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Mauritania: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

November 20, 2018

The following item is a Letter of Intent of the government of Mauritania, which describes the policies that Mauritania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Mauritania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

Central Bank of Mauritania | Ministry of Economy and Finance

Nouakchott, November 20, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Madame Managing Director,

The economic and social program implemented by the Mauritanian authorities with support from the International Monetary Fund (IMF) is on track. The program aims to consolidate macroeconomic stability; promote strong, lasting, and inclusive growth; develop human capital and access to basic social services; reduce poverty; and improve all dimensions of governance.

Guided by the Strategy for Accelerated Growth and Shared Prosperity (SCAPP) covering 2016–30, the key economic policies of our program aim to: (a) continue with fiscal consolidation and reinforcing debt sustainability at a gradual pace favorable to the recovery of growth; (b) mobilize public revenue by expanding the tax base and modernizing tax administration procedures, and prioritize public investment; (c) modernize and strengthen monetary policy to better manage bank liquidity; (d) strengthen bank supervision and regulation and the financial infrastructure to ensure the stability of the financial system and expand credit to the private sector; (e) reform the foreign exchange market to introduce greater exchange rate flexibility; (f) increase the fiscal space for social spending, especially in education, health, and social protection to consolidate progress in poverty reduction; and (g) continue reforms to improve the business environment and economic governance and to fight corruption, with a view to supporting private sector development and economic diversification.

All the performance criteria and structural benchmarks for the period June–September 2018 under the three-year arrangement under the ECF approved by the IMF Board on December 6, 2017 were met. Accordingly, we request approval of the second program review and disbursement of a new tranche of SDR 16.560 million. We also request modification of the definition and amount of two performance criteria concerning the Central Bank of Mauritania's net international reserves and net domestic assets for December 2018 in light of less favorable terms of trade than anticipated, which weigh on our balance of payments. Finally, we request an exception to the limit on non-concessional borrowing to finance Mauritania's participation in the upcoming offshore gas project, which is a commercially run project with the potential to generate large budgetary revenues in the medium term.

The next semiannual review will be conducted on or after March 31, 2019 and the following review on or after September 30, 2019, based on the quantitative performance criteria and structural benchmarks as described in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU). We will continue to provide the IMF with all the data and information required to monitor implementation of the measures and achievement of the objectives in accordance with the TMU.

We believe the policies described in the attached MEFP are appropriate to achieve the program objectives, but we will take any additional measures that become necessary for this purpose. We will consult the IMF on the adoption of such measures, and prior to any revision of the policies set forth in the MEFP, in accordance with the Fund's policies on such consultations. We consent to the publication of this letter and its attachments and the related staff report.

Very truly yours,

/s/	/s/
Mr. Abdel Aziz Dahi	Mr. El Moctar Djay
Governor of the Central Bank of Mauritania	Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. This memorandum describes Mauritania's Fund-supported economic and financial program under the Extended Credit Facility (ECF) for the period 2017-2020. The program aims to preserve macroeconomic stability, consolidate the bases for sustained, inclusive growth, and reduce poverty in accordance with the Strategy for Accelerated Growth and Shared Prosperity (SCAPP).

2. The SCAPP, adopted by the Council of Ministers in January 2018 and ratified by the National Assembly in April, covers the period 2016-2030. Based on the lessons learned from the 2012–2015 development strategy, it aims at boosting growth and employment, reducing inequality, eliminating extreme poverty and halving global poverty by accelerating the structural transformation of the economy and reforming social policy. To this end, we intend to: (i) revitalize the sectors with strong employment and growth potential by better integrating the value chain in agriculture, pastoral activities and fishing; (ii) continue to modernize public infrastructure; and (iii) promote a stronger private sector role via improvements to the business climate, the development of public-private partnerships, improved access for small and medium-sized enterprises (SMEs) to financing, and encouraging foreign direct investment (FDI). Our strategy will also focus on developing human capital and improving access to basic social services, particularly education, vocational training and healthcare. Particular attention will be paid to gender equality through the launch and implementation of a national gender equality strategy. Lastly, strengthening governance is at the core of our development strategy. On the economic front, the new organic budget law will strengthen transparency and responsibility, while statistics will be reinforced to improve economic policymaking. and Greater efforts devoted to the fight against corruption and the inherent legal system will be strengthened.

A. Economic Environment and Reforms: Developments in 2017

3. Growth accelerated in 2017 to about 3 percent (preliminary estimate), supported by favorable terms of trade and a significant expansion of irrigated farming areas, which compensated for the rainfall deficit. Inflation remained moderate at an annual average of 2.3 percent, reflecting steady import prices and a relatively stable exchange rate.

4. The substantial fiscal rebalancing efforts and reforms begun in 2016 continued in 2017 and produced an overall fiscal balance. A substantial improvement in revenue supported by the economic recovery, increased tax collection, continued budget rigor, and slower-than-expected execution of externally financed investment expenditure reduced the primary deficit (excluding interest and grants) by 1.8 percent of non-extractive gross domestic product (NEGDP), resulting in a positive primary balance (excluding interest and grants) of 0.3 percent of NEGDP.

5. The external current account deficit (excluding FDI-financed imports of extractive sectors) narrowed significantly in 2017 to about 8 percent of GDP (compared to 11 percent in 2016) owing to a strong recovery of exports of the mining and fishing sectors supported especially by an increase in international commodity prices. The efforts of the Central Bank of Mauritania (BCM) to apply exchange rate regulations and abolish direct sales of foreign currency contributed to maintaining official reserves at US$849 million (5 months of non-extractive imports) at end-December 2017 while significantly improving the demand satisfaction rate for currencies.

B. Short-Term and Medium-Term Outlook

6. We have prepared an ambitious 2016-2030 strategy for inclusive growth that aims to diversify the economy through human capital development, expanded access to services, and improved governance. However, the short-term outlook deteriorated recently in response to higher international petroleum and food prices and weaker iron ore prices since April 2018. Those developments weighed on the balance of payments during the first half of 2018, and the economic outlook remains highly dependent on commodity price trends, foreign investment in the extractive sector, and progress on reforms.

7. The macroeconomic framework agreed with the IMF staff projects prudent growth rates of 3.5 percent in 2018 and between 5 percent in 2018 and 6 percent in 2023 for the non-extractive sectors. Growth will be sustained by the anticipated performance in agriculture, fisheries, livestock, construction, and services driven by public and private investment and structural reforms. Inflation will remain moderate, averaging around 3 percent in 2018, reflecting steady import prices and a disciplined monetary policy. In the medium term, the current account deficit (excluding FDI-financed imports) is expected to narrow to about 3 percent of GDP by 2023, reflecting increased exports, an adjustment of domestic demand, improved competitiveness, and fiscal consolidation. Development of the recently discovered offshore gas field, shared with Senegal, could significantly improve the economic and financial outlook as of 2021 if the final investment decision is taken by the consortium in 2018.

C. Economic Program for 2018–20

Objectives

8. The government's objective is to successfully complete the first phase of the SCAPP—the 2016–20 priority action plan— to lay the foundation for faster, stronger, and equitably distributed economic growth in an environment of sound governance, social justice, and sustainable development. Our ultimate objective is to transform our economy into a diversified economy that can withstand exogenous shocks. The support of the ECF program will enable us to pursue appropriate monetary and fiscal policies and implement ambitious structural reforms to correct macroeconomic imbalances in order to support the economic recovery and ensure the medium-term sustainability of our economic policies. To that end, our policies in 2017–20 will aim, in particular, to (a) restore growth at more than 5 percent, (b) contain inflation at less than 5 percent in the medium term, (c) reduce the current account deficit (excluding FDI-financed imports) to 5 percent of GDP, (d) reduce external public debt to less than 67 percent of GDP (excluding Kuwaiti debt), while maintaining a high level of concessionality, and (e) increase international reserves to at least six months of imports excluding extractive industries.

Monetary and Exchange Policy

9. We plan to establish a more flexible and proactive monetary and exchange policy during the program period. With support from the IMF staff, we aim to anchor inflation expectations by targeting monetary aggregates while strengthening the role of the exchange rate in absorbing shocks. In parallel, we will develop the prerequisites for an interest rate-based system.

Strategic Framework for the Monetary Policy

10. Our monetary policy will focus more on its primary mission, which is price stability. In a transitional phase, we will adopt the growth rate of the money supply (M2) as an intermediate target. We will pursue a flexible monetary base target as the operational objectives.

11. We strengthened the BCM's autonomy by adopting a new law establishing the BCM charter in July 2018 (structural benchmark). The law modernizes the BCM institutional structures and incorporates IMF staff recommendations for governance, internal and external audit, publication of financial statements, and accounting standards. The new BCM bodies, such as the Prudential, Resolution, and Financial Stability Board, the Sharia Committee, and the Audit Committee, will be created by end-2018. The BCM has already established a macroeconomic framework and quarterly monetary programming; with support from the IMF, it will continue to develop an analytical and forecasting framework to serve as the basis for monetary policy decisions, and will adapt its institutional mechanism and organization accordingly.

12. In the short term and in view of relatively low inflation and the slowdown in credit, the BCM will gradually introduce flexibility in its monetary policy, taking care to avoid the return of inflationary pressures. In that context, we will gradually lower the policy rate to align it more closely to market rates and improve its effectiveness.

Operational Framework for Monetary Policy and Liquidity Management

13. The pressures and volatility that characterized bank liquidity in 2016-17, while less pronounced recently, demonstrate the urgency of managing bank liquidity in a more active and flexible manner while promoting development of the interbank market. Our essential priorities are to: (a) continue developing our liquidity forecasting and monitoring capacities, with increased management staff for the directorate in charge of these efforts, and (b) improve and leverage the full range of instruments available to us to manage liquidity. Since November 2017, the BCM applies banks' reserve requirement on a monthly basis to afford banks greater flexibility in managing cash flows while reducing volatility in bank liquidity. It will lower the required reserves ratio if circumstances permit.

14. The BCM has reformed the operational framework for monetary policy implementation by adopting a directive introducing new intervention instruments with different maturities, particularly deposit and refinancing facilities (structural benchmark, December 2017). We will establish an interest rate corridor for new deposit and refinancing facilities to be announced by end-December 2018 (new structural benchmark). These instruments will be implemented through two newly created committees: a monetary market committee and a monetary policy technical committee. Finally, we will implement an integrated technical platform for monetary policy operations by end-December 2019 (new structural benchmark).

15. While committing to accord preference to Treasury bills or BCM bills as collateral, the BCM defined a framework for collateral eligible for its monetary policy operations (priority, discounts, and conditions of use) with technical assistance from the IMF (structural benchmark for March 2018). On that basis, the BCM transmitted draft bilateral agreements setting out the parties' obligations to all banks, and prepared a procedures manual detailing the system to mobilize collateral for refinancing purposes. More active cash flow management by the Ministry of Economy and Finance (MEF), including new procedures for issuing Treasury bills, combined with convergence between the BCM policy rate and Treasury bill rates, will be crucial to enabling banks to reconstitute their portfolios of Treasury bills (see paragraph 31).

16. Implementation of the monetary policy requires strengthened operational autonomy for the BCM. This will entail, inter alia, recapitalizing the BCM through gradual repayment of government debts to the BCM and withholding of dividends on that income. To this end, a new memorandum of understanding between the BCM and the MEF, with a repayment schedule, replacing the 2013 agreement, was submitted to parliament in June 2018 (structural benchmark) with payments beginning in 2018. Later on, securitization of this debt could also provide the central bank with instruments of different maturities for its monetary policy operations and promote the formation of a yield curve, facilitating migration to an interest rate-based framework in the medium term.

17. To improve the transparency of the BCM financial position and harmonize its accounting system with international standards, the BCM will publish a quantification of its 2017 accounts based in the International Financial Reporting Standards (IFRS) by end-December 2018 (structural benchmark). This analysis will serve as a prelude for preparing an action plan and timetable to transition to the IFRS standards with a view to adopt those norms in principle by 2020. In the interim, we will prepare the 2018 financial statements of the BCM pro forma in accordance with the IFRS international accounting standards (new structural benchmark September 2019). The BCM is also arranging for the verification of the program's quantitative performance criteria by external auditors.

Exchange Policy

18. The exchange policy is geared toward modernizing the foreign exchange market to improve its functioning and introduce greater flexibility in the exchange rate so as to enhance its role in absorbing exogenous shocks and preserving external equilibrium while limiting exchange rate volatility.

19. The objective of the reform is to establish a system of competitive, multiple-price auctions that would limit the interventions of the BCM in the foreign exchange market and save BCM foreign currency holdings, unify the foreign exchange market, and develop the interbank market. In parallel, we will continue to monitor the strict application of exchange regulations and prudential standards relating to foreign exchange positions. The reform will be implemented in several stages:

- The first stage represented a major step in improving the functioning of the foreign exchange market. In November 2017, the BCM modified regulations to relax the obligation to execute currency transactions on the foreign exchange market by raising the threshold from US$100,000 to US$200,000, and limited the rejection of sell-side bids to exceptional circumstances. In the same month, the BCM also modified the fixing system so that sellers receive the marginal rate determined by the BCM on the supply side (rate that maximizes matching transactions, minimizes net supply/demand), currency purchases are settled at the rate offered, and the maximum purchase price is limited to the marginal rate plus 2 percent. We will also gradually eliminate BCM commissions on those transactions.

- The second stage will promote the deepening of the foreign exchange market and convergence of BCM operating practices toward international standards. To this end, the BCM will gradually introduce one-way wholesale auctions: initially, it will continue relaxing the obligation to use the foreign exchange market by increasing the threshold to US$300,000 and will implement two-way wholesale auctions (structural benchmark, December 2018). Thereafter, the BCM will eliminate the obligation to go through the official foreign exchange market and will migrate to one-way wholesale auctions by authorizing the internal clearing of customer orders (structural benchmark, December 2019). In parallel, it will establish the regulatory framework by June 2019 and the technical platform to create an interbank foreign exchange market by end-2019 (new structural benchmarks, June 2019 and December 2019), based on the action plan to develop the interbank market prepared in September 2018 (structural benchmark).

20. In light of the transmission of exchange rate fluctuations to domestic prices, we will limit the volatility of the exchange rate. To this end, we will define an intervention budget in line with the reserve objectives established in the program. We will also determine a tolerance threshold for exchange rate volatility defined with respect to the marginal rate for the previous auction. The current context of moderate global inflation combined with the absence of excess bank liquidity and prudent fiscal policy in the program context will serve to eliminate the risk of increased exchange rate volatility. If terms of trade improve during the program, we will accumulate international reserves, which could serve as a shock absorber to smooth exchange rate fluctuations in the event of adverse shocks.

Fiscal Policies

21. Our fiscal policy will remain anchored in a rebalancing of public finances to ensure the sustainability of public debt over the medium term and contribute to the external adjustment. However, given the impact on growth of the combined effects of low prices for our exports and the macroeconomic adjustment, we expect to modulate the pace of fiscal rebalancing to support the recovery of growth to reach the objectives of our priority action plan (PAP). At the same time, we will work to make revenue sustainable, public spending more efficient and to limit the fiscal risks by undertaking thoroughgoing structural reforms to promote economic diversification. To that end, our objective by 2020 is to improve non-extractive GDP by at least 0.7 percent of the primary balance (excluding grants) with respect to 2017, following the already substantial improvement of 4.8 percent of non-extractive GDP achieved in 2016 and 2017.

22. The execution of the 2018 budget remains disciplined, and we generated a substantial budget surplus in the first half of the year. The objective, anchored in the supplemental budget law, is to achieve a primary surplus (excluding interest and grants) of 0.5 percent of NEGDP in 2018 as a whole, an increase with respect to last year. We continued to improve the performance of tax revenue and to control spending while increasing budget support for the emergency program to counter the effects of the drought. Revenue from offshore exploration fees received in January offset the revenue losses related to petroleum products under the *Fonds d'assistance et d'intervention pour le développement* (FAID) account. We will take all necessary measures during the year, in particular by controlling the level of current spending, to achieve the fiscal quantitative targets of the program and the objectives related to social spending.

23. The 2019 budget objective is to consolidate gains and maintain the primary surplus (excluding interest and grants) at 0.5 percent of NEGDP through continued improvement in tax revenue performance to generate additional fiscal space and expenditure control by improving the quality of expenditure. This should offset the low revenue from petroleum products due to international prices, which should remain high next year and lead to a drop in FAID revenues stemming from the differential between fuel prices at the pump and international market prices. At the same time, we will continue to increase social spending in education, health, and social protection. We submitted to parliament a 2019 budget consistent with the program targets in October (a prior action).

24. The Mauritanian authorities are currently evaluating the available options for economical, sustainable financing of Mauritania's participation in the first 2019-21 phase of the gas project with Senegal, estimated at US$307 million, taking into account its limited resources. We will seek an economically and financially advantageous financing solution while maintaining prudent international reserves buffers as planned in our program. Moreover, during the program, we will strengthen our fiscal policy framework to take into account the potential increase in government revenue from the extractive industries, particularly the gas sector. This framework will help to inform the choices for allocating these revenues, design fiscal rules that account for the volatility and finite nature of non-renewable resources, and to ensure good governance and transparency.

Tax Policy and Administration

25. Our tax policy and tax administration strategy will be based on optimizing tax performance, putting revenue on firmer footing, and simplifying and modernizing our tax system. To this end:

- The parliament passed a new Customs code in December 2017 designed to simplify procedures and improve transparency (structural benchmark).

- We will adopt a Tax procedures code, after consultation with economic operators, which will consolidate and clarify all tax procedures for taxpayers and the administration (the tax procedures code was submitted to the Council of Ministers in March 2018, structural benchmark).

- We will strengthen legal security for taxpayers by submitting to the Council of Ministers, by August 2019 (new structural benchmark), a new, modernized General Tax Code (CGI) purged of the contradictory regulatory provisions contained in the current code adopted in 1982. The CGI will improve tax revenue mobilization and tax equity and will reduce informality and tax fraud. The slight delay in the schedule is due to the need to incorporate the numerous comments received following consultation with the private sector and to conduct new revenue simulations.

- Finally, in the context of the CGI revision, we will submit to parliament a new unified corporate tax to modernize and simplify the tax structure and encourage participation in the formal economy (submission to the Council of Ministers, structural benchmark deferred from December 2018 to August 2019 to coordinate with the CGI).

26. Furthermore, building on the good performance of our tax revenue in recent years, our objective is to implement a set of reforms to sustain durably the receipts of the Directorate General of Taxation (DGI) and the Directorate General of Customs (DGD) through:

- *Expansion of the tax base*. We will first protect the tax base by ensuring the integrity of the register of taxpayers through regular updates of the central file and by limiting the number of inactive taxpayer identification numbers (NIFs). We will strengthen risk management in terms of taxpayer compliance, beginning with control over the taxpayers register. In keeping with the IMF's technical assistance recommendations, the register was audited to eliminate duplicate entries, clean up the number of temporary taxpayer identification numbers, identify taxpayers that are managed effectively, are dormant or not registered, and monitor compliance with the tax system; the DGI also designed a procedure accompanied by the appropriate actions to update the register on a regular basis (structural benchmark for end-June 2018). These procedures will be implemented strictly in 2019. The operationalization of our risk management unit, created in September 2017, will facilitate the analysis and effective use of available information to prepare an action plan and take appropriate measures to expand the tax base, in particular by seeking to identify unregistered large and medium-size businesses.

- *Improvement of taxpayer timely filing and payment rates*. We will take vigorous measures to monitor taxpayers and, if necessary, impose sanctions to increase those rates, especially for large and medium-size businesses subject to VAT and profit tax, to ensure that taxpayers declare and pay their taxes on a timely basis. Our objective is to achieve a timely filing rate of 85–90 percent for large businesses and 65–75 percent for medium-size businesses by end-2019, and a timely payment rate of at least 50 percent by December 2019. We will establish internal DGI performance targets by March 2019 regarding the timely payment rates for large and medium-size businesses in 2019–20 (new structural benchmark for March 2019) to guide and measure the effectiveness of our taxpayer monitoring actions.

- *Strengthening of taxpayer audits by the DGI*. We will increase the number of on-site taxpayer audits with a view to improving voluntary compliance. Our objective is to conduct at least 15 general audits and 40 targeted audits of large and medium-size businesses in 2019 (new structural benchmark for December 2019) and to double this number in 2020 by reallocating DGI resources, improving auditor training, and providing auditors with appropriate analytic tools and procedures.

- *Elimination of certain tax loopholes*. With support from the World Bank, we compiled a list of tax exemptions in effect in 2014-2016 and estimated the cost of the foregone taxes. We will then evaluate the relevance and social cost with a view to eliminating tax exemptions deemed ineffective. The estimated tax expenditures were presented in an appendix to the 2018 budget law, and will be presented again in 2019.

- *Improved collection of arrears*. We intend to improve the management and collection rate of tax arrears. We have identified recoverable arrears and have set up settlement plans that have already improved tax collections. The DGI's Directorate of Public Entities (DEP) and the Directorate of Financial Supervision (DTF) rigorously monitor collection efforts in respect of public corporations and concluded tripartite agreements for those providing services to the government. We will also focus our collection efforts on large and medium-size businesses and the most recent arrears, and will accelerate procedures to write off unrecoverable arrears.

- *Improved DGD inspection and valuation mechanisms*. We are currently putting in place a program to strengthen customs inspection and valuation mechanisms for the DGD. We strengthened customs units and their capacity to effectively manage the national valuation bureau (BNV) and took appropriate measures to operationalize this tool, including the preparation of a BNV procedures guide. The next steps will be to automate disputes in the ASYCUDA system by June 2019 and exemptions by December 2019. With technical assistance from the IMF, we are launching a new program to strengthen post-clearance inspections by establishing a supervision committee, restructuring and expanding the directorate of investigations, and revising the regulatory framework by June 2019 (new structural benchmark).

Public Expenditure Management

27. The new organic budget law (LOLF), approved by the National Assembly in May 2018 and promulgated in October 2018, will considerably improve public financial management (submission of the law to parliament, which occurred in January 2018, was a structural benchmark for March 2018) by unifying the government budget, promoting the introduction of program budgeting, capping the public debt, and improving budget formulation in a multiyear framework. Implementation of the LOLF will take place through implementation decrees in 2018-19, enabling the law to be used for budget formulation beginning in 2020. In particular, we will adopt a decree setting out the General Regulations on Budget Management and Public Accounting by June 2019 (new structural benchmark) and a decree on budget governance (new structural benchmark for June 2019). We have already introduced elements of the reform, such as the inclusion of externally financed capital expenditure, in the 2017 budget and have done the same for 2018, notably by presenting 2016 tax expenditure in a budget annex.

28. Our objective is to continue rationalizing current expenditure within a framework of budgetary efficiency. The reforms aimed to control budget risks by executing all government revenue and expenditure through a single channel, capturing the full amount of the wage bill, aligning public entities' budget cycles to improve cash flow management, limiting extra budgetary spending, and facilitating the consolidation of public finance statistics.

- *Wage bill*. To control the impact of salaries on the government budget and capture all components of the general government wage bill, we have included employees of all administrative public entities (EPA) in the 2017 supplementary budget, and we have included non-permanent staff in the 2018 budget. We will continue to control the wage bill and improve our management of wages and salaries by adapting the current RATEB payroll system, which uses the new schedule of salaries introduced in the reform of the government human resource management system, while awaiting deployment of the dedicated human resource management system (SIGRHE).

- *Public consumption expenditure*. We will continue rationalizing public consumption expenditure and strictly limit nonpriority spending. In the context of the 2017 and 2018 budgets and civil service reform, we have already reduced subsidies to a number of public entities and rationalized goods and services consumption. The resulting fiscal space will be reallocated to social spending or increased investment in strategic sectors.

29. We intend to further improve the efficiency of capital expenditure. First, we implemented the reforms provided in the decree on the public investment program (PIP) adopted in 2016 to strengthen the selection and programming of public investment projects, and facilitate institutional coordination in implementing and financing the PIP. In that context, we will prepare a manual of procedures to improve the preparation and follow-up of project execution and set up a committee to assess and schedule public investment projects (*Comité d'analyse et de programmation de l'investissement public*—CAPIP) which is now operational. We implemented a new automated application, the Integrated Public Investment Management System (SIGIP), which supports all phases of capital project management (from contract signature to disbursement). The new SIGIP system—which analyzes the project life cycle and determines a project's social impact—will enable us to assess and prioritize investments. It will also allow us to systematically monitor disbursements of external debt and strengthen the external debt management framework. Thus, consistent with this new framework, we have prepared the 2018–20 PIP that will form the basis for selecting priority projects. We will also request assistance from the IMF to analyze the effectiveness of public expenditure using the Public Investment Management Assessment (PIMA) framework.

30. To continue investing in infrastructure while containing the growth of public spending and to support private sector development, we adopted a new law on public-private partnerships (PPP) in February 2017 as well as its implementation texts. A portfolio of projects eligible for this mode of contracting was adopted by the inter-ministerial committee in charge of PPPs, and the first project was launched in this context in September 2018 for a port infrastructure project in Nouakchott. We will proceed cautiously, however, to minimize contingent risks for public finances.

31. We will modernize and strengthen our cash flow management through the following actions:

- We will reinvigorate the Treasury bill market by modernizing the issuance system on the primary market and aligning it with international standards, particularly by distinguishing auctions by maturities, following the recommendations of IMF technical assistance. This will provide for cost-effective financing of public expenditure while developing financial markets. We will finalize a decree establishing the new issuance procedures for Treasury bills by end-December 2018 (including differentiating maturities) (new structural benchmark) and will introduce them by March 2019 (new structural benchmark). Once the new system is in place and the auctions prove to be competitive, we will consider eliminating the interest rate ceiling.

- We will continue the implementation of a modern Treasury single account (TSA), and have already created a committee for that purpose. We prepared a government account maintenance convention between the MEF and the BCM which will serve as a binding contractual framework (with firm deadlines) for both parties to fulfill all conditions for the implementation of the TSA in line with applicable industry practices. We will request technical assistance, preferably over a long term, to fully implement the convention.

- To ensure the comprehensiveness of the government cash management plan, the Public Contracts Oversight Commission (CCMP) and the Directorate General of Budget will transmit, respectively, the monthly contracting plan and the budget commitment plan to the Directorate General of Treasury and Public Accounting (DGTCP).

32. To improve fiscal transparency, we will establish a strategy to modernize the presentation of the government fiscal reporting table (TOFE) in accordance with the international standards of the *2001/2014 Government Finance Statistics Manual*. We will also gradually expand the scope of coverage to include subnational jurisdictions, followed by EPAs, and thereafter by all public corporations as and when these entities are integrated in the automated expenditure cycle system (RACHAD), by 2019.

Public Enterprises

33. The DTF will continue to monitor and closely supervise the quasi-public sector, the country's second largest employer after the general government. In view of the need for more effective sector management to limit future budget risk, a study will be conducted to provide recommendations for rationalizing public entities and an action plan to improve management and governance.

34. We will strengthen surveillance and reporting on the quasi-public sector, with support from the World Bank, to strengthen control of expenditure and borrowing. In particular, nearly all public entities will be covered by the automated expenditure cycle system (RACHAD) by 2019.

35. After clarifying the cost and risk of public entities for the government, we plan to reduce budget subsidies to public enterprises and EPAs while intensifying financial monitoring. Their performance will be regularly measured twice a year by means of financial statements (June and December) and an auditor's report; and will be monitored by the DTF as from December 2017. The recent financial audits of the largest public corporations (SOMELEC, SOMAGAZ, SNDE, Mauripost, and SONIMEX) will be finalized and published on the Treasury website. Also, to limit potential budgetary risks that the Caisse des Dépôts et de Développement (CDD) may generate in the medium term, we will oversee the allocation of resources and closely monitor the projects financed. Under the new banking law, the CDD is now covered by the BCM's supervision. In applying these guidelines, we have terminated the activities of a public enterprise facing significant financial difficulties (the SONIMEX) and merged two other enterprises (the ATTM and the ENER).

External Debt and Public Debt

36. To avoid excessive and costly borrowing, we will avoid non-concessional loans and will finance our investments through grants and concessional loans at the pace compatible with debt sustainability and within the limit of the ceiling indicated for reference in Table 1. However, in view of limited access to concessional resources, we will contract a limited amount of non-concessional external loans on an exceptional basis, subject to the ceiling indicated in Table 1, for two priority projects identified in our economic development program for which concessional financing is not available, and for Mauritania's participation in the upcoming offshore gas project.

37. We will improve our debt management framework. To align borrowing with spending priorities, especially for large infrastructure projects, and to ensure institutional coordination, we will improve procedures for borrowing and providing government guarantees by clarifying responsibilities and conditions of approval among the ministries. To this end, we have reactivated and updated the terms of reference of the National Public Debt Committee (CNDP), which will hold regular meetings, through a new decree in April 2018 (structural benchmark for end-March 2018) to make sure it will be involved in the process of selecting, scheduling and monitoring public investment projects established under the new PIP institutional framework. It will also play a role in aligning external borrowing with our investment priorities, and assessing the impact on debt of any new project funded through external borrowing before its inclusion in the PIP. To this end, we will strengthen the Debt Directorate's capacity to perform debt sustainability analyses, and will have adopted a coordination procedure between the CAPIP and the CNDP outlining their responsibilities in terms of project selection in April 2018 (structural benchmark for end-March 2018). In addition, in the context of the reactivation of the CNDP, we have integrated in the new decree on the CNDP a provision aimed at strengthening its involvement in the process of selecting and including projects in the PIP.

38. At the same time, in September 2018 we finalized the establishment of a gateway interface between the SYGADE-SIGIP-RACHAD software applications for institutions involved in debt servicing (the Debt Directorate, Budget Directorate, DGTCP, DGIPCE, and the BCM) that will be used to keep track of external debt disbursements and debt service payments (structural benchmark for end-September 2018). This interface will strengthen debt management capacity through the systematic monitoring of external debt disbursements (SYGADE-SIGIP) and will make sure debt service payment transactions are included in the automated chain of expenditure system (SYGADE-RACHAD).

39. Our ongoing dialogue with the IMF, including consultations prior to the approval of new loans, will help us to strengthen our strategy for reducing our medium-term debt levels.

Financial Sector Policy

40. Our roadmap for the financial sector will be in line with the recommendations of the Financial Sector Assessment Program (FSAP) to preserve financial stability and deepen the financial markets. We will continue our efforts to implement risk-based bank supervision. To this end, our actions will be structured around continued improvement of the regulatory framework, strict enforcement of the framework, and improved quality of statistics.

41. We improved considerably the regulatory framework and adapted it to international standards by adopting a new law on credit institutions (banking law) in July 2018 (structural benchmark for end-June 2018). The law aligns prudential standards on the principles of Basel II and III and strengthens the crisis management mechanism by establishing a new framework for bank resolution and depositor protection. It expands the scope of bank supervision to include insurance companies and the CDD, strengthens the legal force of BCM decisions by strictly framing the conditions for appealing its decision before the courts, and establishes a general regulatory framework for Islamic banks.

42. To strengthen banks' solvency and resilience to shocks, we adopted a new directive on capital composition and solvency requirements based on Basel II and III in March 2018 (structural benchmark). The directive also increased the minimum capital of banks to MRU 1 billion over two years, which should encourage bank mergers and reduce the number of new license applications.

43. We will continue to raise the prudential standards applicable to banks. Pursuant to the new banking law, we will adopt a new method to calculate banks' net weighted assets and liquidity ratios in accordance with Basel II and III, with technical assistance from the IMF (new structural benchmark for end-April 2019). The directive will supplement the provisions reinforcing prudential solvency rules and banks' capital requirements.

44. We will facilitate the elimination of nonperforming loans from banks' balance sheets. We will revise the associated directive by extending the time limit for eliminating bad loans from banks' balance sheets from the current two years, which is too short, to four years. We submitted to parliament in March 2018 a draft law on loan recovery aimed at improving mechanisms for credit recovery and enforcement of collateral by banks (structural benchmark). We will clarify the accounting treatment of these debts and eliminate tax obstacles to the resolution of nonperforming loans.

45. To limit credit and concentration risks, we continue to closely monitor the adjustment of banks' net positions toward related entities that exceed concentration limits, which are expected to be corrected by end-2018. From July 2019, we will fully apply the prudential standards in this area (new structural benchmark) and will require noncompliant banks to increase their capital to comply. In the meantime, we will examine the possibility of gradually tightening concentration rules.

46. With respect to liquidity, we established an emergency refinancing facility in March 2018 that can be used to provide liquidity to banks experiencing temporary cash flow pressures in exchange for collateral (structural benchmark March 2018). This mechanism will be implemented through the signature, with each bank wishing to access the facility, of a convention detailing the parties' obligations and defining the eligible collateral.

47. The BCM strengthened its supervisory capacity and focuses its supervision on a comprehensive analysis of banking risks. In the context of the annual supervision program, the BCM has strengthened the on-site inspections which cover anti-money laundering and countering the financing of terrorism (AML-CFT), control of foreign currency transfer and surrender operations, general control of bank activities, and compliance with foreign exchange positions. It also stepped up offsite surveillance and conducts systematic analyses of banks' financial position. The BCM monitors compliance with prudential standards and sanctions noncompliant banks. Work is under way to reinforce sanctions and make them more of a deterrent. In 2015, the BCM raised the contribution of banks to the deposit guarantee fund; we will continue to raise this contribution until the fund stands at MRU 0.6 billion. In view of the limited size of the Mauritanian market, the new banking law tightened conditions for licensing new banks, which will encourage mergers among existing banks.

48. The BCM is strengthening the AML-CFT framework and its implementation, in concert with all parties involved including banks. We expect to complete the national risk assessment as well as an action plan by end-April 2019 (new structural benchmark April 2019). In parallel, we are conducting a technical review of regulations to conform to the international standards of the Financial Action Task Force (FATF) and are working with the Mauritanian banks to modernize their practices.

49. We will focus our attention to improving the quality and timeliness of monetary statistics, including the sectorization of credit, in line with technical assistance recommendations. In particular, we will focus on standardizing data and automating data transfers. In this context, we have installed a secure line between the BCM and banks to facilitate secure, efficient data transfer, and with respect to the data storage and transmission mechanism, we will accelerate the integration of automated controls and analytical and feedback tools such as monitoring dashboards for banks.

50. We launched a project to modernize the financial infrastructure and payments system based on a new law adopted in July 2018. A modern payments system (large-value transfers, check clearing system, interbank money market operations), which should be completed by end-2019, will represent a lever for development of the financial system and the economy as a whole by promoting larger and faster trade while strengthening financial stability and enhancing the security of financial transactions. We have also embarked on the development of automatic payment instruments and mobile banking to reduce cash in the economy and promote financial inclusion for the poorest. We have also established a banknote sorting center at the BCM.

51. We are establishing a new credit information bureau, which will compile and make available to banks consolidated information on borrowers' credit and payment histories. By improving information, this entity will serve to reduce banks' credit risk, thereby promoting bank credit and access to credit. The bureau will launch activities in February 2019 (new structural benchmark).

52. Our objective is to promote financial inclusion and strengthen the role of the financial sector in financing the economy. Consistent with the FSAP development module, we will focus on the following pillars:

- *Reform of the microfinance sector*. We will prepare an action plan to reform the microfinance promotion agency (PROCAPEC) and another to withdraw from the sector.

- *Promotion of Islamic finance*. In view of the potential of this segment to better accommodate activity in the sector, the BCM intends to implement a regulatory framework specific to Islamic banks with technical assistance from the IMF.

- *Financing of small and medium-size enterprises (SMEs)*. To address the scarcity of long-term bank resources to finance productive investment, particularly for SMEs, we contracted a US$50 million line of credit in 2014 which was fully disbursed and allocated by banks to SMEs. Given its largely positive impact on credit to SMEs and since it is now starting to be repaid, we will seek to renew this facility on concessional terms to maintain external debt sustainability while improving access to bank financing for SMEs.

- *Regular monitoring of financial inclusion indicators*. We are in the process of defining these indicators and will regularly produce a dashboard to support the evaluation of policies in this area.

Social Policies and Anti-Poverty Measures

53. To increase the effectiveness of our social spending, our social programs will be better targeted to protect the most vulnerable households. After reducing the poverty rate by 11 percentage points over the period 2008-2014, we began deployment of a better-targeted social support system with assistance from the World Bank in December 2016. We plan to expand the coverage of the single social registry of vulnerable households to the entire national territory by 2020, so as to cover 150,000 households and facilitate better targeting of transfers to the most vulnerable. We expect to complete the targeting and surveys in 18 departments by end-2018 and in another 20 departments in 2019. A number of programs such as the "Tekavoul" social transfers program and other partners already use the social registry for their support to the most vulnerable households.

54. Our program provides for an increase in social spending (including education, health, social protection, housing and small-scale collective infrastructures, culture, recreation, and religious affairs) of MRO 7 billion in 2017, MRU 2.4 billion in 2018, and MRU 2.3 billion in 2019, representing over 44 percent of primary budget expenditure, or 13.4 percent of NEGDP. These expenditures will continue to be increased continuously during the program period, and will be subject to a spending floor (indicative target, Table 1). By the next review, we will work on a more targeted definition of the social protection spending targeted by this floor.

Governance, Business Environment and the Fight Against Corruption

55. We have significantly improved the business environment over the last few years. Specifically, we gained 26 ranks in three years in the "Doing Business" rankings of the World Bank published in October 2017, reaching the 150th rank out of 190 countries. However, much progress remains to be made to maintain and improve this ranking.

56. In addition to the five reforms recognized in the last "Doing Business Report", we are well advanced in implementing the 2018-19 road map for reforms to improve the business environment, adopted by the government in January 2018. We are focused in particular on: (a) the real property rights code; (b) the law on the resolution of small disputes; (c) elimination of registration fees for SMEs; (d) the one-stop center for the connection to medium voltage electric power; (e) the customs code; (f) publication of all court rulings on the website of the Ministry of Justice; (g) the implementation decrees under the urban development code; (h) integration of payment incidents in the credit risk bureau; and (i) revision of the banking law. Most of these measures were or are currently being implemented.

57. The public-private sector dialogue is being strengthened. To this end, a forum for dialogue was held in February 2018 and a joint coordinating commission was created to identify and resolve problems encountered by businesses in their interactions with the government.

58. The Mauritanian authorities have started to design and implement an anti-corruption strategy which includes fostering transparency, the rule of law, and institutional reforms. In this context, the authorities adopted in December 2010 a National Strategy to Fight Corruption. An anti-corruption law was adopted in April 2016, which defines the criminal acts and related sanctions and creates a specialized court; implementation decrees were adopted that same year. These efforts have started to produce results: Mauritania progressed in the African Governance indicator (measured by Global Integrity) in 2017 and in the report of Transparency International in 2018.

59. The Mauritanian authorities will seek to accelerate the implementation of the norms of the Extractive Industries Transparency Initiative (EITI). The validation of 2017 suggested that significant progress had been made in some areas covered by the EITI, but also that a number of areas had not seen satisfactory progress. The Mauritanian authorities will seek to take corrective measures in the areas identified in time for the next EITI validation. They will also ensure that the new gas project and the companies involved comply with all transparency principles of the EITI.

60. To improve public investment outcomes, public procurement procedures were reformed in 2017, with assistance from the World Bank, to separate the functions of contracting, oversight, and regulation to increase the transparency of procurement management. This led to the consolidation of the four decrees implementing the law into a single text, the adaptation of regulations to conform to the law, and simplification of procedures. Furthermore, to improve public expenditure management, the new organic budget law recently approved by parliament provides for unification of the government's budget, promotes program budgeting, establishes a ceiling on public debt, and improves budget formulation in a multi-year framework. It will be implementing through the associated decrees from mid-2019.

61. To step up the fight against corruption, the authorities are planning the following actions in the short term: (i) establish the implementation committee of the national anti-corruption strategy—with members selected from the public administration, private sector, and civil society; (ii) implement the action plan of the anti-corruption strategy for 2016-20; and (iii) launch judicial and criminal proceedings in cases of misappropriation of public funds.

62. The government strengthened the authority and operations of the Court of Audit through a new organic law on the court of audit. The government also plans to support the judiciary in reinforcing the activities of the commission on financial transparency in public affairs, which is charged with implementing the 2007 law requiring all senior officials to declare their assets. It will revitalize the other institutions charged with audit and control such as the Government Inspector General, the Inspector General of Finance, and the internal ministerial inspection units.

Economic Statistics

63. Statistical development remains one of our priorities to allow us to better evaluate the impact of our economic policies and monitor the implementation of our development strategy. We plan to make up for delays in preparing and finalizing the national accounts and migrate to the 2008 System of National Accounts (SNA 2008) by end-2018. We will also take all necessary measures to improve external debt statistics. With support from the World Bank, we will also undertake an organizational reform of the National Statistics Office (ONS) and strengthen its institutional capacities in parallel with improving the statistics function in the ministerial departments. Finally, in the context of regular monitoring of social indicators and to better evaluate the impact of our economic policies, we have initiated the second survey on informal sector employment and are preparing to launch the household living conditions survey this year.

D. Program Monitoring

64. We created a Program Monitoring Committee (PMC) in May 2018 to ensure the effective implementation of the program. Composed of representatives of the MEF and the BCM, the PMC will be able to call upon representatives of other government ministries and agencies, as needed.

The committee's actions will be guided by an inter-ministerial committee which will include the BCM governor and the minister of economy and finance. The PMC will have a permanent secretariat and will meet regularly to assess progress and forward the data required to monitor program performance.

65. Program implementation will be evaluated semiannually by the IMF's Executive Board based on performance criteria and quantitative indicators and structural benchmarks (Tables 1 and 2). The next review of the program will be completed on or after March 31, 2019 based on the performance criteria and quantitative indicators at end-December 2018 (Table 1) and structural benchmarks (Table 2). Those criteria and quantitative benchmarks are defined in the Technical Memorandum of Understanding (TMU), as well as adjusters in case of contingencies.

Table 1a. Mauritania: Performance Criteria and Quantitative Benchmarks for 2017–19 1/

(Cumulative changes) 1/

	End-June 2017	End-Dec. 2017				End-Mar. 2018	End-June. 2018				End-Sept. 2018	End-Dec. 2018	
	Initial Level	Performance criteria	Adjusted Performance Criteria	Actual	Status	Indicative Target	Performance Criteria	Adjusted Performance Criteria	Actual	Status	Indicative Target	Performance Criteria	
												First Review	Proposed Modification
Quantitative targets													
Net international reserves of the BCM (floor); in million of U.S. dollars	200.2	-14.3	-15.9	9.7	Met	-24.3	-35.0	13.4	25.1	Met	-10.4	46.8	7.9
Net domestic assets of the BCM (ceiling); in billions of ouguiyas (MRO)	145.6	15.4	16.0	6.3	Met	11.8	23.6	6.3	-9.4	Met	16.0	7.3	26.0
Primary balance excluding grants; in billions of ouguiyas (MRO) 2/	6.5	-3.6	-5.1	-2.1	Met	4.5	9.0	20.5	57.2	Met	4.5	5.6	5.6
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 non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/ 4/	...	0.0	18.0	18.0	Met	0.0	0.0	18.0	18.0	Met	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 non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/	...	0.0		0.0	Met	0.0	0.0		0.0	Met	0.0	0.0	0.0
New external payment arrears (continuous ceiling) 5/	0.0	0.0		0.0	Met	0.0	0.0		0.0	Met	0.0	0.0	0.0
Social spending (indicative target); in billions of ouguiyas (MRO)	97.2	97.2		97.0	Not met	55.2	110.3		110.9	Met	165.5	217.7	217.7
Adjustement Factors (in millions of U.S. dollars)													
Net international assistance	....	-101.8		19.1		-41.2	-147.0		-124.9		-187.7	-278.0	-197.4
Cumulative disbursements of official loans and grants in foreign currency	....	18.8		25.3		7.7	7.7		0.0		18.2	34.8	34.8
Cumulative amounts of external cash debt service payments	....	-120.7		-6.2		-48.9	-154.7		-124.9		-205.9	-312.8	-232.2
FNRH contribution to the budget	20.0	30.2		29.1		0.0	12.9		39.2		26.6	32.5	32.5
European Union fishing compensation fee	....	66.2		65.8		0.0	0.0		0.0		0.0	66.2	66.2
Extractive revenues, in billions of ouguiya	21.1	25.5		22.4		9.7	21.8		44.7		38.0	47.7	47.7
Memorandum items:													
Indicative Target: Contracting or guaranteeing of new medium- and long-term concessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling) 3/	...	100.0		0.0	Met	200.0	200.0		13.2	Met	200.0	200.0	200.0
Program exchange rate (MRO/USD)	358.5	358.5		358.5		358.5	358.5		358.5		358.5	358.5	358.5

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year, unless otherwise indicated. For 2017, cumulative changes are calculated with respect to June 2017.
2/ Adjusted by half of the difference between recorded and projected extractive industry budgetary revenues.
3/ Cumulative limit from November 1, 2017 for loans approved by the Council of Ministers.
4/ Adjusted upward, up to $103 million, exclusively for the following two projects: additional financing for the Boulenoir wind farm project, and financing for the Nouakchott fishing port project (development hub at PK28).
And adjusted upward, up to $307 million, exclusively for the Grande Tortue/Ahmeyim off-shore gas project.
5/ Excluding arrears subject to rescheduling.

Table 1b. Mauritania: Performance Criteria and Quantitative Benchmarks for 2019
(Cumulative changes) 1/

	End-Mar 2019	End-Jun 2019	End-Dec 2019
	Indicative Target	Proposed Performance Criteria	Proposed Indicative Target
Quantitative targets			
Net international reserves of the BCM (floor); in million of U.S. dollars	15.8	31.5	62.7
Net domestic assets of the BCM (ceiling); in billions of ouguiyas (MRO)	8.3	9.0	10.6
Primary balance excluding grants; in billions of ouguiyas (MRO) 2/	8.1	16.6	9.1
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 non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/ 4/	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 non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/	0.0	0.0	0.0
New external payment arrears (continuous ceiling) 5/	0.0	0.0	0.0
Social spending (indicative target); in billions of ouguiyas (MRO)	60.8	121.6	243.3
Adjustement Factors (in millions of U.S. dollars)			
Net international assistance	-49.2	-107.9	-192.2
Cumulative disbursements of official loans and grants in foreign currency	7.5	14.6	43.8
Cumulative amounts of external cash debt service payments	-56.7	-122.5	-236.0
FNRH contribution to the budget	0.0	64.2	80.3
European Union fishing compensation fee	0.0	0.0	77.1
Extractive revenues, in billions of ouguiya	13.7	28.4	62.0
Memorandum items:			
Indicative Target: Contracting or guaranteeing of new medium- and long-term concessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling) 3/	200.0	200.0	200.0
Program exchange rate (MRO/USD)	358.5	358.5	358.5

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year, unless otherwise indicated.
2/ Adjusted by half of the difference between recorded and projected extractive industry budgetary revenues.
3/ Cumulative limit from November 1, 2017 for loans approved by the Council of Ministers.
4/ Adjusted upward, up to $103 million, exclusively for the following two projects: additional financing for the Boulenoir wind farm project, and financing for the Nouakchott fishing port project (development hub at PK28). And adjusted upward, up to $307 million, exclusively for the Grande Tortue/Ahmeyim off-shore gas project.
5/ Excluding arrears subject to rescheduling.

Table 2a. Mauritania: Structural Benchmarks, 2017–19

Measure	Date	Objectives
Exchange policy		
Prepare an action plan for development of the interbank foreign exchange market by end-2019	September 2018 (Met)	Deepen the foreign exchange market
Introduce two-way wholesale auctions on the foreign exchange market; and raise the threshold for the requirement to go through the foreign exchange market to US$300,000	December 2018	Deepen the exchange market and allow greater exchange rate flexibility
Authorize the internal clearing of foreign exchange transactions between customers in the same bank; and eliminate the obligation to go through the official foreign exchange market	December 2019	Deepen the exchange market and allow greater exchange rate flexibility
Monetary policy		
Adopt a directive on monetary policy instruments	December 2017 (Met)	Enhance the effectiveness of monetary policy instruments
Define a collateral framework for monetary policy operations	March 2018 (Met)	Enhance the effectiveness of monetary policy instruments
Submit to parliament the 2013 memorandum of understanding on repayment of the government's liabilities to the BCM or a new memorandum to be agreed by then	June 2018 (Met)	Strengthen the central bank's autonomy and its capacity to conduct the monetary policy
Financial sector policy		
Submit the bill on loan recovery to parliament	March 2018 (Met)	Improve the business environment and facilitate access to credit
Adopt a directive reforming calculation of the solvency ratio and raising the minimum capital requirement for banks to MRU 1 billion over two years	March 2018 (Met)	Strengthen the banking system and encourage bank mergers
Establish an emergency liquidity facility for banks	March 2018 (Met)	Broaden macro-prudential instruments to strengthen financial stability and the monetary policy
Submit the banking law prepared in consultation with IMF staff to parliament	June 2018 (Met with delay in July; law adopted in July, promulgated in September)	Improve the prudential and bank resolution framework

Table 2a. Mauritania: Structural Benchmarks, 2017–19 (Concluded)

Measure	**Date**	**Objectives**
Submit the law on the BCM charter prepared in consultation with IMF staff to parliament	June 2018 (Met: law adopted in July, promulgated in August)	Strengthen the central bank's autonomy and capacity to conduct monetary policy
Publish a quantification of the BCM's 2017 financial statements in accordance with IFRS accounting standards	December 2018	Harmonize central bank financial reports with international standards
Fiscal policy		
Submit the draft organic finance law to parliament	March 2018 (Met, law adopted May)	Strengthen budget formulation and public finance management to support fiscal consolidation
Submit the draft tax procedures code to the Council of Ministers	March 2018 (Met)	Clarify tax procedures and strengthen tax administration
Submit the draft Customs Code to parliament	March 2018 (Met, the code was enacted)	Strengthen customs administration to mobilize revenue and facilitate trade
Reactivate the National Public Debt Committee (hold regular meetings and update its terms of reference)	March 2018 (Met with delay, decree adopted in April)	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Establish a coordination procedure between CAPIP and CNDP outlining their responsibilities for project selection	March 2018 (Met with delay, procedure adopted in April)	
Purge the taxpayer register in line with IMF technical assistance recommendations; design a procedure to update the taxpayer register on a regular basis	June 2018 (Met)	Improve tax revenue mobilization and tax equity by maintaining control over the register of taxpayers
Establish a gateway interface between the SYGADE, SIGIP and RACHAD software applications to keep track of external debt disbursements and debt service payments	September 2018 (Met)	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Submit the draft laws on the General Tax Code and the corporate tax to the Council of Ministers	August 2019 (deferred from December 2018)	Improve tax revenue mobilization and tax equity, reduce informality and tax fraud

Table 2b. Prior Actions and Structural Benchmarks, 2018-2019

Measure	Date	Objectives
Prior action: Submit a 2019 budget consistent with the program's budget targets to parliament	Second ECF review by the IMF Executive Board (Met)	Maintain macroeconomic stability and strengthen debt sustainability
Fiscal policy		
Finalize the decree establishing new procedures to modernize the issuance of Treasury bills based on technical assistance from the IMF	December 2018	Support cost-effective financing of the government, monetary policy, and development of financial markets
Adopt the new rules for issuing Treasury bills	March 2019	
Establish indicative internal performance objectives for the DGI regarding timely payment rates of large and medium-size businesses in 2019-20	March 2019	Improve tax revenue mobilization and tax equity, and reduce tax arrears
Strengthen post-clearance inspections by establishing a supervision committee, restructuring and strengthening the directorate of investigations, and revising the regulatory framework	June 2019	Strengthen the customs administration to mobilize revenue and facilitate trade
Adopt implementation decrees under the new organic budget law (decrees on the general budget management and public accounting regulations and decree on budget governance)	June 2019	Strengthen budget formulation, institutions, and governance in public financial management to support efficient spending and fiscal consolidation
Conduct at least 10 general tax audits and 40 targeted audits of large and medium-size businesses by the DGI in 2019	December 2019	Improve tax revenue mobilization and tax equity, and reduce tax arrears
Monetary and exchange policy		
Establish an interest rate corridor for the new BCM deposit and refinancing facilities	December 2018	Improve the effectiveness of monetary policy instruments
Establish the regulatory framework for the interbank foreign exchange market	June 2019	Deepen the foreign exchange market
Prepare pro forma BCM financial statements for 2018 in accordance with IFRS international accounting standards	September 2019	Increase the transparency of the central bank's accounts
Implement the integrated technical platform for monetary policy operations	December 2019	Improve the effectiveness of the new monetary policy framework
Implement the integrated technical platform for the interbank foreign exchange market	December 2019	Deepen the foreign exchange market

Table 2b. Prior Action and Structural Benchmarks, 2018-2019 (Concluded)

Measure	Date	Objectives
Financial sector policy		
Establish the credit information bureau	February 2019	Improve access to bank credit
Adopt a directive on the calculation of banks' net weighted assets and liquidity ratios in accordance with Basel III	April 2019	Tighten the capital and liquidity requirements applicable to banks and strengthen the solvency of the banking system
Finalize the national risk assessment with respect to AML-CFT, accompanied by an action plan, and submit them to the Council of Ministers	April 2019	Strengthen measures to combat money laundering and terrorism financing
Apply concentration limits on banks' net positions toward related entities	July 2019	Strengthen banks' soundness and improve bank governance

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding describes the quantitative and structural assessment criteria established to monitor the program supported by the Fund's Extended Credit Facility and described in the Memorandum of Economic and Financial Policies (MEFP), Tables 1 and 2. It also specifies the content and periodicity of the data that must be forwarded to Fund staff for program monitoring purposes. Under this memorandum, the government is defined as the central government exclusively.

2. The quantitative targets are defined as ceilings and floors set on cumulative changes between the reference periods described in Table 1 of the MEFP and the end of the month covered, unless otherwise indicated.

A. Definitions

3. **Net international reserves (NIR) of the Central Bank of Mauritania (BCM)** are defined as the difference between the reserve assets of the BCM (i.e., the external assets that are readily available to, and controlled by, the BCM, as per the 6th edition of the IMF *Balance of Payments Manual*), minus the BCM's foreign exchange liabilities to residents and nonresidents (including letters of credit and guarantees issued by the BCM, but excluding resident foreign exchange deposits that are payable in local currency). Monetary gold holdings will be evaluated at the gold price in effect on June 30, 2017 (US$1,242.3 per oz.), and the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates, namely, the June 30, 2017 rates for exchange of the U.S. dollar against the ouguiya ($1 = MRO 358.5), the SDR ($1.39 = SDR 1), the euro ($1.14 = 1 euro), and other currencies published in the IMF's database *International Financial Statistics* (*IFS*).

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

5. **The primary fiscal balance excluding grants** is defined, for program monitoring purposes, as the overall balance, apart from grants, of the central government, excluding interest due on public debt. This balance is equal to government revenue (excluding grants) minus government expenditure (excluding interest due on public debt). The primary fiscal balance will be measured on the basis of Treasury data. Revenue is defined in accordance with the *Government Finance Statistics Manual (GFSM 2001)*. It will be monitored on a cash basis (*revenue taken by the Treasury*). Expenditure will be monitored on a commitment basis, including interest on domestic debt (paid by the Treasury or automatically debited from the Treasury's account at the BCM, including but not limited to discounts on Treasury bills held by banks and nonbanks as well as interest due on the government's consolidated debt to the BCM).

6. **Treasury float** (technical gap) is defined as the stock of payments validated and recorded at the Treasury but not yet executed by the latter. With the introduction of the payment module in the RACHAD system, this technical gap is defined as the stock of payments validated in the RACHAD payment module but not yet executed by the Treasury.

7. **Poverty reducing expenditure** is estimated using the functional classification of public expenditure introduced on the basis of the recommendations in the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("Les réformes en cours de la gestion budgétaire et financière" [Ongoing Fiscal Management Reforms], March 2006). This estimate will take into account only domestically funded expenditure under the following headings: "General public services," "Economic affairs," "Environmental protection," "Community facilities and housing," "Health, religious affairs, culture, and leisure," "Education," and "Social action and welfare."

8. **For program purposes, the definition of external debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014.[1]

(a) For the purposes of these guidelines, the term "debt" is understood to mean a current (i.e., noncontingent) liability created by a contractual arrangement whereby a value is provided in the form of assets (including currency) or services, and under which the obligor undertakes to make one or more payments in the form of assets (including currency) or services at a future time, in accordance with a given schedule; these payments will discharge the obligor from its contracted principal and interest liabilities. Debt may take several forms, the primary ones being as follows:

i) Loans, that is, advances of money to the borrower by the lender on the basis of an undertaking that the borrower will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), as well as temporary swaps of assets that are equivalent to fully collateralized loans, under which the borrower is required to repay the funds, and often pays interest, by repurchasing the collateral from the buyer in the future (repurchase agreements and official swap arrangements);

ii) Suppliers' credits, that is, contracts under which the supplier allows the borrower to defer payments until sometime after the date when the pertinent goods are delivered or the services are provided; and

iii) Leases, that is, agreements governing the provision of property that the lessee has the right to use for one or more specified period(s), generally shorter than the total expected

[1] http://www.imf.org/external/pp/longres.aspx?id=4927.

service life of the property, while the lessor retains the title to the property. For the purposes of the guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, apart from payments related to the operation, repair, or maintenance of the property.

(b) According to the above-mentioned definition, debt includes arrears, penalties, and damages awarded by the courts in the event of a default on a contractual payment obligation that represents a debt. Failure to make payment on an obligation that is not considered a debt according to this definition (e.g., payment on delivery) does not give rise to a debt.

9. External payment arrears are defined as payments (principal and interest) on external debt contracted or guaranteed by the government or the BCM that are overdue (taking into account any contractually agreed grace periods). For the purposes of the program, the government and the BCM undertake not to accumulate any new external payments arrears on its debt, with the exception of arrears subject to rescheduling

10. External debt, in the assessment of the relevant criteria, is defined as any borrowing from or debt service payable to nonresidents. The relevant performance criteria are applicable to external debt contracted or guaranteed by the government, the BCM, and public enterprises (excluding the debt of the National Industrial and Mining Company (SNIM) not guaranteed by the government), or to any private debt for which the government and the BCM have provided a guarantee that would constitute a contingent liability. Guaranteed debt refers to any explicit legal obligation for the government and the BCM to repay a debt in the event of default by the debtor (whether payments are to be made in cash or in kind). For program purposes, this definition of external debt does not include routine commercial debt related to import operations and maturing in less than a year, foreign currency-denominated deposits at the BCM, rescheduling agreements, and IMF disbursements.

11. Medium- and long-term external debt contracted or guaranteed by the government, the BCM, and public enterprises corresponds, by definition, to borrowings from nonresidents maturing in one year or more. **Short-term debt** corresponds, by definition, to the stock of borrowings from nonresidents initially maturing in less than one year and contracted or guaranteed by the government, the BCM, and public enterprises.

12. External debt is deemed to have been contracted or guaranteed on the date of approval by the Council of Ministers. For program purposes, its U.S. dollar value of is calculated using the average exchange rates for July 2017 as described in the *IFS* (International Financial Statistics) database of the IMF, namely, the rates of exchange for the US dollar against the SDR ($1.3955 = SDR 1) and other national currencies, namely, the euro (0.86873 euro = $1), the Kuwaiti dinar (KWD 0.302668 = $1), the Saudi rial (SR 3.75 = $1), and the pound sterling (£0.769827 = $1).

13. For program purposes, a loan is deemed concessional if it contains a grant element representing at least 35 percent, calculated as follows: the grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan is calculated by discounting future principal and interest payments, on the basis of a discount rate of 5 percent. Concessionality will be assessed on the basis of all aspects of the loan agreement, including maturity, grace period, repayment schedule, front-end fees, and management fees. The calculation is performed by the authorities, using the IMF model,[2] and verified by IMF staff on the basis of data provided by the authorities. For loans with a grant component of zero or less, the PV is set at an amount equal to the face value.

14. **In the case of debt with a variable interest rate** represented by a reference interest rate plus a fixed margin, the PV of the debt is calculated on the basis of a program reference rate plus a fixed margin (in basis points) specified in the loan agreement. The program reference rate for the US dollar six-month LIBOR is 3.23 percent and will remain unchanged until December 31, 2017. From January 1 to December 31, 2018, the benchmark rate is 3.42 percent. From January 1 to December 31, 2019, the benchmark rate is 3.31 percent. For 2019, the margin between the euro six-month LIBOR and the US dollar six-month LIBOR is -250 basis points. The margin between the yen six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the pound sterling six-month LIBOR and the US dollar six-month LIBOR is -200 basis points. For interest rates applicable to currencies other than the euro, the yen, and the pound sterling, the difference from the US dollar six-month LIBOR is -300 basis points.[3]

15. **Performance criteria on the introduction or modification of multiple currency practices.** The performance criteria on the introduction or modification of multiple currency practices (MCP) will exclude the contemplated implementation or modification of the multiple price foreign exchange auction system, developed in consultation with Fund staff, which gives rise to an MCP.

B. Adjustment Factors

16. **NIR and NDA targets** are calculated on the basis of projections of the contribution of the National Hydrocarbon Revenue Fund (FNRH) to the budget, the amount of the European Union (EU) fishing compensation, and the volume of net international assistance. The latter is defined as the difference between: (a) the sum of the cumulative loan disbursements of official foreign currency-denominated loans and grants (budget support, excluding assistance under the Heavily Indebted Poor Countries (HIPC) Initiative and project-related loans and grants) and the

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[2] http://www.imf.org/external/np/spr/2015/conc/index.htm.

[3] The program reference rate and margins are based on the "average projected rate" for the US dollar six-month LIBOR over the period of 10 years in the fall 2017 edition of the *World Economic Outlook* (*WEO*): for 2017, the average for the period 2017-26; for 2018, the average for the period 2018–27. For 2019, the average for the period 2019–28 on the basis of the fall 2018 edition of the WEO.

impact of any debt relief obtained after June 30, 2006; and (b) the total amount of cash payments for servicing the external debt (including interest[4] paid on the BCM's foreign liabilities).

17. If the volume of net international assistance or the FNRH's contribution to the budget or the amount of EU fishing compensation falls short of the amounts projected in Table 1, the NIR floor will be lowered, and the NDA ceiling will be raised by an amount equivalent to the difference between the recorded and projected amounts. For its part, the NDA ceiling will be converted into ouguiya at the programmed exchange rates. The lowering of the NIR floor will be limited to US$70 million. The raising of the NDA ceiling will be limited to the ouguiya equivalent of US$70 million, at the programmed exchange rates. If the volume of net international assistance or the FNRH's contribution to the budget or the amount of EU fishing compensation exceeds the amounts indicated in Table 1, the NIR floor will be raised, and the NDA ceiling will be lowered by an amount equivalent to the difference between the recorded and projected amounts.

18. **The floor pertaining to the primary fiscal balance excluding grants** will be adjusted symmetrically upwards (respectively, downwards) by an amount equivalent to the excess (respectively, shortfall) of disbursements of the EU fishing compensation relative to the amounts projected in Table 1.

19. **The floor relating to the primary fiscal balance excluding grants** will also be adjusted symmetrically upwards or downwards by an amount equivalent to 50 percent of the difference between the actual budgetary extractive revenues and those projected in Table 1. Extractive budgetary revenues are defined as the mining and hydrocarbon tax and non-tax revenues included in the TOFE. Extractive tax revenues correspond to TOFE headings denominated "SNIM VAT", "SNIM single tax" and hydrocarbon tax revenues (BIC, ITS, other). Non-tax extractive revenues correspond to dividends paid by SNIM, to mining revenues (cadastral revenues, operating revenues, and other mining revenues); and non-tax revenue from hydrocarbons (bonuses, royalties, capital income, profit oil, etc.).

20. **The ceiling on nonconcessional external debt contracted or guaranteed** will be adjusted upward up to US$ 103 million exclusively for the following two projects: the complementary financing for the wind power station project in Boulenoir, and the financing for the fishing port project of Nouakchott (development pole at PK28). It will also be adjusted by up to US$307 million exclusively for Mauritania's participation in the Grande Tortue/Ahmeyim offshore gas project. This limit is cumulative from November 1, 2017.

[4] Until the first review of the program (quantitative targets for June 2018 and before), principal amortization payments were also included. However, because these principal payments affect both assets and liabilities of the BCM, they are neutral on NIR et hence should not be part of adjustment factors. Hence, these principal payments are excluded from the definition of the adjustment factors from the second program review onward (quantitative targets for December 2018 and following).

C. IMF Reporting Requirements

21. To facilitate the monitoring of developments in the economic situation and performance of the program, the Mauritanian authorities will provide the IMF with the information listed below:

Central Bank of Mauritania (BCM)

- The monthly statement of the BCM and monthly statistics on: (a) the gross international reserves of the BCM (calculated at the programmed and actual exchange rates); and (b) the balance of the FNRH, as well as the amounts and dates of its receipts and expenditures (transfers to the Treasury account). These details will be provided within a period of two (2) weeks after the end of each month;

- The monthly monetary survey, the consolidated balance sheet of the commercial banks, and the weekly statistics on the net foreign exchange positions of the individual commercial banks, by foreign currency and in consolidated form, at the official exchange rates recorded. These details will be supplied within a period of four (4) weeks after the end of each month;

- The monthly cash flow table and projections to the end of the year, within a period of 15 days after the end of each month;

- Data on Treasury bill auctions and on the new stock of Treasury bills, within a period of one (1) week after each auction;

- Monthly data on the volume of each public enterprise's liabilities to the banking sector, within a period of one (1) month after the end of each month;

- The BCM undertakes to consult with IMF staff on any proposed new external debt;

- Monthly external debt data within a period of 30 days after the end of the month under consideration, following the monthly meeting of the technical committee on debt, the minutes of which will be attached. The information required consists of:

- The external debt status file: external debt service of the BCM, the government, and the SNIM, including any changes in arrears and in rescheduling operations; the amount of debt service that became payable and the portion of it paid in cash; the HIPC relief granted by the multilateral and bilateral creditors; and the amount of HIPC relief provided to Mauritania in the form of grants;

- The quarterly balance of payments and the annual data on the stock of external debt (broken down by creditor, debtor, and currency denomination), within a period of 45 days after the end of each quarter, or year;

- Quarterly statistics on the autonomous factors and on foreign exchange market operations, within a period of 10 days after the end of the month;

- Quarterly statistics on the required reserves and the current account balance, by bank, within a period of 10 days after the end of the month;

- Quarterly data on lending and borrowing rates, by bank, as well as the liquidity ratios;

- Quarterly data on capital-debt ratios and on claims, classified by bank and consolidated, within a period of 45 days after the end of the reference period.

Ministry of Economy and Finance

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

- Monthly data from the Treasury on budget operations: revenue (including FNRH transfers), expenditure and financing, data on the special accounts operations, execution of the domestically funded portion of the capital budget (capital expenditure, purchases of goods and services, and wages included in this budget), and monthly reports on revenue collected by the Directorates of Taxes and Customs. This information will be provided within a period of two (2) weeks after the end of each month;

- Monthly data, reconciled between the Treasury and the Budget Office, on the execution of expenditure on wages, including a breakdown of the indicator-based balance and civil service reviews of wages authorized for payment and of those in the process of being validated for payment for diplomatic missions, military personnel, the gendarmerie, the national guard, and public institutions;

- Monthly reports on the execution of externally funded capital expenditure, based on the summary statement of the consolidated capital budget, as well as on the external grants and loans received or contracted by the government, its agencies, and public enterprises, classified by donor or creditor and by disbursement currency. This information will be provided within a period of two (2) weeks after the end of each month;

- A monthly list of new medium-term and long-term foreign borrowings contracted or guaranteed by the government, with indications, for each loan, of: the creditor, the borrower, the amount, and the currency denomination, as well as the maturity and grace period, interest rate, and fees. This list should also cover loans under negotiation. Data on new external debt will be provided within a period of two (2) weeks;

- Monthly reports on the production of oil and other hydrocarbons and the related financial flows, including data on oil sales and the breakdown of oil revenue among the various partners, within a period of one (1) month after the end of each month;

- Annual balance sheets, audited or certified by a statutory auditor, for the public enterprises and autonomous public institutions;
- Quarterly data on the operations of enterprises in the oil sector and on those in the mining sector.

National Statistics Office

- The monthly consumer price index, within a period of two (2) weeks after the end of each month;
- The quarterly industrial production index, within a period of 45 days after the end of each quarter;
- Quarterly memoranda on economic activity and foreign trade.

Technical Committee on Program Monitoring

22. Monthly program implementation report: four (4) weeks, at the latest, after the end of the month.

23. All data will be sent by electronic means. Any revision of previously reported data will be immediately submitted to IMF staff, together with an explanatory memorandum.

D. Central Government Operations Table

24. The Treasury will compile a monthly budget execution report in the format of a central government operations table (TOFE). For the preparation of this table, the definitions below will be applied:

- **Grants** are defined as the sum of the following components: foreign project grants (used for the implementation of foreign-financed investment projects contained in the parts of the consolidated investment budget covering the central government and other administrative units (EPA) —parts BE and BA); and foreign program grants for budget support, including multilateral HIPC debt relief as regards the public external debt and the external debt of the BCM and the SNIM (including the portion of the relief pertaining to the debt to the African Development Fund/African Development Bank on Cologne terms);

- **Domestic bank financing** of the government deficit is defined as a change in net banking system credit to the government, that is, claims on the government minus government deposits with the banking system (excluding deposits of public institutions and EPA at the BCM, but including the HIPC account);

- **Domestic nonbank financing** of the government deficit is defined as a change in the stock of Treasury bills held by nonbanks;

- **Domestic arrears** are defined as a net change (beyond a period of three months) in the Treasury float and in the stock of domestic claims on the government recorded by the Ministry of Finance (including but not limited to cumulative payment arrears to public enterprises (water, electricity, etc.) and international organizations, and those covered by government contracts and court decisions);

- **External financing** is defined as the sum of the net drawings on the FNRH (i.e., the opposite of a change in the FNRH's offshore account balance), net disbursements of foreign loans, and exceptional financing. The latter comprises: (a) the cumulative debts payable and technical arrears defined in paragraph 9; and (b) the debt relief obtained on the government's external debt net of HIPC assistance, deemed to be a part of grants.