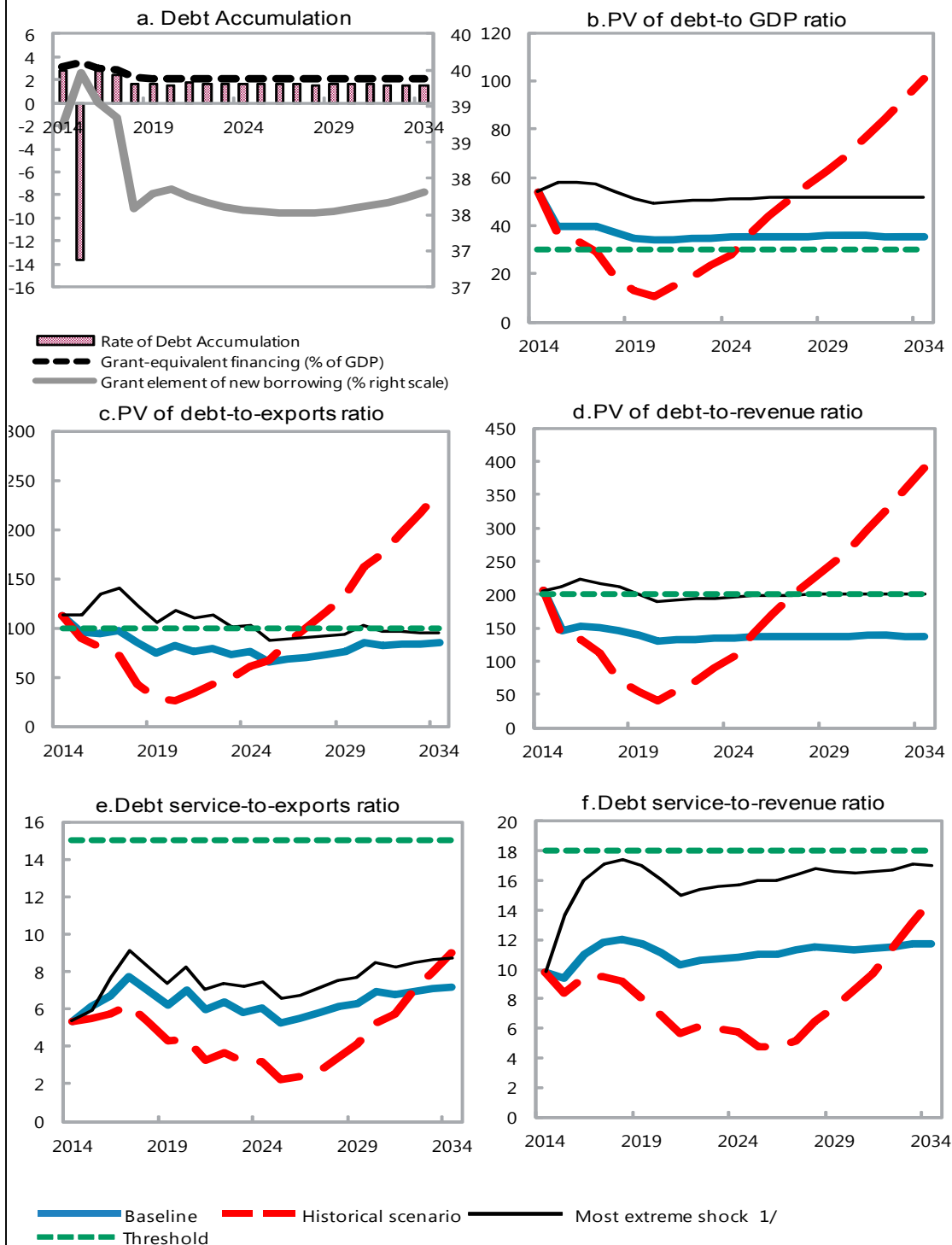
**11. Mauritania's risk of external debt distress has increased due to a combination of the reclassification of its institutional capacity and higher projected new debt disbursements.** The new institutional capacity classification has resulted in lowering of Mauritania's debt thresholds, including from 40 to 30 percentage points for the ratio of the present value of PPG external debt to GDP. As a result of a baseline breach due to a lower threshold, the risk of debt distress has increased from moderate to high. In addition, the projected disbursement path in the coming years will increase PPG external debt level. The projected KIA debt relief will not, in itself, resolve breaching the threshold for the ratio of PV of PPG external debt to GDP. In the medium term, increased exports and the resulting output growth should decrease the country's debt burden. The outlook would worsen substantially should the projected increases in exports and the subsequent higher growth and improvements in current account balances not materialize, in particular due to delays to or cancellations of mining capacity expansion plans.

**12. Given the challenges of reducing debt rapidly, Mauritania needs to continue improving its institutional environment to quickly return to a moderate risk of debt distress.** An anticipated debt relief and a hike in export-led growth are projected to lower Mauritania's debt level and enhance the capacity of carrying debt over the next years; but debt management capacity needs to be strengthened. Given that under the baseline a breach of a threshold occurs for the duration of the projection period, Mauritania could gain substantially from a stronger institutional environment to increase the debt tolerance level. Within the categories of institutions considered by the CPIA score, Mauritania has largest scope for improvement in debt policy, financial sector, social protection and transparency in the public sector. The country should therefore, among other measures, redouble its efforts to implement a social protection framework that would help the socially vulnerable. Elsewhere, following the recommendation of the recent FSAP exercise should aid Mauritania in improving its financial sector institutions.

**13. Recent technical assistance from AFRITAC-West provides recommendations to improve debt management practices** which both bear on the overall CPIA score and is directly linked to Mauritania's debt management capacity. The technical assistance mission assessed that debt management in Mauritania is fragmented and the relevant operational responsibilities are shared and duplicated. The authorities should therefore reorganize the functions of the various departments of the Ministry of Economic Affairs and Development, Ministry of Finance and the Central Bank that participate in debt management to increase the efficiency and coordination in debt contraction and management.

**14. The authorities do not agree with the reclassification of the country's quality of policies and institutions into the weak category as a function of the past CPIA scores, which has a direct bearing on the change in the country's risk of external debt distress from medium to high.** In particular, they believe the methodology in the joint Bank-Fund Debt Sustainability Framework for low-income countries places too much weight in its assessment of institutional quality on the past and too little on the present. The country's institutional quality is being downgraded at a point in time when the CPIA has both been increasing for 3 consecutive years and has risen above the 3.25 minimum level required for medium quality of institutions. This means that the risk of the external debt distress is being increased while the actual institutional quality is improving and the macroeconomic environment remained stable.

**Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/**

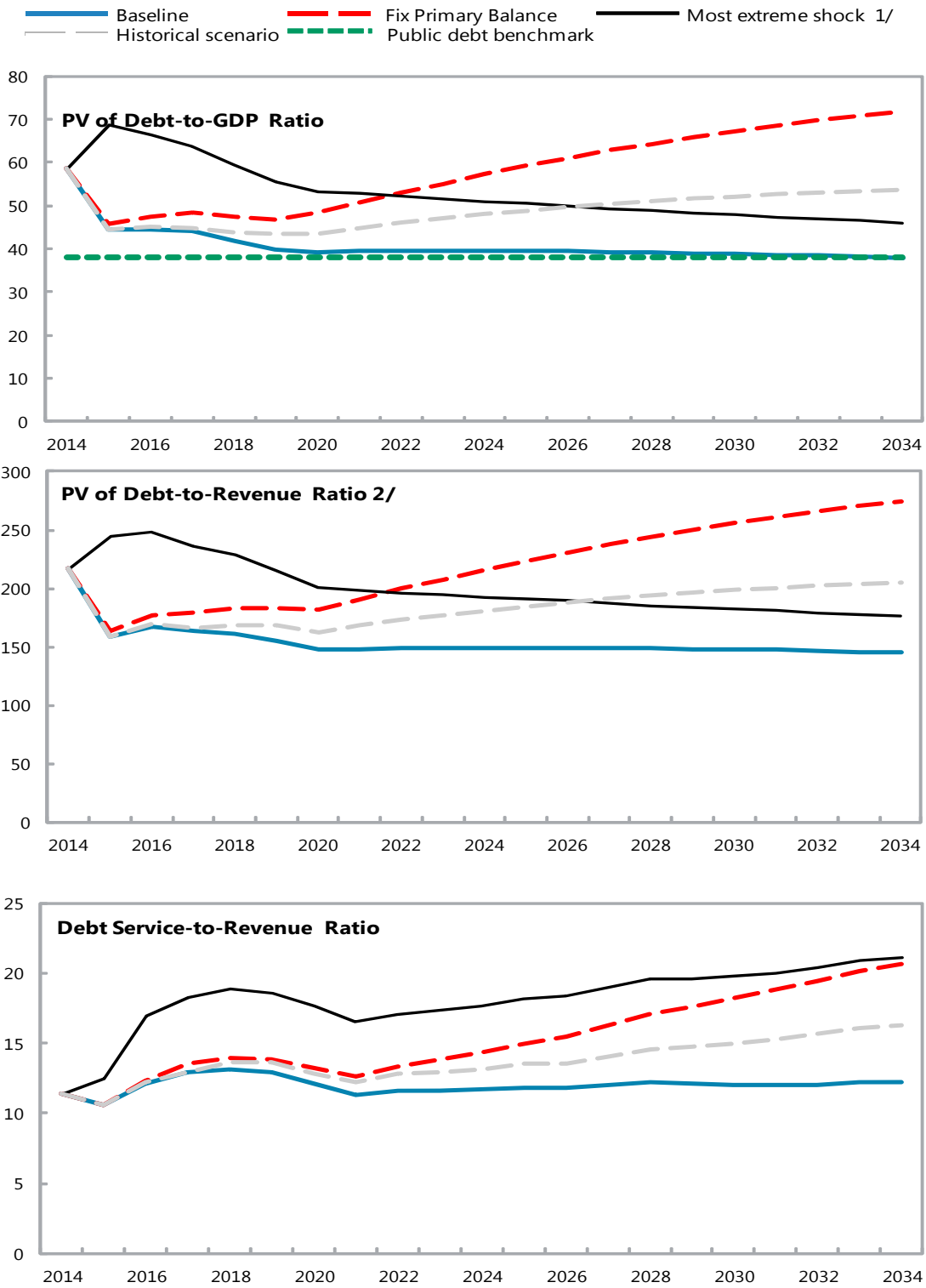


Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Non-debt flows shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock



**Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2014-34**  
1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.

2/ Revenues are defined inclusive of grants.

**Table 1. Mauritania: External Debt Sustainability Framework, Baseline Scenario, 2011-34 1/**  
(In percent of GDP, unless otherwise indicated)

|   | Actual       |              |              | Historical <sup>6/</sup> Standard <sup>6/</sup> |             | Projections  |              |              |              |              |              |         | 2014-2019    |              | 2020-2034 |  |
|---|--------------|--------------|--------------|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|---------|--------------|--------------|-----------|--|
|   | 2011         | 2012         | 2013         | Average   | Deviation   | 2014         | 2015         | 2016         | 2017         | 2018         | 2019         | Average | 2024         | 2034         | Average   |  |
| <b>External debt (nominal) 1/</b>                                       | <b>75.5</b>  | <b>88.9</b>  | <b>86.5</b>  |   |             | <b>90.1</b>  | <b>76.2</b>  | <b>76.9</b>  | <b>78.0</b>  | <b>85.6</b>  | <b>88.6</b>  |         | <b>72.8</b>  | <b>56.1</b>  |           |  |
| <i>of which: public and publicly guaranteed (PPG)</i>                   | 66.7         | 73.5         | 69.2         |   |             | 73.7         | 61.3         | 61.1         | 60.5         | 56.8         | 53.4         |         | 53.2         | 52.4         |           |  |
| Change in external debt   | -5.4         | 13.5         | -2.5         |   |             | 3.6          | -13.9        | 0.7          | 1.1          | 7.6          | 3.0          |         | -3.9         | -0.4         |           |  |
| Identified net debt-creating flows                                      | -18.9        | 2.2          | -1.7         |   |             | 4.7          | -4.2         | 2.2          | 6.0          | 15.0         | 6.3          |         | -9.8         | -23.4        |           |  |
| <b>Non-interest current account deficit</b>                             | <b>4.6</b>   | <b>25.4</b>  | <b>23.3</b>  | <b>16.1</b>                                     | <b>13.1</b> | <b>22.9</b>  | <b>6.0</b>   | <b>21.1</b>  | <b>29.6</b>  | <b>35.1</b>  | <b>20.9</b>  |         | <b>2.1</b>   | <b>2.5</b>   | 2.1       |  |
| Deficit in balance of goods and services                                | 5.0          | 28.8         | 23.7         |   |             | 22.4         | 9.5          | 22.2         | 30.7         | 36.3         | 22.0         |         | 0.3          | 2.2          |           |  |
| Exports   | 58.1         | 57.9         | 55.7         |   |             | 47.9         | 42.0         | 42.7         | 40.5         | 43.7         | 47.3         |         | 46.8         | 41.9         |           |  |
| Imports   | 63.1         | 86.7         | 79.5         |   |             | 70.3         | 51.6         | 64.9         | 71.2         | 80.0         | 69.4         |         | 47.1         | 44.1         |           |  |
| Net current transfers (negative = inflow)                               | -2.9         | -6.6         | -2.8         | -4.5  | 1.7         | -2.8         | -6.4         | -2.4         | -2.2         | -2.0         | -1.9         |         | -1.6         | -1.4         | -1.6      |  |
| <i>of which: official</i>   | -2.3         | -5.7         | -1.6         |   |             | -1.6         | -5.3         | -1.2         | -1.1         | -1.0         | -0.9         |         | -0.7         | -0.4         |           |  |
| Other current account flows (negative = net inflow)                     | 2.6          | 3.3          | 2.4          |   |             | 3.3          | 2.9          | 1.3          | 1.1          | 0.8          | 0.7          |         | 3.4          | 1.7          |           |  |
| <b>Net FDI (negative = inflow)</b>                                      | <b>-11.5</b> | <b>-28.5</b> | <b>-22.1</b> | <b>-13.1</b>                                    | <b>13.4</b> | <b>-14.3</b> | <b>-7.1</b>  | <b>-15.7</b> | <b>-21.7</b> | <b>-16.2</b> | <b>-10.3</b> |         | <b>-9.5</b>  | <b>-23.3</b> | -13.3     |  |
| <b>Endogenous debt dynamics 2/</b>                                      | <b>-12.0</b> | <b>5.3</b>   | <b>-2.8</b>  |   |             | <b>-3.8</b>  | <b>-3.1</b>  | <b>-3.2</b>  | <b>-1.8</b>  | <b>-3.9</b>  | <b>-4.2</b>  |         | <b>-2.4</b>  | <b>-2.6</b>  |           |  |
| Contribution from nominal interest rate                                 | 0.5          | 0.7          | 1.5          |   |             | 1.7          | 1.8          | 1.7          | 1.7          | 1.8          | 2.3          |         | 1.9          | 0.7          |           |  |
| Contribution from real GDP growth                                       | -3.0         | -4.8         | -4.8         |   |             | -5.6         | -4.9         | -4.9         | -3.6         | -5.7         | -6.5         |         | -4.3         | -3.2         |           |  |
| Contribution from price and exchange rate changes                       | -9.5         | 9.4          | 0.4          |   |             | ...          | ...          | ...          | ...          | ...          | ...          |         | ...          | ...          |           |  |
| <b>Residual (3-4) 3/</b>  | <b>13.5</b>  | <b>11.3</b>  | <b>-0.8</b>  |   |             | <b>-1.1</b>  | <b>-9.7</b>  | <b>-1.5</b>  | <b>-4.9</b>  | <b>-7.4</b>  | <b>-3.3</b>  |         | <b>5.9</b>   | <b>23.0</b>  |           |  |
| <i>of which: exceptional financing</i>                                  | -0.3         | 1.8          | -0.2         |   |             | 0.0          | 17.0         | 0.0          | 0.0          | 0.0          | 0.0          |         | 0.0          | 0.0          |           |  |
| PV of external debt 4/  | ...          | ...          | 68.0         |   |             | 70.2         | 54.7         | 55.6         | 56.9         | 65.9         | 70.1         |         | 54.7         | 39.0         |           |  |
| In percent of exports   | ...          | ...          | 122.0        |   |             | 146.8        | 130.3        | 130.2        | 140.8        | 150.9        | 148.1        |         | 117.0        | 93.0         |           |  |
| <b>PV of PPG external debt</b>  | <b>...</b>   | <b>...</b>   | <b>50.7</b>  |   |             | <b>53.8</b>  | <b>39.8</b>  | <b>39.8</b>  | <b>39.4</b>  | <b>37.1</b>  | <b>34.9</b>  |         | <b>35.1</b>  | <b>35.3</b>  |           |  |
| <b>In percent of exports</b>  | <b>...</b>   | <b>...</b>   | <b>91.0</b>  |   |             | <b>112.5</b> | <b>94.8</b>  | <b>93.2</b>  | <b>97.3</b>  | <b>84.9</b>  | <b>73.7</b>  |         | <b>75.0</b>  | <b>84.2</b>  |           |  |
| <b>In percent of government revenues</b>                                | <b>...</b>   | <b>...</b>   | <b>187.5</b> |   |             | <b>205.9</b> | <b>145.5</b> | <b>153.1</b> | <b>149.0</b> | <b>145.8</b> | <b>138.2</b> |         | <b>134.7</b> | <b>137.1</b> |           |  |
| <b>Debt service-to-exports ratio (in percent)</b>                       | <b>1.4</b>   | <b>2.2</b>   | <b>6.3</b>   |   |             | <b>10.6</b>  | <b>12.0</b>  | <b>11.8</b>  | <b>13.7</b>  | <b>13.2</b>  | <b>15.6</b>  |         | <b>15.5</b>  | <b>7.2</b>   |           |  |
| <b>PPG debt service-to-exports ratio (in percent)</b>                   | <b>0.0</b>   | <b>0.0</b>   | <b>3.9</b>   |   |             | <b>5.4</b>   | <b>6.1</b>   | <b>6.7</b>   | <b>7.7</b>   | <b>7.0</b>   | <b>6.2</b>   |         | <b>6.0</b>   | <b>7.2</b>   |           |  |
| <b>PPG debt service-to-revenue ratio (in percent)</b>                   | <b>0.0</b>   | <b>0.0</b>   | <b>8.0</b>   |   |             | <b>9.8</b>   | <b>9.4</b>   | <b>11.0</b>  | <b>11.8</b>  | <b>12.0</b>  | <b>11.7</b>  |         | <b>10.8</b>  | <b>11.7</b>  |           |  |
| Total gross financing need (Billions of U.S. dollars)                   | -0.2         | 0.0          | 0.4          |   |             | 0.9          | 0.4          | 0.8          | 1.0          | 1.8          | 1.5          |         | 0.3          | -2.1         |           |  |
| Non-interest current account deficit that stabilizes debt ratio         | 10.0         | 12.0         | 25.8         |   |             | 19.3         | 19.9         | 20.4         | 28.4         | 27.4         | 17.9         |         | 6.0          | 2.9          |           |  |
| <b>Key macroeconomic assumptions</b>                                    |              |              |              |   |             |              |              |              |              |              |              |         |              |              |           |  |
| Real GDP growth (in percent)  | 4.4          | 6.0          | 5.7          | 5.7   | 5.4         | 6.4          | 5.5          | 6.8          | 5.0          | 8.0          | 8.4          | 6.7     | 5.8          | 6.0          | 5.9       |  |
| GDP deflator in US dollar terms (change in percent)                     | 13.3         | -11.1        | -0.5         | 7.0   | 10.3        | -6.6         | -4.3         | 0.3          | 2.2          | 2.4          | 2.3          | -0.6    | -1.6         | -1.2         | -1.3      |  |
| Effective interest rate (percent) 5/                                    | 0.7          | 0.8          | 1.8          | 0.5   | 0.6         | 2.0          | 2.0          | 2.3          | 2.4          | 2.5          | 2.9          | 2.4     | 2.6          | 1.2          | 2.2       |  |
| Growth of exports of G&S (US dollar terms, in percent)                  | 32.9         | -6.2         | 1.3          | 27.0  | 35.5        | -14.6        | -11.4        | 9.0          | 1.6          | 19.4         | 20.2         | 4.0     | 0.7          | 3.1          | 3.9       |  |
| Growth of imports of G&S (US dollar terms, in percent)                  | 22.5         | 29.4         | -3.6         | 22.2  | 29.7        | -12.1        | -25.9        | 34.9         | 17.7         | 24.3         | -3.8         | 5.9     | 3.6          | 4.5          | 1.7       |  |
| Grant element of new public sector borrowing (in percent)               | ...          | ...          | ...          | ...   | ...         | 38.7         | 39.5         | 39.0         | 38.8         | 37.6         | 37.8         | 38.6    | 37.6         | 37.8         | 37.6      |  |
| Government revenues (excluding grants, in percent of GDP)               | 22.0         | 27.7         | 27.0         |   |             | 26.2         | 27.4         | 26.0         | 26.4         | 25.4         | 25.2         |         | 26.1         | 25.8         | 26.0      |  |
| Aid flows (in Billions of US dollars) 7/                                | 0.0          | 0.2          | 0.3          |   |             | 0.3          | 0.4          | 0.3          | 0.3          | 0.3          | 0.3          |         | 0.4          | 0.6          |           |  |
| <i>of which: Grants</i>   | 0.0          | 0.2          | 0.0          |   |             | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |         | 0.0          | 0.1          |           |  |
| <i>of which: Concessional loans</i>                                     | 0.0          | 0.0          | 0.3          |   |             | 0.3          | 0.3          | 0.3          | 0.3          | 0.2          | 0.3          |         | 0.3          | 0.5          |           |  |
| Grant-equivalent financing (in percent of GDP) 8/                       | ...          | ...          | ...          |   |             | 3.2          | 3.6          | 3.0          | 2.9          | 2.2          | 2.1          |         | 2.1          | 2.1          | 2.1       |  |
| Grant-equivalent financing (in percent of external financing) 8/        | ...          | ...          | ...          |   |             | 46.4         | 45.4         | 45.4         | 44.8         | 44.5         | 43.9         |         | 42.8         | 43.0         | 42.9      |  |
| <b>Memorandum items:</b>  |              |              |              |   |             |              |              |              |              |              |              |         |              |              |           |  |
| Nominal GDP (Billions of US dollars)                                    | 5.1          | 4.8          | 5.1          |   |             | 5.1          | 5.1          | 5.5          | 5.9          | 6.5          | 7.2          |         | 9.1          | 14.0         |           |  |
| Nominal dollar GDP growth   | 18.2         | -5.8         | 5.2          |   |             | -0.6         | 1.0          | 7.2          | 7.3          | 10.6         | 10.9         | 6.1     | 4.1          | 4.7          | 4.5       |  |
| PV of PPG external debt (in Billions of US dollars)                     | ...          | ...          | 2.6          |   |             | 2.7          | 2.0          | 2.2          | 2.3          | 2.4          | 2.5          |         | 3.2          | 5.0          |           |  |
| (PVT-PVt-1)/GDPT-1 (in percent)   | ...          | ...          | ...          |   |             | 2.8          | -13.6        | 2.8          | 2.4          | 1.6          | 1.6          | -0.4    | 1.7          | 1.5          | 1.6       |  |
| Gross workers' remittances (Billions of US dollars)                     | 0.0          | 0.0          | 0.1          |   |             | 0.1          | 0.1          | 0.1          | 0.1          | 0.1          | 0.1          |         | 0.1          | 0.1          |           |  |
| PV of PPG external debt (in percent of GDP + remittances)               | ...          | ...          | 50.2         |   |             | 53.2         | 39.3         | 39.3         | 38.9         | 36.7         | 34.5         |         | 34.8         | 35.0         |           |  |
| PV of PPG external debt (in percent of exports + remittances)           | ...          | ...          | 89.2         |   |             | 109.8        | 92.2         | 90.7         | 94.7         | 82.9         | 72.1         |         | 73.5         | 82.4         |           |  |
| Debt service of PPG external debt (in percent of exports + remittances) | ...          | ...          | 3.8          |   |             | 5.2          | 6.0          | 6.5          | 7.5          | 6.8          | 6.1          |         | 5.9          | 7.0          |           |  |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as  $[r - g - p(1+g)] / (1+g+p+g)$  times previous period debt ratio, with  $r$  = nominal interest rate;  $g$  = real GDP growth rate, and  $p$  = 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.

**Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34**  
(In percent)

|  | Projections |      |      |      |      |      |      |      |
|--|-------------|------|------|------|------|------|------|------|
|  | 2014        | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 | 2034 |
| <b>PV of debt-to GDP ratio</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 54          | 40   | 40   | 39   | 37   | 35   | 35   | 35   |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Key variables at their historical averages in 2014-2034 1/                                     | 54          | 37   | 34   | 29   | 18   | 13   | 28   | 101  |
| A2. New public sector loans on less favorable terms in 2014-2034 2                                 | 54          | 42   | 43   | 44   | 43   | 41   | 47   | 59   |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2015-2016                | 54          | 42   | 45   | 44   | 41   | 39   | 39   | 40   |
| B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/         | 54          | 39   | 43   | 42   | 40   | 37   | 37   | 36   |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016         | 54          | 39   | 41   | 40   | 38   | 36   | 36   | 36   |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/ | 54          | 47   | 58   | 57   | 53   | 50   | 48   | 40   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 54          | 34   | 33   | 33   | 31   | 29   | 30   | 33   |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/                   | 54          | 58   | 58   | 57   | 54   | 51   | 51   | 51   |
| <b>PV of debt-to-exports ratio</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 112         | 95   | 93   | 97   | 85   | 74   | 75   | 84   |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Key variables at their historical averages in 2014-2034 1/                                     | 112         | 89   | 80   | 73   | 42   | 28   | 60   | 240  |
| A2. New public sector loans on less favorable terms in 2014-2034 2                                 | 112         | 99   | 101  | 109  | 98   | 88   | 101  | 140  |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2015-2016                | 112         | 95   | 93   | 97   | 85   | 74   | 75   | 84   |
| B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/         | 112         | 90   | 116  | 121  | 105  | 91   | 92   | 99   |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016         | 112         | 95   | 93   | 97   | 85   | 74   | 75   | 84   |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/ | 112         | 112  | 135  | 140  | 122  | 106  | 102  | 94   |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 112         | 68   | 64   | 67   | 59   | 51   | 54   | 66   |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/                   | 112         | 95   | 93   | 97   | 85   | 74   | 75   | 84   |
| <b>PV of debt-to-revenue ratio</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 206         | 145  | 153  | 149  | 146  | 138  | 135  | 137  |
| <b>A. Alternative Scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Key variables at their historical averages in 2014-2034 1/                                     | 206         | 136  | 131  | 111  | 72   | 53   | 108  | 391  |
| A2. New public sector loans on less favorable terms in 2014-2034 2                                 | 206         | 152  | 166  | 167  | 168  | 164  | 182  | 228  |
| <b>B. Bound Tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth at historical average minus one standard deviation in 2015-2016                | 206         | 153  | 171  | 167  | 163  | 155  | 151  | 153  |
| B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/         | 206         | 142  | 164  | 160  | 156  | 148  | 143  | 140  |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016         | 206         | 144  | 157  | 153  | 150  | 142  | 138  | 141  |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/ | 206         | 173  | 221  | 214  | 210  | 199  | 183  | 154  |
| B5. Combination of B1-B4 using one-half standard deviation shocks                                  | 206         | 124  | 128  | 125  | 123  | 116  | 117  | 130  |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/                   | 206         | 212  | 223  | 217  | 212  | 201  | 196  | 200  |

| <b>Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-34 (continued)</b>  |    |    |    |    |    |    |    |    |
|---|----|----|----|----|----|----|----|----|
| <b>(In percent)</b>   |    |    |    |    |    |    |    |    |
| <b>Debt service-to-exports ratio</b>  |    |    |    |    |    |    |    |    |
| <b>Baseline</b>   | 5  | 6  | 7  | 8  | 7  | 6  | 6  | 7  |
| <b>A. Alternative Scenarios</b>   |    |    |    |    |    |    |    |    |
| A1. Key variables at their historical averages in 2014-2034 1/  | 5  | 5  | 6  | 6  | 5  | 4  | 3  | 9  |
| A2. New public sector loans on less favorable terms in 2014-2034 2  | 5  | 6  | 6  | 7  | 7  | 6  | 7  | 12 |
| <b>B. Bound Tests</b>   |    |    |    |    |    |    |    |    |
| B1. Real GDP growth at historical average minus one standard deviation in 2015-2016   | 5  | 6  | 7  | 8  | 7  | 6  | 6  | 7  |
| B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/  | 5  | 6  | 8  | 9  | 8  | 7  | 7  | 9  |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016  | 5  | 6  | 7  | 8  | 7  | 6  | 6  | 7  |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/  | 5  | 6  | 7  | 9  | 8  | 7  | 9  | 9  |
| B5. Combination of B1-B4 using one-half standard deviation shocks   | 5  | 5  | 5  | 6  | 5  | 5  | 4  | 5  |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/  | 5  | 6  | 7  | 8  | 7  | 6  | 6  | 7  |
| <b>Debt service-to-revenue ratio</b>  |    |    |    |    |    |    |    |    |
| <b>Baseline</b>   | 10 | 9  | 11 | 12 | 12 | 12 | 11 | 12 |
| <b>A. Alternative Scenarios</b>   |    |    |    |    |    |    |    |    |
| A1. Key variables at their historical averages in 2014-2034 1/  | 10 | 8  | 9  | 9  | 9  | 8  | 6  | 15 |
| A2. New public sector loans on less favorable terms in 2014-2034 2  | 10 | 9  | 11 | 11 | 12 | 12 | 13 | 19 |
| <b>B. Bound Tests</b>   |    |    |    |    |    |    |    |    |
| B1. Real GDP growth at historical average minus one standard deviation in 2015-2016   | 10 | 10 | 12 | 13 | 13 | 13 | 12 | 13 |
| B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/  | 10 | 9  | 11 | 12 | 12 | 12 | 12 | 12 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016  | 10 | 9  | 11 | 12 | 12 | 12 | 11 | 12 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/  | 10 | 9  | 12 | 13 | 14 | 13 | 16 | 15 |
| B5. Combination of B1-B4 using one-half standard deviation shocks   | 10 | 9  | 10 | 11 | 11 | 11 | 9  | 10 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/  | 10 | 14 | 16 | 17 | 17 | 17 | 16 | 17 |
| <i>Memorandum item:</i>   |    |    |    |    |    |    |    |    |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/  | 32 | 32 | 32 | 32 | 32 | 32 | 32 | 32 |
| 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, 2011-34**  
(In percent of GDP, unless otherwise indicated)

|  | Actual |      |       | Average <sup>5/</sup> | Standard Deviation <sup>5/</sup> | Estimate |       |       |       |       | Projections |                 |       |       |
|--|--------|------|-------|-----------------------|----------------------------------|----------|-------|-------|-------|-------|-------------|-----------------|-------|-------|
|  | 2011   | 2012 | 2013  |                       |                                  | 2014     | 2015  | 2016  | 2017  | 2018  | 2019        | 2014-19 Average | 2024  | 2034  |
| <b>Public sector debt 1/</b>   | 72.2   | 79.4 | 73.7  |                       |                                  | 78.4     | 66.0  | 65.9  | 65.2  | 61.6  | 58.4        |                 | 57.5  | 54.9  |
| <i>of which: foreign-currency denominated</i>                          | 66.7   | 73.5 | 69.2  |                       |                                  | 73.7     | 61.3  | 61.1  | 60.5  | 56.8  | 53.4        |                 | 53.2  | 52.4  |
| Change in public sector debt   | -8.4   | 7.2  | -5.7  |                       |                                  | 4.7      | -12.4 | -0.2  | -0.6  | -3.6  | -3.2        |                 | 0.0   | -0.4  |
| Identified debt-creating flows   | -12.2  | 1.5  | -4.2  |                       |                                  | 3.4      | -16.9 | -3.8  | -3.8  | -5.6  | -5.9        |                 | -2.7  | -2.5  |
| Primary deficit  | -0.4   | -2.7 | 0.0   | 0.1                   | 2.6                              | 2.0      | 0.1   | -0.3  | -0.3  | -0.3  | -0.7        | 0.1             | -1.2  | -0.7  |
| Revenue and grants   | 22.5   | 32.4 | 27.8  |                       |                                  | 27.0     | 28.1  | 26.7  | 27.0  | 26.0  | 25.7        |                 | 26.5  | 26.2  |
| <i>of which: grants</i>  | 0.5    | 4.7  | 0.7   |                       |                                  | 0.8      | 0.8   | 0.7   | 0.6   | 0.5   | 0.5         |                 | 0.4   | 0.4   |
| Primary (noninterest) expenditure                                      | 22.1   | 29.7 | 27.8  |                       |                                  | 29.0     | 28.2  | 26.3  | 26.7  | 25.7  | 25.0        |                 | 25.2  | 25.4  |
| Automatic debt dynamics  | -11.8  | 4.1  | -4.2  |                       |                                  | 1.4      | 0.1   | -3.5  | -3.5  | -5.3  | -5.2        |                 | -1.4  | -1.7  |
| Contribution from interest rate/growth differential                    | -4.8   | -4.5 | -4.4  |                       |                                  | -4.2     | -4.3  | -4.4  | -3.4  | -5.1  | -5.0        |                 | -2.3  | -2.3  |
| <i>of which: contribution from average real interest rate</i>          | -1.4   | -0.4 | -0.1  |                       |                                  | 0.2      | -0.3  | -0.1  | -0.3  | -0.3  | -0.2        |                 | 0.9   | 0.8   |
| <i>of which: contribution from real GDP growth</i>                     | -3.4   | -4.1 | -4.3  |                       |                                  | -4.4     | -4.1  | -4.2  | -3.1  | -4.8  | -4.8        |                 | -3.2  | -3.1  |
| Contribution from real exchange rate depreciation                      | -7.0   | 8.6  | 0.2   |                       |                                  | 5.6      | 4.4   | 0.9   | -0.1  | -0.2  | -0.1        |                 | ...   | ...   |
| Other identified debt-creating flows                                   | 0.0    | 0.0  | 0.0   |                       |                                  | 0.0      | -17.0 | 0.0   | 0.0   | 0.0   | 0.0         |                 | 0.0   | 0.0   |
| 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   |
| 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   |
| Debt relief (HIPC and other)   | 0.0    | 0.0  | 0.0   |                       |                                  | 0.0      | -17.0 | 0.0   | 0.0   | 0.0   | 0.0         |                 | 0.0   | 0.0   |
| 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   |
| Residual, including asset changes                                      | 3.8    | 5.7  | -1.5  |                       |                                  | 1.3      | 4.5   | 3.7   | 3.2   | 2.0   | 2.7         |                 | 2.6   | 2.1   |
| <b>Other Sustainability Indicators</b>                                 |        |      |       |                       |                                  |          |       |       |       |       |             |                 |       |       |
| <b>PV of public sector debt</b>  | ...    | ...  | 55.2  |                       |                                  | 58.5     | 44.6  | 44.5  | 44.1  | 41.9  | 39.9        |                 | 39.4  | 37.9  |
| <i>of which: foreign-currency denominated</i>                          | ...    | ...  | 50.7  |                       |                                  | 53.8     | 39.8  | 39.8  | 39.4  | 37.1  | 34.9        |                 | 35.1  | 35.3  |
| <i>of which: external</i>  | ...    | ...  | 50.7  |                       |                                  | 53.8     | 39.8  | 39.8  | 39.4  | 37.1  | 34.9        |                 | 35.1  | 35.3  |
| PV of contingent liabilities (not included in public sector debt)      | ...    | ...  | ...   |                       |                                  | ...      | ...   | ...   | ...   | ...   | ...         |                 | ...   | ...   |
| Gross financing need 2/  | 9.1    | 3.2  | 8.1   |                       |                                  | 9.5      | 7.5   | 7.2   | 7.5   | 7.3   | 6.8         |                 | 6.2   | 5.0   |
| PV of public sector debt-to-revenue and grants ratio (in percent)      | ...    | ...  | 198.7 |                       |                                  | 216.8    | 158.4 | 166.9 | 163.2 | 161.3 | 155.3       |                 | 149.1 | 144.7 |
| PV of public sector debt-to-revenue ratio (in percent)                 | ...    | ...  | 204.2 |                       |                                  | 223.9    | 162.9 | 171.3 | 167.1 | 164.8 | 158.2       |                 | 151.4 | 147.0 |
| <i>of which: external 3/</i>   | ...    | ...  | 187.5 |                       |                                  | 205.9    | 145.5 | 153.1 | 149.0 | 145.8 | 138.2       |                 | 134.7 | 137.1 |
| Debt service-to-revenue and grants ratio (in percent) 4/               | 14.2   | 1.2  | 9.3   |                       |                                  | 11.4     | 10.6  | 12.1  | 12.9  | 13.2  | 12.9        |                 | 11.7  | 12.2  |
| Debt service-to-revenue ratio (in percent) 4/                          | 14.5   | 1.4  | 9.5   |                       |                                  | 11.7     | 10.9  | 12.5  | 13.2  | 13.4  | 13.1        |                 | 11.9  | 12.4  |
| Primary deficit that stabilizes the debt-to-GDP ratio                  | 7.9    | -9.8 | 5.7   |                       |                                  | -2.8     | 12.5  | -0.2  | 0.3   | 3.3   | 2.4         |                 | -1.2  | -0.4  |
| <b>Key macroeconomic and fiscal assumptions</b>                        |        |      |       |                       |                                  |          |       |       |       |       |             |                 |       |       |
| Real GDP growth (in percent)   | 4.4    | 6.0  | 5.7   | 5.7                   | 5.4                              | 6.4      | 5.5   | 6.8   | 5.0   | 8.0   | 8.4         | 6.7             | 5.8   | 6.0   |
| Average nominal interest rate on forex debt (in percent)               | 0.0    | 0.0  | 1.0   | 0.1                   | 0.3                              | 1.1      | 1.1   | 1.4   | 1.5   | 1.5   | 1.5         | 1.3             | 1.4   | 1.3   |
| Average real interest rate on domestic debt (in percent)               | -7.2   | 9.8  | 4.1   | 3.8                   | 8.8                              | 12.9     | 4.7   | 2.5   | 1.1   | 1.0   | 1.2         | 3.9             | 5.1   | 5.2   |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -10.1  | 13.9 | 0.3   | -4.0                  | 7.9                              | 8.7      | ...   | ...   | ...   | ...   | ...         | ...             | ...   | ...   |
| Inflation rate (GDP deflator, in percent)                              | 15.3   | -5.8 | 0.1   | 8.2                   | 8.3                              | -5.3     | 0.5   | 2.4   | 4.2   | 4.6   | 4.5         | 1.8             | -0.5  | -0.2  |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 5.3    | 42.8 | -1.2  | 6.7                   | 16.1                             | 11.0     | 2.6   | -0.2  | 6.6   | 3.7   | 5.5         | 4.9             | 5.9   | 6.0   |
| Grant element of new external borrowing (in percent)                   | ...    | ...  | ...   | ...                   | ...                              | 38.7     | 39.5  | 39.0  | 38.8  | 37.6  | 37.8        | 38.6            | 37.6  | 37.8  |

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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 2014-34

|  | Projections |      |      |      |      |      |      |      |
|--|-------------|------|------|------|------|------|------|------|
|  | 2014        | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 | 2034 |
| <b>PV of Debt-to-GDP Ratio</b>   |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 59          | 45   | 45   | 44   | 42   | 40   | 39   | 38   |
| <b>A. Alternative scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages   | 59          | 45   | 45   | 45   | 44   | 43   | 48   | 54   |
| A2. Primary balance is unchanged from 2014   | 59          | 46   | 47   | 48   | 47   | 47   | 57   | 72   |
| A3. Permanently lower GDP growth 1/  | 59          | 45   | 46   | 47   | 46   | 45   | 55   | 91   |
| <b>B. Bound tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016  | 59          | 48   | 53   | 54   | 54   | 53   | 63   | 78   |
| B2. Primary balance is at historical average minus one standard deviations in 2015-2016  | 59          | 46   | 48   | 48   | 45   | 43   | 43   | 40   |
| B3. Combination of B1-B2 using one half standard deviation shocks  | 59          | 47   | 49   | 50   | 48   | 47   | 52   | 59   |
| B4. One-time 30 percent real depreciation in 2015  | 59          | 69   | 66   | 64   | 59   | 55   | 51   | 46   |
| B5. 10 percent of GDP increase in other debt-creating flows in 2015  | 59          | 51   | 51   | 50   | 48   | 45   | 45   | 42   |
| <b>PV of Debt-to-Revenue Ratio 2/</b>  |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 217         | 158  | 167  | 163  | 161  | 155  | 149  | 145  |
| <b>A. Alternative scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages   | 217         | 158  | 170  | 166  | 168  | 168  | 181  | 204  |
| A2. Primary balance is unchanged from 2014   | 217         | 163  | 177  | 179  | 182  | 182  | 216  | 274  |
| A3. Permanently lower GDP growth 1/  | 217         | 161  | 173  | 173  | 176  | 175  | 208  | 347  |
| <b>B. Bound tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016  | 217         | 170  | 198  | 201  | 206  | 206  | 236  | 297  |
| B2. Primary balance is at historical average minus one standard deviations in 2015-2016  | 217         | 165  | 181  | 177  | 174  | 168  | 161  | 154  |
| B3. Combination of B1-B2 using one half standard deviation shocks  | 217         | 165  | 185  | 185  | 186  | 183  | 196  | 225  |
| B4. One-time 30 percent real depreciation in 2015  | 217         | 244  | 248  | 236  | 228  | 215  | 193  | 176  |
| B5. 10 percent of GDP increase in other debt-creating flows in 2015  | 217         | 182  | 191  | 186  | 184  | 177  | 169  | 160  |
| <b>Debt Service-to-Revenue Ratio 2/</b>  |             |      |      |      |      |      |      |      |
| <b>Baseline</b>  | 11          | 11   | 12   | 13   | 13   | 13   | 12   | 12   |
| <b>A. Alternative scenarios</b>  |             |      |      |      |      |      |      |      |
| A1. Real GDP growth and primary balance are at historical averages   | 11          | 11   | 12   | 13   | 14   | 14   | 13   | 16   |
| A2. Primary balance is unchanged from 2014   | 11          | 11   | 12   | 13   | 14   | 14   | 14   | 21   |
| A3. Permanently lower GDP growth 1/  | 11          | 11   | 12   | 13   | 14   | 14   | 14   | 24   |
| <b>B. Bound tests</b>  |             |      |      |      |      |      |      |      |
| B1. Real GDP growth is at historical average minus one standard deviations in 2015-2016  | 11          | 11   | 14   | 15   | 16   | 16   | 16   | 22   |
| B2. Primary balance is at historical average minus one standard deviations in 2015-2016  | 11          | 11   | 12   | 14   | 14   | 13   | 13   | 13   |
| B3. Combination of B1-B2 using one half standard deviation shocks  | 11          | 11   | 13   | 14   | 15   | 14   | 14   | 18   |
| B4. One-time 30 percent real depreciation in 2015  | 11          | 12   | 17   | 18   | 19   | 19   | 18   | 21   |
| B5. 10 percent of GDP increase in other debt-creating flows in 2015  | 11          | 11   | 13   | 15   | 14   | 14   | 13   | 14   |
| 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 2014 Article IV Consultation with the Islamic Republic of Mauritania**

On January, 28, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Mauritania.

In recent years, Mauritania's economy has benefited from macroeconomic stability and high growth in the context of contained inflation, responsible macro policies, high iron ore prices, windfall donor assistance, and scaled-up public investment. Real GDP growth is estimated at 6.4 percent in 2014, from 5.7 percent in 2013 owing to a rebound in the fishing sector. The current account deficit has remained at 25 percent of GDP during 2013–14 owing to large capital imports associated with investments in the extractive sector and, lately, to worsening terms of trade. International reserves, which remained at 6½ months of prospective imports, excluding those related to the extractive industries in 2013, have absorbed the deterioration of the terms of trade, declining to 4.7 months in 2014. The overall balance, excluding grants, posted a deficit of 2.2 percent of non-extractive GDP in 2013, down from 3.0 percent in 2012, but deteriorated to 4.7 percent of non-extractive GDP in 2014 on lower revenues, mainly mining revenues from SNIM, the public mining company. Monetary indicators suggest a moderate increase in credit.

The Financial System Stability Assessment (FSSA) concluded that the banking sector is well capitalized and liquid, but remains fragile to shocks. High credit concentration (including credit to the public sector), foreign exchange risk exposures, and low profitability due to a constrained business model and higher competition exacerbate banking vulnerabilities. While the banking system appears well capitalized overall, some banks are not meeting the minimum capital requirement and are under-provisioned. Asset quality remains weak with nonperforming loans representing 20 percent of loans in the second quarter of 2014.

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<sup>1</sup> 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.

The near-term outlook remains favorable despite slower economic activity and lower iron ore prices. Real GDP growth is projected to decline to 5.5 percent in 2015 because of lower growth in mining activity and lower private investment and consumption. Terms of trade are projected to deteriorate by 4.5 percent as lower iron ore prices (by 24 percent) are partially compensated by the decline in oil prices (of 40 percent). Inflation is expected to accelerate somewhat but remain below 5 percent, favored by the decline in international food prices and lower non-extractive GDP growth. Continued appreciation in real terms could result in higher private sector demand. Medium-term prospects remain promising: Mauritania's large resource endowment provides ample opportunities for development. Structural reforms are essential to generate more growth and jobs and to address the challenges of economic diversification, inequality, and unemployment.

Risks to the outlook are tilted to the downside and dominated by global developments. Spillovers from weakening external demand for commodities could further reduce iron ore prices and mining export revenues. Larger-than-envisaged declines in main export prices would further reduce exports and FDI and cast doubts on mining expansion plans, dimming growth prospects and worsening fiscal balances. External shocks could expose vulnerabilities in the banking system, exacerbating a negative shock to growth and financial stability.

### **Executive Board Assessment<sup>2</sup>**

Executive Directors commended the Mauritanian authorities for policies that have secured macroeconomic stability and supported development in recent years. Directors noted, however, that the risks from further declines in iron ore prices and weak activity in key trading partners cloud the outlook for the near term. Accordingly, they encouraged the authorities to persevere with prudent policymaking and the implementation of institutional and structural reforms to boost the economy's resilience and foster more inclusive growth.

Directors welcomed progress with fiscal consolidation and the improved revenue performance. They agreed that the 2015 budget mitigates shortfalls in mining revenue, but considered that additional measures may be needed if the budget comes under pressure. Directors also stressed the importance of strengthening public financial management to reduce the risk of debt distress. Looking ahead, they underscored the need to improve the fiscal framework over the medium term to enhance the management of resource wealth and support macrostability. They recommended implementing an appropriate fiscal rule that takes into consideration the development needs of the country and helps safeguard the budget from boom-bust cycles of natural resource revenue, while reinforcing fiscal governance.

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<sup>2</sup> 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>.



Directors encouraged the authorities to take advantage of the favorable inflation environment to reinforce Mauritania's monetary framework by strengthening liquidity management. They also noted that prompt recapitalization of the central bank is essential to safeguard its credibility and independence. Directors emphasized the importance of a gradual liberalization of the foreign exchange market, noting that greater exchange rate flexibility would help absorb external shocks and support the reconstitution of reserve buffers. They welcomed the authorities' steps toward compliance with Article VIII obligations, and encouraged them to eliminate the remaining exchange restriction as soon as possible.

Directors underscored the need to further strengthen the stability of the financial system. They welcomed the authorities' intention to implement the recommendations of the recent Financial System Stability Assessment. Priorities include strengthening regulatory enforcement and supervisory independence, expanding central bank supervision to cover public banks and the insurance sector, and enhancing the bank resolution framework.

Directors encouraged the authorities to accelerate reforms to promote private sector development and economic diversification, which would boost employment and reduce poverty. In particular, they recommended working closely with development partners to address infrastructure bottlenecks, invest in human capital and education, improve governance and institutions, and deepen financial inclusion.

### Mauritania: Selected Economic Indicators, 2010-16

|   | 2010                                  | 2011                | 2012                | 2013                | 2014                | 2015    | 2016    |
|---|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------|---------|
|   | (percent; unless otherwise indicated) |                     |                     |                     |                     |         |         |
| <b>National income and prices</b>                                     |                                       |                     |                     |                     |                     |         |         |
| GDP at constant prices  | 4.8                                   | 4.4                 | 6.0                 | 5.7                 | 6.4                 | 5.5     | 6.8     |
| GDP excluding extractive industries at constant prices                | 5.3                                   | 5.7                 | 7.3                 | 6.4                 | 7.1                 | 6.6     | 5.5     |
| GDP deflator  | 18.9                                  | 15.3                | -5.8                | 0.1                 | -5.3                | 0.5     | 2.4     |
| Consumer price index (average)  | 6.3                                   | 5.7                 | 4.9                 | 4.1                 | 3.5                 | 4.6     | 4.6     |
| <b>External sector</b>  |                                       |                     |                     |                     |                     |         |         |
| Terms of trade  | 7.7                                   | 8.5                 | -14.7               | 34.2                | -16.4               | -4.4    | -6.8    |
| Current account balance (in percent of GDP)                           | -8.2                                  | -5.1                | -26.1               | -24.8               | -24.7               | -7.7    | -22.8   |
| Gross official reserves (U.S. millions) 1/                            | 287.8                                 | 504.5               | 961.9               | 996.4               | 639.1               | 704.0   | 761.7   |
| In months of following year's imports excluding extractive industries | 2.3                                   | 3.6                 | 6.8                 | 6.6                 | 4.7                 | 4.9     | 5.0     |
| PPG external debt (percent of GDP) 2/                                 | 73.1                                  | 66.7                | 73.5                | 69.2                | 73.7                | 61.3    | 61.1    |
| <b>Money</b>  |                                       |                     |                     |                     |                     |         |         |
| Money and quasi-money (percentage change)                             | 12.9                                  | 19.9                | 10.5                | 13.6                | 13.4                | 13.4    | 10.2    |
| Credit to the private sector (percentage change)                      | 16.4                                  | 10.1                | 14.6                | 11.1                | 14.5                | 15.0    | 13.9    |
|   | (percent of GDP)                      |                     |                     |                     |                     |         |         |
| <b>Investment and savings</b>   |                                       |                     |                     |                     |                     |         |         |
| Gross investment  | 39.2                                  | 42.9                | 57.3                | 50.3                | 44.8                | 30.3    | 43.3    |
| Gross savings   | 28.2                                  | 34.9                | 31.2                | 25.5                | 20.1                | 22.6    | 20.5    |
| <b>Central government operations</b>                                  |                                       |                     |                     |                     |                     |         |         |
|   | (percent of non-extractive GDP)       |                     |                     |                     |                     |         |         |
| Non-extractive revenue  | 20.4                                  | 20.4                | 22.8                | 24.4                | 23.3                | 25.9    | 25.4    |
| Expenditure and net lending   | 30.1                                  | 33.6                | 40.7                | 37.8                | 36.3                | 33.7    | 31.8    |
| Overall balance excluding grants                                      | -1.9                                  | -0.8                | -3.0                | -2.2                | -4.7                | -2.1    | -1.6    |
| Public sector debt (percent of GDP) 2/                                | 80.6                                  | 72.2                | 79.4                | 73.7                | 78.4                | 66.0    | 65.9    |
| <b>Memorandum items:</b>  |                                       |                     |                     |                     |                     |         |         |
| Nominal GDP (in billions of UM)                                       | 1,196. <sub>0</sub>                   | 1,440. <sub>2</sub> | 1,437. <sub>2</sub> | 1,520. <sub>0</sub> | 1,533. <sub>2</sub> | 1,624.5 | 1,777.4 |
| Nominal GDP (in millions of U.S. dollars)                             | 4,343. <sub>7</sub>                   | 5,136. <sub>2</sub> | 4,839. <sub>0</sub> | 5,089. <sub>0</sub> | 5,060. <sub>0</sub> | 5,109.4 | 5,477.1 |
| Price of oil (US\$/barrel)  | 79.0                                  | 104.0               | 105.0               | 104.1               | 96.3                | 56.7    | 63.9    |
| Price of iron ore (US\$/Ton)  | 146.7                                 | 167.8               | 128.5               | 135.4               | 96.8                | 74.1    | 71.9    |

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

1/ Excluding the oil account.

2/ Debt relief from Kuwait under the HIPC-MDRI is assumed in 2015.

**Statement by Ngueto Yambaye, Executive Director for Mauritania  
and Mohamed Sidi Bouna, Advisor  
January 28, 2015**

**I. INTRODUCTION**

Mauritania has made significant progress in recent years towards both raising economic growth and achieving macroeconomic stability. Real GDP growth averaged over 5 percent in the past decade owing to the exploitation of the country's large fishing and mineral resources, most notably iron ore but also copper and gold. Fiscal revenues rose significantly, and sound macroeconomic management along with the mining sector's rapid expansion has enabled the buildup of sizable external and fiscal buffers. While prudent policies and a favorable external environment have played a key role, my authorities also recognize and appreciate the support and candid policy advice of staff and the Fund, over the years, in this improved performance.

Mauritania also made some progress in the area of poverty reduction, including through improved targeting of social safety nets and investment in key social projects to address the country's immense infrastructure gap. They acknowledge, however, that much remains to be done in this area. In particular, as noted in the report, progress towards the MDGs has been mixed. They would like nonetheless to reiterate that the fight against poverty remains at the center of their development agenda and that they will continue to promote growth-enhancing policies that are also inclusive in nature, in order to address the population's large social needs and provide employment opportunities, especially for the youth. They are aware that reaching their ambitious objectives in this area requires continued improvement in the country's business climate and renewed efforts to accelerate the development of the private sector.

Given the importance of natural resources in Mauritania's economy, its recent performance and the economic outlook has been adversely affected by the steep decline in the international prices of the main commodities exported and the economic slowdown in key trading partners. These external developments constitute the key downside risk to the Mauritania's outlook. However, my authorities expect that the country's external buffers built in recent years and the lower international oil and food prices (Mauritania being a net importer of both) will help mitigate the impact of external shocks. Going forward, they view as their key short-term challenge, the implementation of well-designed policies to address these external risks, while preserving the hard-won macroeconomic gains, as buffers are being increasingly used. Negotiations on the EU fishing compensation are ongoing and my authorities expect an agreement that will be mutually beneficial to all parties.

Over the longer term, the focus as rightly underscored by staff will be to enhance the economy's resilience to shocks, including through the imperative diversification of the economy away from natural resources. My authorities share the overall assessment by staff along with the key identified challenges which they intend to address in close coordination with the Fund and other key partners.

## II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

*Growth:* While real GDP growth is projected to slowdown slightly to 5.5 percent in 2015, from 6.4 percent in 2014, the external and fiscal sectors will be the most affected by the decline in the international prices of iron ore, copper, and gold exported by Mauritania.

*External sector:* The substantial deterioration in the terms of trade and large FDI-related imports are having a significant adverse impact on the trade and current account balances, and on the level of foreign exchange reserves (dropping from 6.6 months of imports cover in 2013 to 4.7 months in 2014) despite the favorable effect of lower international oil and food prices.

*Fiscal sector:* The fiscal deficit is estimated to have widened to 3.9 percent of GDP in 2014, from 1.7 percent in 2013, despite the decline in both current and capital expenditures. This is due in part to the drop in the contribution of SNIM (the national iron ore mining company) and other mining companies to the budget.

*Inflation:* It remains in check and is expected to stay moderate over the medium-term (within the approximate 4-5 percent range) thanks to lower international food and fuel prices, and a prudent monetary policy stance.

*Outlook:* In spite of the fall in iron ore prices and slower economic activity, the short- and medium-term outlook remains broadly favorable. Real GDP over the medium-term is expected to average over 6 percent reflecting in part increased mining activity coming from new mines. The fiscal deficit is projected to narrow gradually from 1.9 percent of non-extractive GDP in 2015 to 1.3 percent by 2013. The buildup of international reserves is projected to resume in 2015 to reach 6.5 months of imports cover by 2019.

## III. POLICY ADJUSTMENTS TO EXTERNAL RISKS

While the outlook remains favorable, the economy faces important risks in the near to medium-term, and my authorities will continue to work closely with staff to design and implement the necessary policies that will help preserve macroeconomic stability and continued economic growth.

*Fiscal policy adjustments:* My authorities are addressing the projected decline in revenues from the mining sector in the 2015 budget through an increase in the VAT rate (from 14 to 16 percent) and cuts in current expenditures, while containing the increase in the public sector wages within a level that does not increase the ratio of the wage bill as a percentage of non-extractive GDP. The wage bill is actually projected to decline to 8.3 percent of non-extractive GDP in 2015, from 8.4 percent in 2014 and 9 percent in 2013.

As a medium- to long-term fiscal policy reform, my authorities very much welcomed the discussion on a fiscal rule in a country like Mauritania with relatively abundant mineral resources. However, they would like to emphasize that on the issue of pro-cyclicality of fiscal policy, it is important to note, first, that while spending had increased during the

recent mining sector boom, budget revenues from non-extractive industries as a share of GDP have also increased substantially, as my authorities continued to broaden the tax base and strengthen fiscal revenue administration. Second, and more importantly, my authorities believe that the implementation of a fiscal rule in a low-income country like Mauritania with considerable basic social infrastructure needs would inevitably delay the implementation of their development agenda and ultimately weigh on the ongoing policy efforts to accelerate the fight against poverty. Therefore, in the short-term, they believe that the focus should remain on implementing projects that are deemed viable and that take into account the country's absorptive capacity constraints. Nonetheless, they look forward to continued constructive discussions with staff on this issue, as a potential and significant long-term reform.

*Monetary policy and exchange rate policy adjustments:* My authorities agree with staff that with declining foreign exchange reserves, now is a right time to strengthen the monetary policy framework and reestablish the use of more direct and traditional liquidity management instruments such as interest rates and reserve requirements, and limit the use of indirect instruments like foreign exchange interventions and Treasury bills. They look forward to continue discussions with staff on the formalization of monetary policy and the liquidity management framework. My authorities also agree that in the context of declining reserves, a more flexible exchange rate would contribute to acting as shock absorber. They are of the view, however, that given Mauritania's very shallow foreign exchange market, characterized by considerably higher demand over supply, the liberalization of the foreign exchange market should remain gradual.

My authorities welcome the assessment of Mauritania's financial sector stability and thank staff for the findings and recommendations made in the FSSA report. They would like to reiterate their commitment to implementing the recommendations made in the report, as rapidly as possible, and according to the agreed timeframe.

#### IV. OTHER ISSUES

*Deterioration of the risk of debt distress:* Mauritania's public sector debt has risen to an estimated 78.4 of GDP in 2014 (from 73.7 percent in 2013). The downward revision of the country's risk of debt distress (from moderate to high) is a concern to my authorities, especially given that this revision is taking place at a time when they are facing daunting external challenges which are having an immediate and direct impact on the economy. They remain committed however to a prudent external borrowing policy and look forward to further discussions with the IMF and the World Bank on improving the institutional environment and stabilizing debt levels, including in the context of the new public debt limits policy framework.

*Obligations under Article VIII:* My authorities take note of the report's findings and will continue to address the remaining restrictions highlighted in the report, with a view to meeting all obligations under Article VIII. In the meantime, they request the Board's approval to temporarily maintain the remaining exchange restriction which, as indicated by staff, is necessary for balance of payments reasons and does not discriminate among

IMF members. As also indicated in the report, my authorities will eliminate the remaining restrictions within one year.

## V. CONCLUSION

Mauritania has made important progress in the past few years in improving economic and financial performance, and raising economic growth. However, the economy faces important challenges in the foreseeable future resulting from increased external risks which have exposed the economy's vulnerability to terms of trade shocks and could jeopardize the recent hard-won macroeconomic stability gains. In this regard, my authorities will continue to work closely with staff to put in place the necessary policies to address the risks, preserve the gains achieved and also continue their efforts to develop the economy. In this endeavor, they will work closely with the Fund staff and their development partners.