

Islamic Republic of Mauritania: Second Review Under the Three-Year Extended Credit Facility Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Mauritania.

In the context of the second review under the three-year extended credit facility arrangement, the following documents have been released and are included in this package:

- The staff report for the Second Review Under the Three-Year Extended Credit Facility Arrangement, prepared by a staff team of the IMF, following discussions that ended on May 4, 2011, with the officials of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 7, 2011. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff supplement.
- A Press Release summarizing the views of the Executive Board as expressed during its June 22, 2011 discussion of the staff report that completed the request and/or review.
- A statement by the Executive Director for the Islamic Republic of Mauritania.

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

Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
Letter of Intent sent to the IMF by the authorities of Mauritania*
Poverty Reduction Strategy Paper
Technical Memorandum of Understanding*
Ex-Post Assessment of Longer-Term Program Engagement

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Second Review Under the Three-Year Extended Credit Facility Arrangement

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

Approved by Patricia Alonso-Gamo and Dhaneshwar Ghura

June 7, 2011

Context: Supported by a strong recovery in external demand and rising commodity prices, economic activity picked up, the current account deficit narrowed, and the fiscal position improved. However, the economy remains vulnerable to external shocks, and unemployment is high. For 2011, fiscal consolidation is proceeding as planned, with additional mining revenues largely paying for the emergency program aimed at mitigating the impact of higher fuel and food prices on the poor.

Program: All continuous and quantitative performance criteria for end-December 2010 were met. However, the indicative target on poverty-related spending was missed due to implementation delays on capital spending. The completion of the structural benchmark on tax administration was delayed because of procedural setbacks.

Discussions: The team comprised A. Mati (head), Y. Zouhar, R. Blotevogel, B. Terrier (all MCD), and P. Jenkins (SPR). T. Najeh (Resident Representative) assisted. Mr. Sidi Bouna (OED) also joined the discussions, which were held in Nouakchott during April 20-May 4, 2011. The mission met with the President, the Governor of the Central Bank, the Minister of Finance, the Minister of Economic Affairs and Development, the Minister of Energy, the Minister of Labor and Social Affairs, other senior officials, and representatives of the corporate and banking sector, diplomatic and donor community, civil society, and Parliament (including members of the opposition).

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EXECUTIVE SUMMARY

Macroeconomic developments have been broadly positive. Supported by a strong recovery in external demand, the development of mining projects, and dynamic non-extractive industries, non-oil output grew 5.7 percent in 2010. Booming mining exports, buoyed by high commodity prices, helped offset swelling food and fuel imports and narrow the current account deficit. Monetary policy remained prudent, contributing to containing inflation in single digits. The fiscal deficit was halved in 2010 thanks to higher mining revenues, stronger revenue collection, and an under-execution of investment spending.

Performance under the ECF-supported program has been strong. All continuous and quantitative performance criteria for end-December 2010 were met. However, the indicative target on poverty-related spending was missed because of implementation delays in capital spending in the first half of the year. The structural reform agenda is advancing well, with the exception of the 2010 end-December structural benchmark on tax administration, which has only been met for a subset of taxpayers. To seize the opportunity arising from higher metals commodity prices, the Central Bank of Mauritania (CBM) agreed to raise program reserve targets to reinforce the economy's resilience to external shocks.

Nonetheless, significant vulnerabilities remain. The economy is highly vulnerable to a fall in commodity prices, a slowdown in external demand, and sharp increases in food and energy prices. High unemployment and an insufficiently diversified economy represent key challenges.

To limit vulnerabilities, maintaining a prudent fiscal stance is necessary. Particularly important will be the need to preserve fiscal discipline in spite of the additional expenditures linked to the government's emergency program aimed at mitigating the impact of higher fuel and food prices on the poor. Going forward, ill-targeted and unsustainable subsidy schemes should be replaced by well-targeted and more cost effective social safety nets. The authorities also need to implement their civil service reform agenda, restructure key public enterprises, and strengthen revenue administration and public financial management.

Monetary policy remains geared towards containing inflation in a context of greater exchange rate flexibility. Inflation is expected to stay within single digits with the CBM ready to tighten the monetary stance if inflationary pressures materialize.

Looking ahead, accelerating structural reforms is crucial for achieving broad-based inclusive growth, diversifying the economy's production process and promoting employment. There is a need to deliver on reforms that improve the quality of public services and infrastructure, strengthen the investment climate and boost competition, develop access to bank financing, and enhance the functioning of the labor market.

I. BACKGROUND

1. **Despite a strong recovery in the aftermath of the global crisis, Mauritania still faces several key challenges.** These include vulnerability to external shocks, an insufficiently diversified economy, a weak business climate, lack of fiscal space, and high unemployment and poverty rates.
2. **The political situation remains favorable for economic reform despite frequent cabinet reshuffles, social tensions in the region, and approaching elections.** Social unrest in the region has led to sporadic protests in Mauritania, which have so far remained minor, but with the opposition playing an increasingly prominent role. Parliamentary elections are scheduled for November 2011.
3. **The newly finalized poverty reduction strategy paper (PRSP) provides a good framework for implementing a broad-based growth and poverty reduction agenda.** The main pillars of the PRSP—macroeconomic stability, inclusive growth, improving human capacity, strengthening governance, and monitoring—are fully aligned with the current ECF arrangement’s objectives and the priorities identified by the Ex-Post Assessment (Box 1 and LOI,¶2).

Box 1. Ex-Post Assessment (EPA) of Long-Term Program Engagement: Implications for the ECF-Supported Program

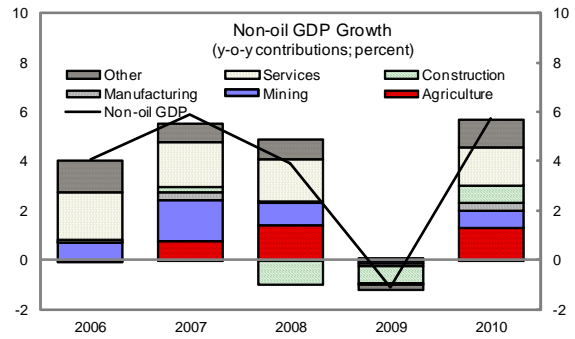
The current ECF-supported program addresses the key challenges identified by the EPA through measures aimed at:

- **Strengthening the macroeconomic framework and the public sector by:**
 - **Reducing vulnerability to macroeconomic shocks** through higher reserve and fiscal buffers, prudent monetary policy, and greater exchange rate flexibility.
 - **Enhancing public sector transparency** through improvements in fiscal and central bank transparency, including follow-up on recommendations of the latest safeguards assessment.
 - **Accelerating structural fiscal reforms** through reforms in public expenditure management, revenue collection, and debt management. The program also calls for reforming public enterprises and addressing weaknesses in the electricity sector.
- **Removing impediments to competition and boosting private sector growth by:**
 - **Creating a market friendly environment** through streamlining of business procedures, easing the access to credit for small enterprises, and making the labor market more efficient.
 - **Improving the financial sector prudential framework** through the adoption of international regulatory and supervisory standards.
- **Increasing and improving the quality of social spending by:**
 - **Raising targets for pro-poor spending** through fiscal discipline, which creates space for greater social spending. Pro-poor expenditure is monitored as an indicative target.
 - **Moving towards more targeted social spending** through the implementation of a new social strategy that will replace current subsidy schemes by well-targeted social safety nets.

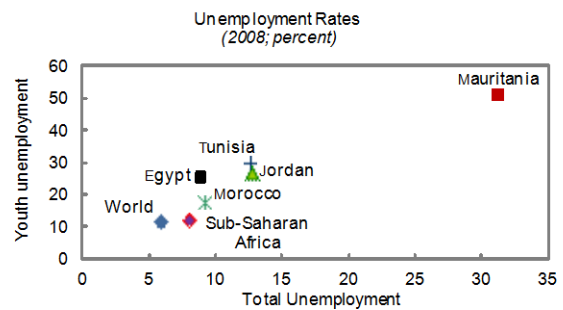
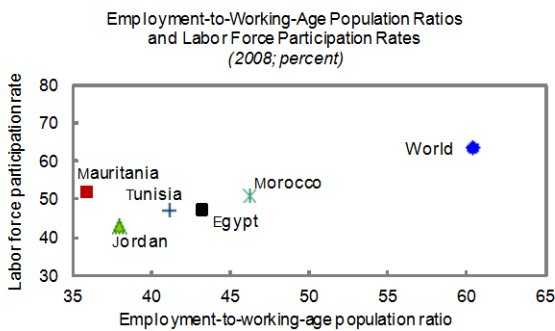
II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM IMPLEMENTATION

4. Macroeconomic developments have been broadly positive, in line or slightly better than program expectations:

- Economic activity rebounded sharply from the global crisis lows (Figure 1 and 2).** Year-on-year growth in the non-oil sector accelerated to 5.7 percent in 2010, driven by a rebound in external demand, development of gold and copper mining projects, and higher construction and services activities. However, oil production continues to disappoint, and unemployment remains among the highest in the region.

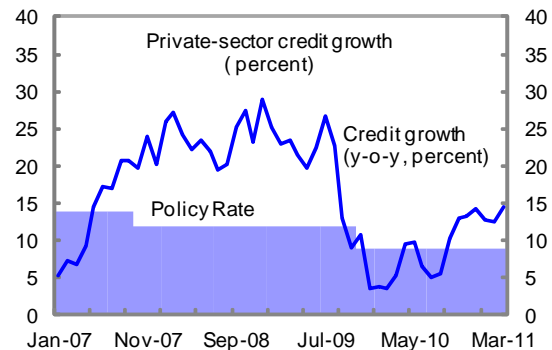
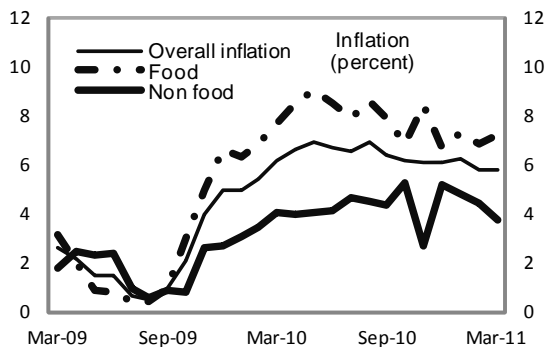


Sources: Mauritanian authorities; and Fund staff estimates.



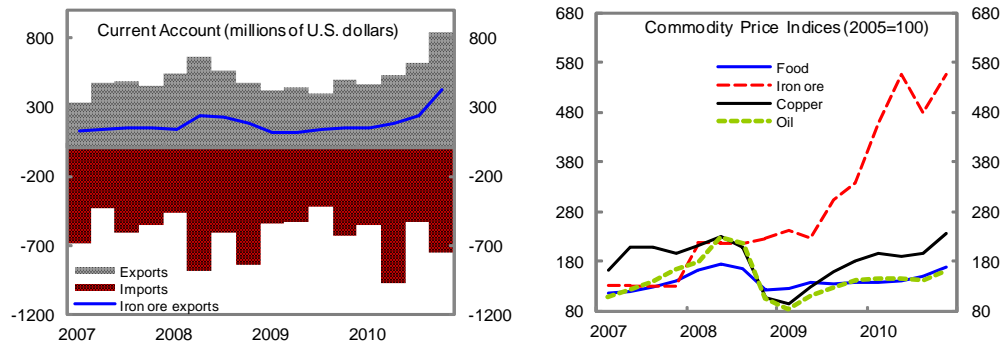
Sources: International Labor Organization, national authorities; IMF, World Economic Outlook; and Fund staff estimates.

- Inflation was contained despite high global food and energy prices.** Overall inflation was limited to 6.1 percent (y-o-y) in 2010, with non food inflation (Figure 2) remaining below 5 percent, despite the pickup in private sector credit that followed the November 2009 cut in the policy rate (Figure 3).



Sources: Mauritanian authorities; and Fund staff estimates.

- **The external current account deficit narrowed significantly** (Figure 4). Mining exports (iron ore, gold, and copper) increased by 71 percent (y-o-y), buoyed by high commodity prices, which helped compensate for swelling food and fuel imports. Financing remained strong, as FDI rebounded to 3.5 percent of GDP and foreign loans stayed close to 6 percent of GDP. As a result, the end-2010 reserves target was exceeded by a large margin and gross reserves stood at US\$288 million (2.1 months of imports).



Sources: Mauritanian authorities; and Fund staff estimates.

- **Fiscal performance was better than programmed** (Figure 5). The 2010 basic non-oil deficit was estimated at 2.4 percent of non-oil GDP, about half the deficit recorded in 2009 and 0.6 percent of non-oil GDP less than programmed. This was largely due to higher tax revenues from the mining sector, greater tax collection efforts, and an under-execution of investment spending that more than offset an unanticipated increase in subsidy payments. Central government gross debt continued to decline, falling to 41 percent of GDP in 2010.

5. **Program implementation has been strong.** All continuous and quantitative performance criteria for end-December 2010 were met (LOI, Table 1). However, the indicative target on poverty-related spending¹ was missed because of implementation delays in capital spending in the first half of the year, which are now being addressed (see below). The structural reform agenda is advancing well, with the exception of the 2010 end-December structural benchmark on tax administration, which has only been met for a subset of taxpayers (LOI, ¶3 and Table 2a).

¹ Poverty-related spending—defined according to the recommendations of the January 2006 FAD TA mission—includes current and domestically-financed investment spending considered to contribute significantly towards reducing poverty.

III. POLICY DISCUSSIONS

A. Macroeconomic Outlook

6. **Staff and the authorities agreed to slightly modify the outlook for 2011 to account for rising mining, food, and energy prices.** Growth is projected to exceed 5 percent in 2011, based on a continued rebound in mining, agriculture, and service industries. Rising fuel and food prices will push 12-month CPI inflation to around 7.5 percent. Ongoing improvements in mining production and surging commodity prices are expected to more than offset higher costs from food and fuel imports and profit repatriation by foreign-owned mining companies, thus narrowing the current account deficit to 7.5 percent of GDP. Stronger mining-related FDI and lending from multilateral sources will further improve the overall balance of payments. As a result, gross foreign exchange reserves are projected at US\$395 million for 2011, with reserve cover improving to 2.7 months of imports.

Mauritania: Main Macroeconomic Indicators, 2008–12

	2008	2009	2010	2011	2012
	Est.	Est.	Proj.	Proj.	Proj.
Real GDP growth	3.5	-1.2	5.2	5.1	5.7
Inflation, end-of-period	3.9	5.0	6.1	7.5	6.9
Current account balance (percent of GDP)	-14.8	-10.7	-8.7	-7.5	-9.2
Gross official reserves 1/	2.1	2.6	2.1	2.7	3.0

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

1/ In months of following year's imports excluding extractive industries.

7. **The near-term outlook is subject to risks arising from adverse external conditions and regional unrest.** Given its very narrow export base, with the mining sector representing nearly 75 percent of exports, Mauritania's economy is highly vulnerable to a fall in commodity prices, a slowdown in external demand, and increases in food and fuel prices. In addition, potential contagion from unrest in the region could significantly impact domestic production and result in a possible fall in financial support from Arab countries.

B. Fiscal Policy

8. **Fiscal consolidation will continue despite increased subsidy payments.** Subsidies and transfers to public enterprises will double to 5.7 percent of non-oil GDP in 2011 to account for: (a) the new temporary emergency program aimed at preserving the purchasing power of the poor (LOI, ¶9); and (b) implicit subsidy schemes (Box 2 and LOI, ¶10). To accommodate these costs while remaining in line with the 2011 budget deficit target (1.6 percent of non-oil GDP), the government agreed to use (LOI, ¶11): (a) higher proceeds from mining activities (about 2 percent of non-oil GDP); (b) a reallocation of under-executed investment spending (0.5 percent of non-oil GDP); and (c) additional land sales (0.6 percent

of GDP). To mobilize additional revenues, the authorities also agreed to raise excises on tobacco and cars (LOI, ¶12). In the event of a revenue shortfall, the authorities are committed to cut nonessential spending to meet the fiscal deficit objective. Financing needs will be largely filled through concessional budget support.

Mauritania: Main Fiscal Indicators, 2010–11

	2010	2010	2011	2011
	IMF Country Report No. 10/346	Est.	IMF Country Report No. 10/346	Proj.
	(Percent of non-oil GDP; unless otherwise indicated)			
Non-oil revenue	23.2	25.1	21.2	24.9
Expenditure and net lending	30.7	29.7	26.7	30.3
of which : Subsidies and transfers	1.6	2.8	1.5	5.7
Non-oil balance excluding grants	-7.5	-4.6	-5.5	-5.4
Basic non-oil balance; program definition	-3.0	-2.4	-1.6	-1.6
Memo Items:				
Nominal non-oil GDP (billions of ouguiya)	962.5	952.9	1,071.5	1,095.8
Nominal non-oil GDP growth (percent)	27.0	25.8	11.3	15.0
Price of iron ore change (US\$/ton, percent)	85.3	83.9	-2.0	24.4

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

9. **The government’s generalized price subsidy policy is not well targeted, and the authorities recognized that financing it through volatile mining revenues is not sustainable.** As a result, the government has agreed to exclude large consumers of diesel products (including mining companies) from the administered pricing mechanism (generating 35 to 40 percent savings in 2011) and to continue gradually increasing diesel prices during the year (LOI, Table 2b and ¶10).² To improve the targeting of existing schemes, it also agreed to evaluate the appropriateness of the recently introduced food subsidy scheme and to finalize a survey to identify the country’s neediest population by end-October (LOI, ¶20). This survey, along with planned changes in the petroleum price structure, would help facilitate the exit from a surge in subsidy payments through the replacement of ill-targeted subsidy schemes by well-targeted and more cost effective social safety nets (e.g., through conditional cash transfer schemes that would directly benefit the neediest population), in line with recommendations of the recently completed UNICEF-led study on social protection (LOI, ¶19).

² The authorities agreed on the need to compensate petroleum companies for losses experienced in 2011 as a result of administered prices. However, they also expect petroleum companies to reimburse the government when a fall in world prices leads to profits. Staff believes this scenario unlikely in the short term and urged the authorities to: (a) assess the extent of arrears to petroleum distributors for years prior to 2011 (estimated so far at 0.5 percent of GDP); and (b) implement an arrears repayment plan (LOI, ¶10).

Box 2. Mauritania's Response to Increases in Food and Energy Prices

Amid heightened social and political tensions in the region, the Mauritanian authorities introduced emergency measures aimed at mitigating the impact of higher fuel and food prices on the poor. Unlike the 2008 emergency plan, this package, which is worth about UM 40 billion (3.4 percent of GDP) and was the largest among the region's oil importers, comprises mostly reversible measures (e.g., it does not include a raise in civil servant wages). Its main elements include:

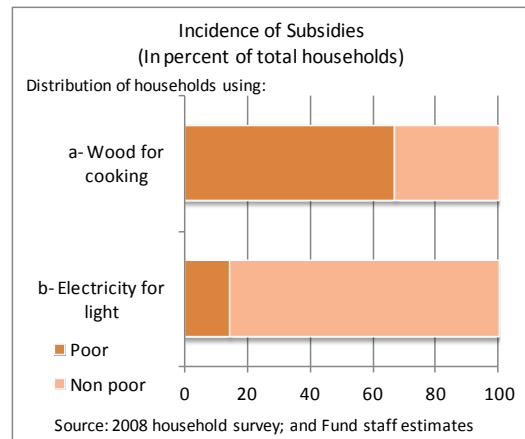
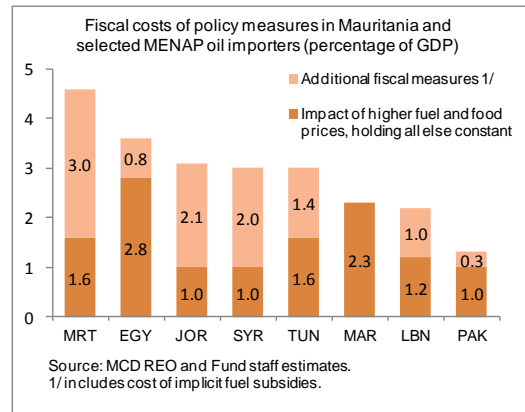
Unlike the 2008 emergency plan, this package, which is worth about UM 40 billion (3.4 percent of GDP) and was the largest among the region's oil importers, comprises mostly reversible measures (e.g., it does not include a raise in civil servant wages). Its main elements include:

- **Food subsidies (0.8 percent of GDP).** Main foodstuffs (rice, wheat, edible oil, and sugar) are sold at dedicated shops at subsidized prices (about 20 to 30 percent below market price). The current design of the scheme, which is an extension of the program introduced during the month of Ramadan, is not well-targeted nor particularly cost effective because of:
 - Inadequate socio-geographical coverage with nearly half of the 600 shops located in Nouakchott, thus covering only a fourth of the poor.
 - Absence of credit mechanisms facilitating access to subsidized products by the poor.
 - Constrained access. Quantities are sold daily per family and are restricted, thus often not making it worthwhile for the very poor (e.g., transportation costs in rural area higher than savings resulting from the subsidy).
 - Risk of embezzlement and moral hazard since the governance of the process through which food is distributed to the neediest is weak.
- **Gas and electricity subsidies (1.6 percent of GDP).** Electricity tariffs have not been revised upwards in the last four years. Despite a 10 percent increase in mid-May (first since 2007), gas prices remain low. Results from the most recent household survey suggest that these subsidies are not well-targeted.

The Emergency Response Package 2008 vs. 2011

	2008	2011
<i>Preserving food access for the poor</i>		
Free food distribution	Yes	No
Bread Subsidies	Yes	No
Subsidized foodstuffs (rice, cooking oil and sugar) through dedicated food shops	No	Yes
Replenishment of food stocks in rural areas	Yes	Yes
<i>Maintaining purchasing power</i>		
Wage increase for civil servants	Yes (+10%)	No
Energy subsidies	Yes	Yes
Tariff reductions	Yes	No
<i>Increasing agricultural output and productivity</i>	Yes	Yes
<i>Developing income-generating activities</i>	Yes	Yes
Initial estimated cost (UM billion)	31	40
in percentage of non-oil GDP	3.9	3.5
Actual cost (UM billion)	20.3	
in percentage of non-oil GDP	2.5	

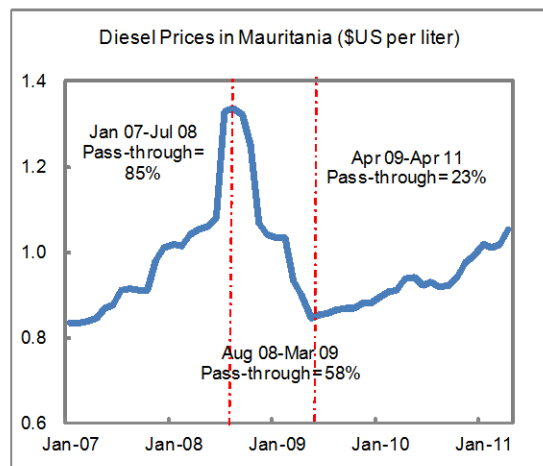
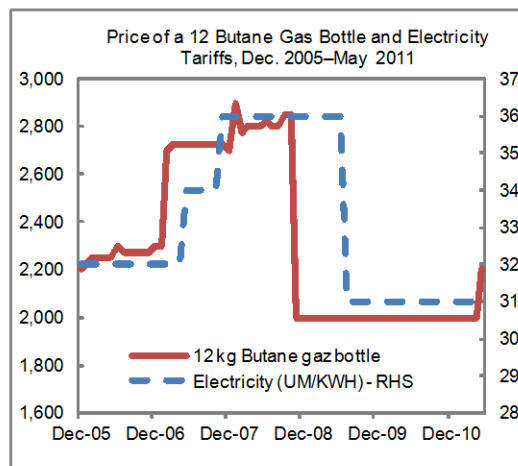
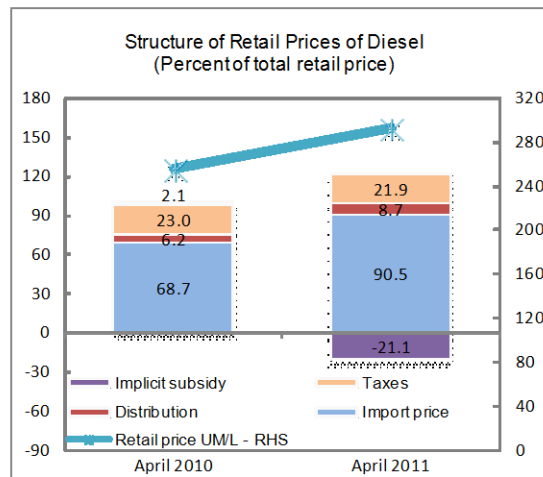
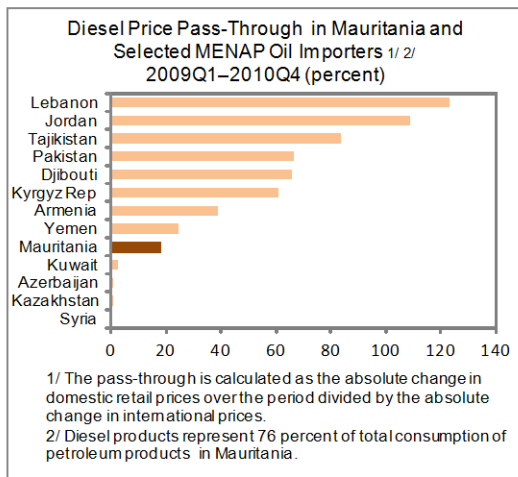
Source: Mauritanian authorities; and Fund staff estimates.



Box 2. Mauritania’s Response to Increases in Food and Energy Prices (continued)

- **Other (1 percent of GDP).** These are mostly short-term measures aimed at developing income-generating activities for the poor and increasing agricultural output and productivity through the distribution of fertilizers and the expansion of agricultural areas.

In addition to existing payments for explicit subsidies, the government also decided to compensate petroleum distribution companies. Unlike gas and electricity, there is no public service obligation for petroleum companies since pricing must in principle be adjusted monthly according to the existing formula. In practice, petroleum pricing is ad-hoc and discretionary: (a) the government limits price increases when international prices are high (e.g., during 2008 peak), thus causing large losses for distribution companies; and (b) the government limits domestic price declines when international prices collapse, thus allowing petroleum companies to make up for past losses (e.g., 2009). For 2011, the government is reluctant to fully adjust domestic fuel retail prices while international prices are likely to remain high for a long time, thus leading to significant losses for petroleum companies (about 1.2 percent of GDP for the year).



Sources: Mauritanian authorities; and Fund staff estimates.

10. There was broad agreement on the need to contain current spending to allow for greater priority pro-poor spending.

- **Wage bill.** While wages have been kept to budgeted levels, greater progress is needed in civil service reform, particularly in removing ghost workers from the public payroll (LOI, ¶26).
- **Public enterprises.** The restructuring of public enterprises is essential for reducing budgetary transfers and improving public service quality. To this end, the comprehensive study on the financial situation of the large state-owned enterprises (end-December structural benchmark) will help prepare a long-term viability strategy (LOI, ¶27). Staff urged the government to avoid jeopardizing the electricity company (SOMELEC)'s ongoing restructuring plan³ by paying all bills due to the company regularly and on time (LOI, ¶28).
- **Public financial management** (LOI, ¶24 and 25). The authorities agreed to address implementation capacity weaknesses, which will ultimately help speed up execution of the investment budget and increase pro-poor spending (Box 3). Limits to the use of treasury advances and the move towards a Treasury Single Account will further improve budget control, execution, and transparency.

Box 3. Absorptive Capacity

The authorities have so far tackled the impediments to investment and improved absorptive capacity by: creating an agency for project monitoring, issuing a new procurement code (and its implementing decrees), and finalizing a new investment code (LOI, ¶25 and ¶29). More needs to be done to address the weak implementation of Mauritania's investment budget, including:

- Improving the coordination between the ministry of finance and the ministry of economic affairs and development in the preparation and execution of the budget.
- Enhancing internal control and ex-post control capacities.
- Establishing an integrated public financial management system.
- Developing internal capacities to conduct project selection, budgeting, and appraisal.
- Streamlining the disbursement process of donors' aid.
- Establishing performance contracts between the central government and public enterprises.

³ In September 2010, a joint World Bank-French Development Agency study estimated total recapitalization costs for SOMELEC at about UM33 billion, of which UM20 billion was already injected in 2010. An additional increase is scheduled by end-2011 with no impact on the budget. In parallel, the government has started paying its electricity bills on time and will design by end-year a plan (LOI, ¶28) to settle its arrears with SOMELEC (amount is reportedly about 1 percent of GDP but has yet to be finalized).

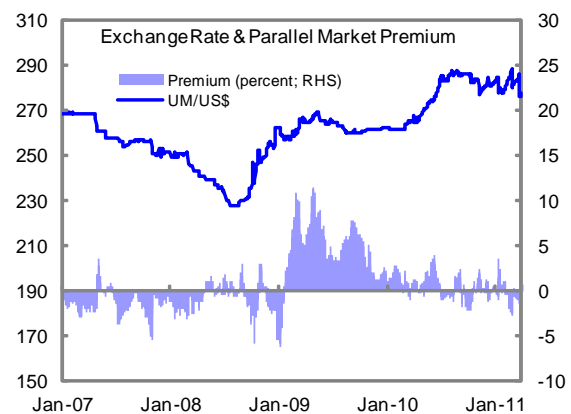
11. **Staff and the authorities agreed on the importance of deeper revenue administration reforms.** The issuance of single taxpayer identification codes for known taxpayers is complete. Its generalization to all taxpayers is now expected by end-year (structural benchmark, LOI, ¶22 and Table 2a) following the completion of the taxpayer census. To further improve tax compliance and revenue collection, the authorities will review VAT procedures (LOI, ¶22) and are on track for fully implementing and using ASYCUDA ++, which was already adopted by all customs offices. To make its use fully efficient, the customs modernization strategy must rely more closely on inspection and crosschecking import data against information provided by the SGS inspection firm (LOI, ¶23).

C. Monetary, Exchange Rate, and Financial Sector Policies

12. **Monetary policy remains geared towards containing inflation in the context of a flexible exchange rate:**

- **The current monetary policy stance is appropriate for maintaining inflation in single digits.** The CBM agreed on the need to remain vigilant and raise the policy rate or the required reserve ratio if signs of second round effects from higher food and energy prices start materializing (LOI, ¶13). There was common agreement for continued coordination between fiscal and monetary policy and stronger liquidity management.

- **The CBM remained committed to greater exchange rate flexibility.** It argued that the Ouguiya's recent appreciation was in line with fundamentals and not a result of intervention. Staff agreed this was supported by an insignificant premium in the parallel market (with an average premium since the beginning of the year of about -0.3 percent). The authorities agreed to build on recent improvements in the functioning of the foreign exchange rate market by: (a) limiting banks' bids for foreign exchange (fx) to a pre-determined multiple of their free reserves to better reflect banks' fx real demand (LOI, ¶14); and (b) continuing to limit interventions to smoothing excessive exchange rate fluctuations.



Sources: Mauritanian authorities; and Fund staff estimates.

- **There was a common view that reserve targets should be raised to seize the opportunity presented by higher metals commodity prices.** NIR targets for end-June

and end-December were increased, which will help improve Mauritania's resilience to external shocks (LOI, ¶8).

13. **The authorities are pursuing necessary central bank and financial sector reforms.** In particular, they will continue to strengthen banking supervision by strictly applying existing prudential regulation and gradually modernizing their capital framework to bring it in line with international standards. Following recommendations of the 2010 safeguards assessment, the CBM will continue improving its internal control mechanisms by establishing an internal audit committee to support the general council in its oversight duties. Despite some limited progress, the CBM's accounting records continue to be of low quality, with weaknesses expected to be addressed by progressively moving towards IFRS standards.⁴ The CBM's accounts and program targets will continue to be regularly audited by an international firm, another key safeguards assessment recommendation (LOI, ¶15). Audits of commercial banks' financial statements and increases of banks' minimum capital are also proceeding according to plan (LOI, Table 2b and ¶15).

D. Debt Management

14. **The authorities concurred with the conclusions of the Debt Sustainability Analysis (DSA) Update carried out jointly with World Bank Staff.** The assessment is broadly unchanged from the 2010 DSA. Mauritania remains at a moderate risk of debt distress, even after allowing for nonconcessional financing of an electricity generation plant (LOI, ¶17) that is critical for the country's development (only half of the financing could be met on concessional terms).⁵ However, resort to concessional lending will continue to guide the authorities' near-term external debt strategy, with nonconcessional lending remaining the exception. Over the medium term, debt dynamics remain favorable but are highly vulnerable to exports shocks. Hence, ensuring medium-term fiscal sustainability must rely on: (a) a cautious borrowing strategy; (b) improved debt management; and (c) pursuit of prudent macroeconomic policies while diversifying the economy away from extractive industries.

15. **The authorities have reached agreements on payment arrears with external creditors, and are making best efforts to conclude bilateral agreements with Kuwait and all other official creditors** (LOI, ¶17). Only a third of the US\$3.2 billion donor

⁴ An important milestone in this area is the quantification of differences planned for end-2011 between local accounting standards and IFRS.

⁵ The project is essential for increasing electricity supply and has been positively evaluated by a study conducted by the Arab Fund for Economic and Social Development (one of the project's lenders).

pledges announced in Brussels for 2011–15 has been confirmed so far, and greater donor mobilization will be needed to meet the country's large investment needs.

E. Structural Reforms

16. **The authorities agreed that accelerating structural reforms is crucial for broad-based inclusive growth, diversifying the economy's production process and promoting employment.** Measures include:

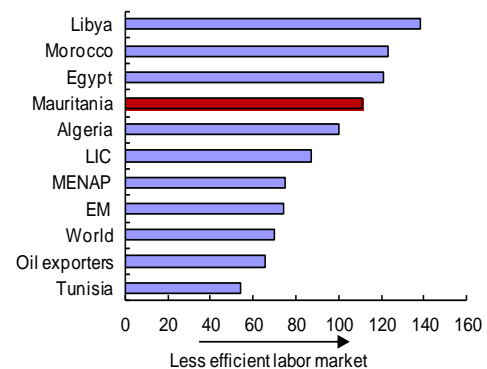
- **Improving the quality of public services** through structural fiscal reforms (see above).
- **Boosting private sector growth** through the implementation of a new investment code, a simplification of procedures to facilitate business operations (i.e., one-stop shop for opening and closing enterprises), and strengthening small and medium-sized enterprises' capacity to produce credible and transparent financial statements (LOI, ¶29).
- **Deeper labor market reforms** (Box 4). The authorities agreed that quick fix solutions to the unemployment problem (e.g., creation of unnecessary jobs in the public sector) are not in line with their long-term objectives for sustainable employment. The authorities highlighted measures aimed at modernizing education through professional training programs for the young and unemployed and a re-orientation of curricula towards private sector needs. They also plan to increase programs for the unemployed in the rural areas and the fisheries sector (LOI, ¶30).

17. **The authorities will intensify their efforts to improve transparency and economic statistics.** The authorities have adopted a national anti-corruption strategy and expect to become a fully compliant member of the Extractive Industries Transparency Initiative (EITI) during 2011 (LOI, ¶31). They will also update poverty surveys, progress towards international statistical standards (including adopting recent IMF TA recommendations on the balance of payments), and continue data reconciliation across ministerial departments (LOI, ¶32).

Box 4. Labor Market in Mauritania

Weak labor market performance in Mauritania is characterized by:

- **Low effective labor supply:** Less than a third of teenagers are attending secondary school. And even when students finish high school and university, skills and knowledge do not match those sought by employers.
- **Weak incentives for human capital accumulation:** According to the World Bank, returns to an additional year of education are estimated at around 7 percent in Mauritania, more than 30 percent below returns typically observed in developed countries.
- **Unfavorable business environment:** Mauritania ranks 165 out of 183 in the World Bank's Ease of Doing Business Indicator, with the tax system, costs of cross-border trading, and access to credit representing key bottlenecks.
- **Inefficient labor market institutions:** Wages are generally unresponsive to individual performance, wider productivity developments, and economic circumstances; labor-employer relations are seen as uncooperative; and general employment regulation is rigid.



Sources: Global Competitiveness Report (2010; pillar 7 without female participation and brain drain) and World Development Indicators (2009); and IMF staff calculations.

IV. PROGRAM DESIGN

18. **Program design will continue to focus on growth and poverty reduction, with the monitoring mechanism remaining broadly unchanged.** The authorities are requesting modifications of the performance criteria targets for end-June 2011 (LOI, ¶34) to reflect the improving macroeconomic outlook and the new emergency response program. Quantitative targets and a new ceiling on nonconcessional debt through end-December 2011 are presented in Table 1 of the LOI. New end-2011 structural benchmarks were introduced on subsidy reform (petroleum price structure and poverty study), which is essential for ensuring fiscal sustainability and generating greater fiscal space (LOI, Table 2b). Other benchmarks remain focused on revenue administration, public financial management, debt management, and CBM transparency and accountability.

V. STAFF APPRAISAL

19. **Good progress was made in restoring macroeconomic stability, despite underlying vulnerabilities.** Economic activity rebounded sharply, inflation was contained, and the fiscal and external positions have improved on the back of rising external demand

and commodity prices. For 2011, high commodity prices and improved mineral production are expected to yield favorable near-term macroeconomic developments. However, unemployment is high, and the economy remains highly vulnerable to a fall in commodity prices, a slowdown in external demand, and sharp increases in food and energy prices.

20. **To limit vulnerabilities and maintain macroeconomic stability, fiscal policy should remain prudent.** Additional expenditures linked to the government's emergency response program are well-intended but not well-targeted, nor sustainable over the medium term. Fiscal discipline should be preserved through greater revenue mobilization and restraint on recurrent non-priority expenditures. Going forward, ill-targeted subsidy schemes should be replaced by well-targeted and more cost-effective social safety nets.

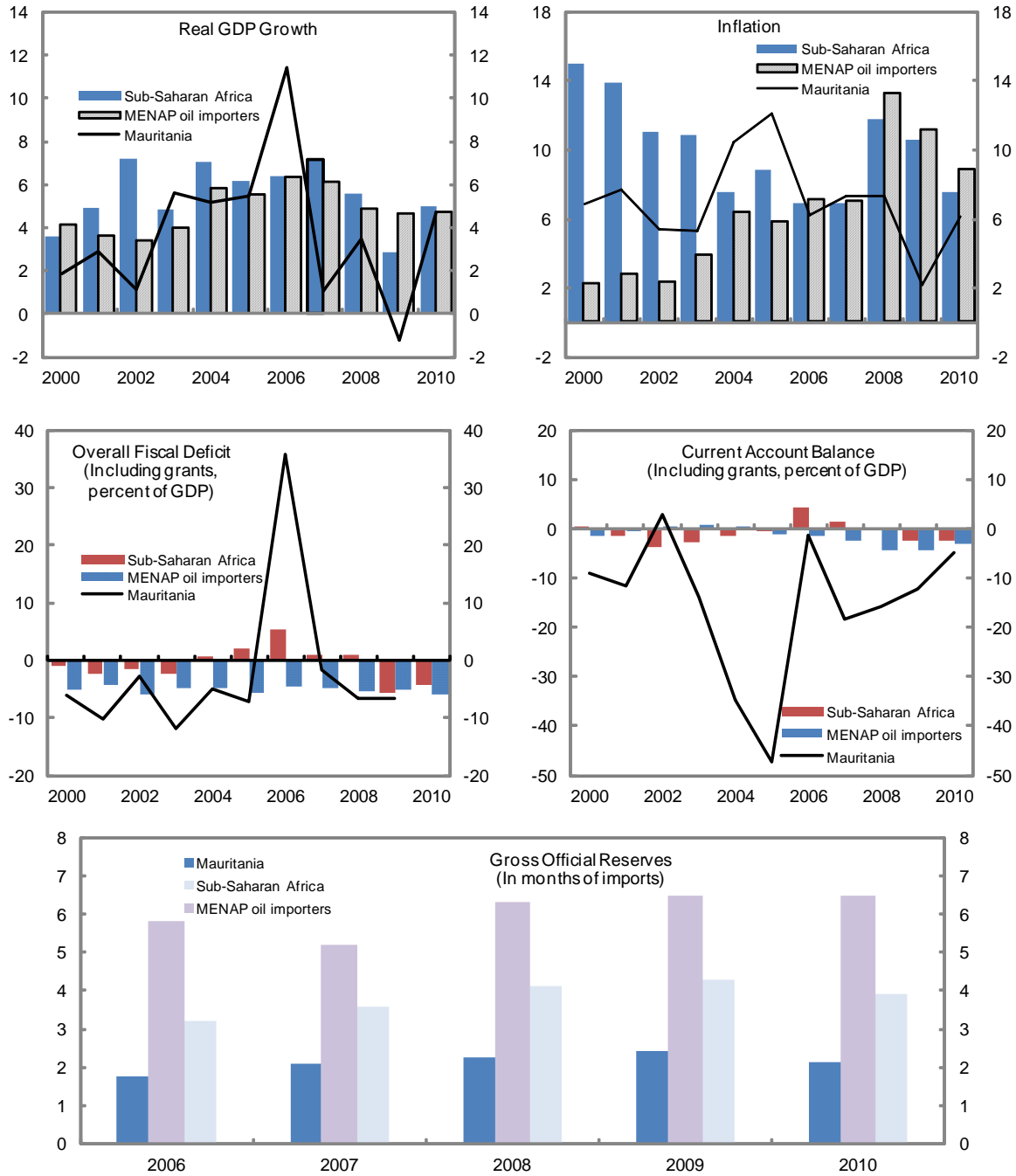
21. **Monetary policy has been appropriate.** The CBM should remain vigilant and respond appropriately if inflationary pressures start to materialize. Further measures are needed to enhance CBM's liquidity management, reinforce banking supervision and regulation, and improve transparency. To this end, staff urges the authorities to implement the recommendations of the 2010 safeguards assessment in a timely manner.

22. **Exchange rate flexibility is essential to absorb external shocks and strengthen the economic recovery.** Further improvements in the functioning of the foreign exchange rate market are welcome.

23. **Moving ahead with the structural reform agenda is essential to promote sustainable employment and broad-based inclusive growth.** Staff welcomes the finalization of the new investment code. Further enhancing labor market reforms and improving the business climate should remain high on the authorities' agenda.

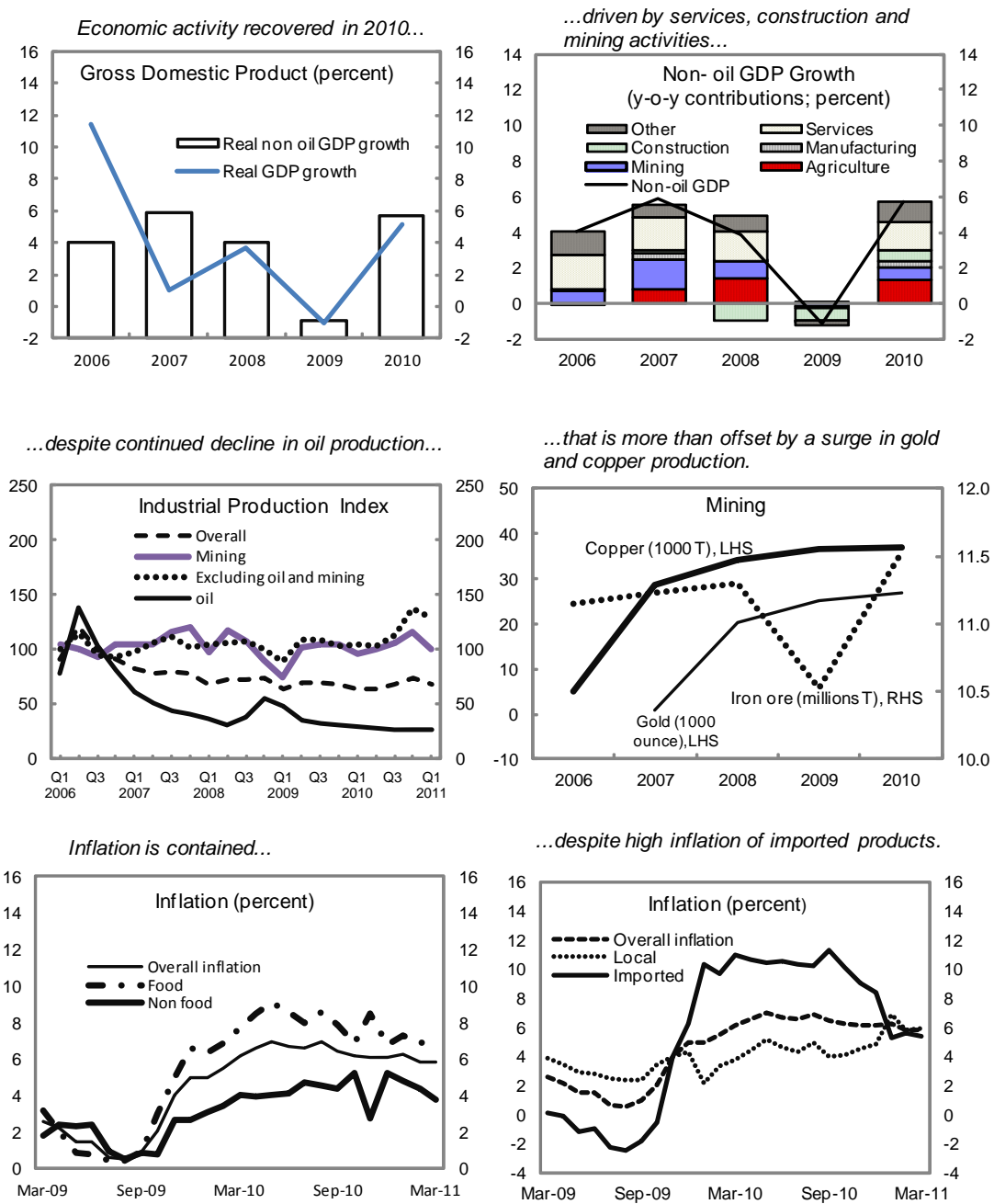
24. **Staff recommends completing the second review under the ECF,** in light of the good performance through end-December 2010 and the authorities' strong commitment to the program. Staff supports requests for modification of end-June 2011 PCs, and establishment of new PCs for end-December 2011.

Figure 1. Mauritania: Recent Economic Developments, 2000–10
(Percent, unless otherwise indicated)



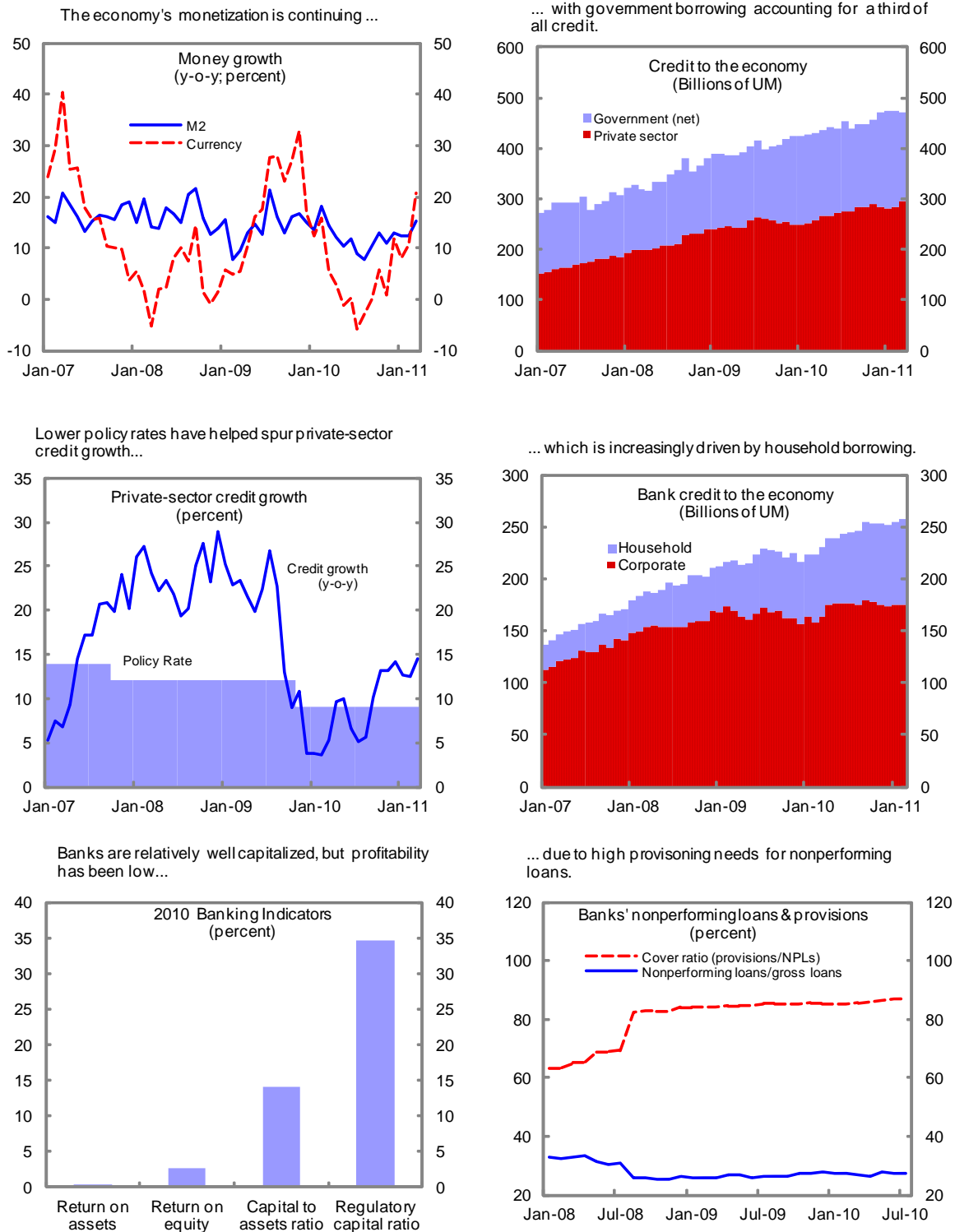
Sources: Mauritanian authorities; AFR and MENAP REO data.

Figure 2. Mauritania: Real Sector Developments 2006–10



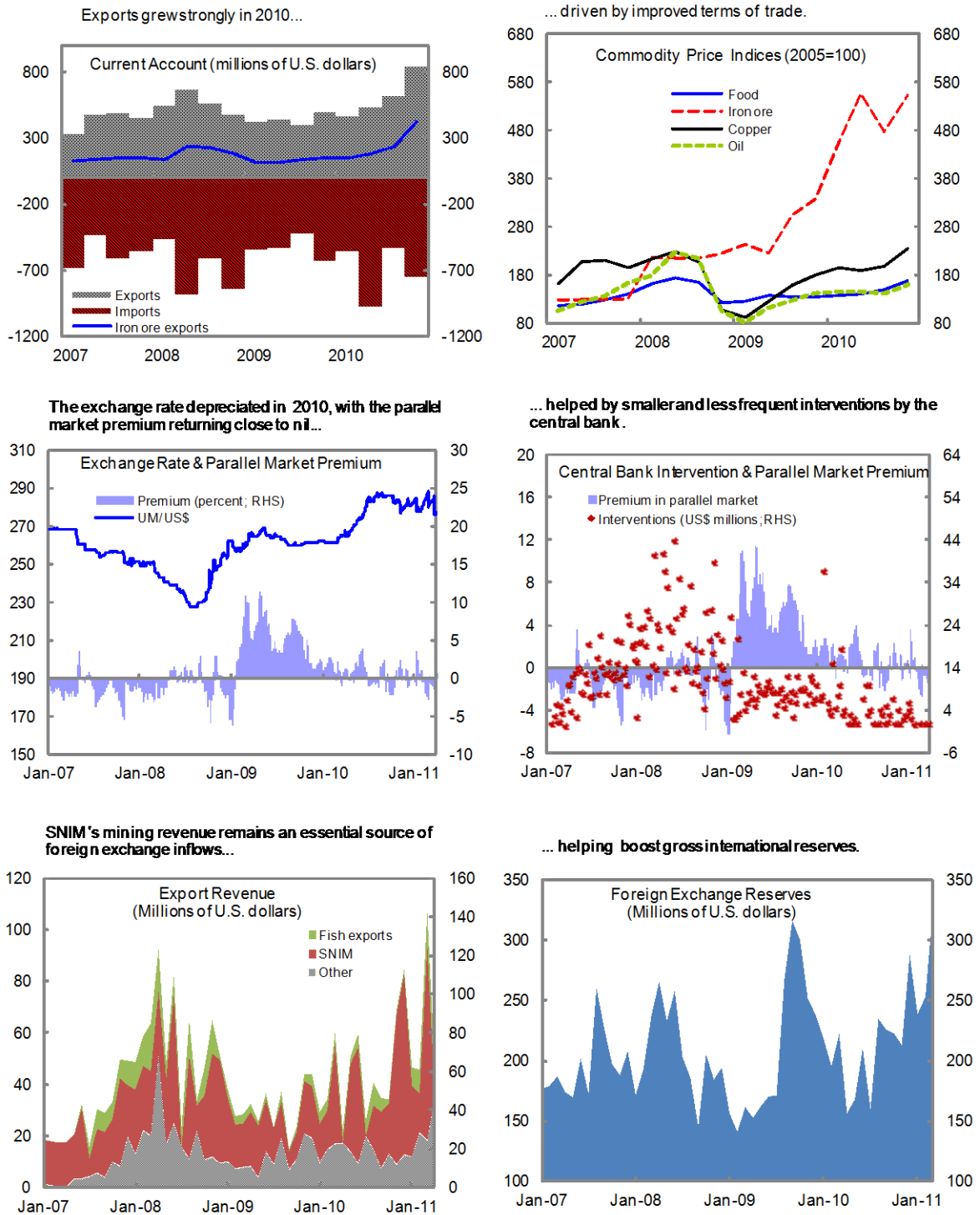
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 3. Mauritania: Selected Monetary and Financial Sector Indicators, 2007–10



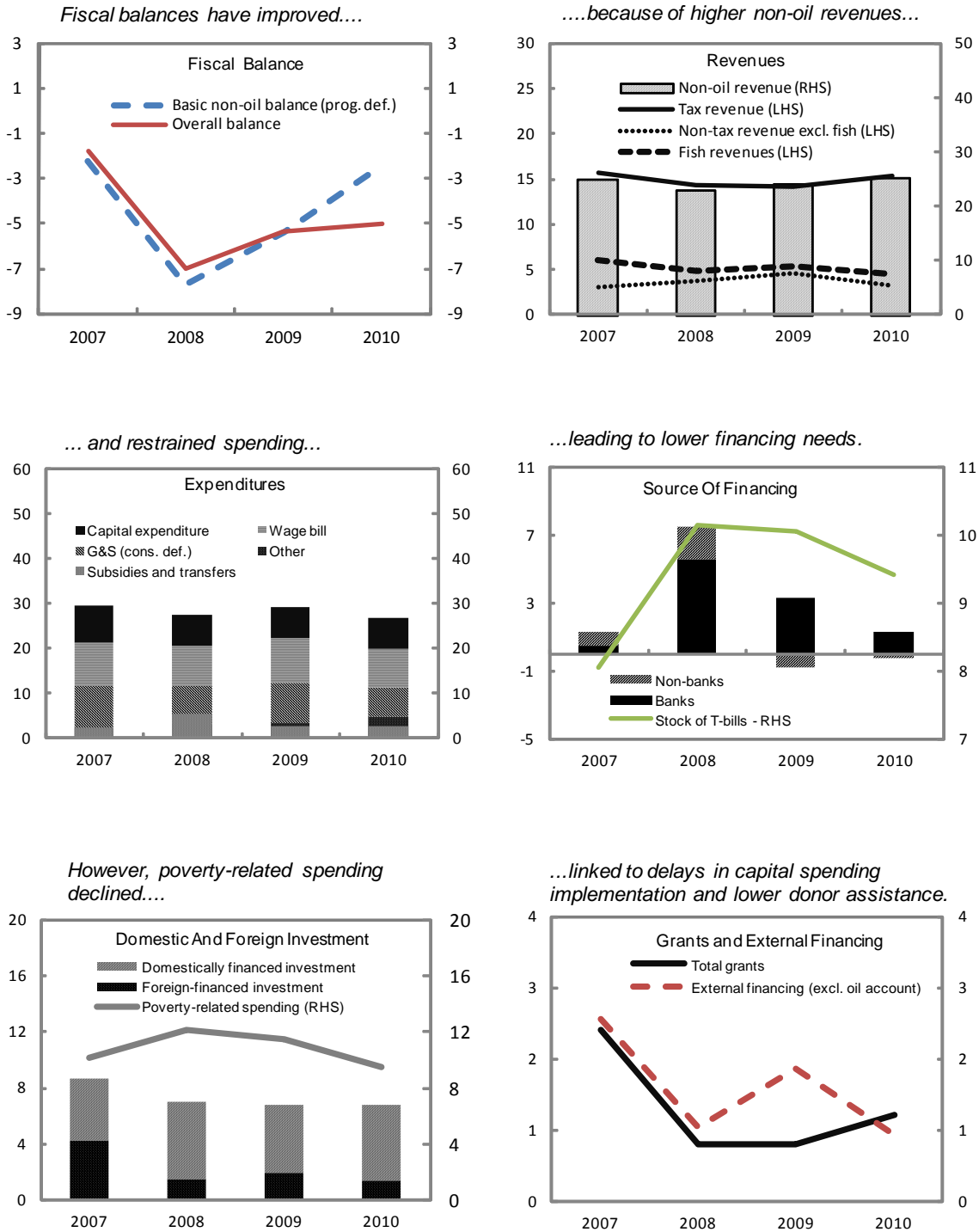
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 4. Mauritania: External Sector, 2007–10



Sources: Mauritanian authorities; and Fund staff estimates.

Figure 5. Mauritania: Fiscal Developments, 2007–10
(Percent of non-oil GDP, unless otherwise indicated)



Sources: Mauritanian authorities; and Fund staff estimates.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2008–12

(Quota: SDR 64.4 million)

(Population: 3.22 million; 2009)

(Per capita GDP: \$1,151; 2010)

(Poverty rate: 42 percent; 2008)

(Main exports: Iron ore, gold, fish; 2010)

	2008	2009	2010	2010	2011	2011	2012
	Est.	Est.	IMF Country Report No. 10/346	Est.	IMF Country Report No. 10/346	Proj.	Proj.
(Percent; unless otherwise indicated)							
National income and prices							
GDP at constant prices	3.5	-1.2	5.0	5.2	5.2	5.1	5.7
Non-oil GDP at constant prices	3.9	-1.1	5.6	5.7	5.5	5.3	5.8
GDP excluding extractive industries at constant prices	3.4	-1.1	5.0	5.7	5.2	5.2	5.3
Oil production (1000 barrels per day)	12.1	10.7	8.5	8.3	7.0	7.5	7.5
GDP deflator	12.4	-5.9	19.3	19.4	5.0	9.4	5.9
Non-oil GDP deflator	13.0	-3.9	20.4	19.0	5.5	9.2	6.2
GDP excluding extractive industries deflator	7.1	1.0	8.1	5.7	5.3	5.9	5.5
Consumer price index (period average)	7.3	2.2	6.1	6.3	5.2	7.3	6.7
Consumer price index (end of period)	3.9	5.0	5.3	6.1	5.1	7.5	6.9
External sector							
Value growth of exports of goods, f.o.b.	27.5	-23.7	40.9	52.0	12.8	37.5	7.4
Value growth of imports of goods, f.o.b.	21.8	-27.2	27.3	39.1	14.4	27.5	10.7
Current account balance (percent of GDP)	-14.8	-10.7	-8.8	-8.7	-8.0	-7.5	-9.2
Gross official reserves 1/ In millions of US dollars, end of period	194.9	238.0	277.2	287.8	317.5	395.1	441.3
In months of following year's imports excluding extractive industries	2.1	2.6	2.5	2.1	2.7	2.7	3.0
PPG external debt (percent of GDP)	80.8	99.5	55.2	74.8	49.0	54.8	55.8
Money							
Money and quasi-money (y-o-y growth)	13.7	15.2	16.8	12.9	12.6	13.3	13.4
Credit to the private sector (y-o-y growth)	30.0	3.7	11.7	14.2	9.9	12.8	11.7
Investment and savings							
Gross investment (percent of GDP)	27.3	24.6	32.2	24.5	33.5	25.7	27.3
Gross savings (percent of GDP)	12.5	13.9	23.4	15.7	25.5	18.2	18.1
(Percent of non-oil GDP; unless otherwise indicated)							
Consolidated government operations							
Revenue and grants	25.9	26.7	26.7	27.7	24.0	27.4	25.8
Non oil Revenue	22.9	24.1	23.2	25.1	21.2	24.9	23.7
Oil revenue	2.2	1.8	1.2	1.4	0.9	1.2	1.1
Expenditure and net lending	32.9	32.1	30.7	29.7	26.7	30.3	29.9
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.0	-2.4	-1.6	-1.6	-0.8
Overall balance including grants	-7.0	-5.4	-4.0	-2.0	-2.7	-2.8	-4.1
Central Government Gross debt (percent of GDP)	43.0	50.6	46.2	41.3	43.6	42.2	45.3
Memorandum items:							
Nominal GDP (in billions of UM)	854	794	995	997	1,100	1,147	1,284
Nominal non-oil GDP (in billions of UM)	797	758	962	953	1,072	1,096	1,232
Nominal GDP (in millions of US dollars)	3,536	3,031	3,609	3,629	3,989	3,999	4,322
Price of iron ore (US\$/Ton)	62.8	79.9	148.0	146.9	145.0	182.8	172.5

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

1/ Excluding the oil account.

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

Table 2. Mauritania: Balance of Payments, 2008–12
(In millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010		2011		2012
			IMF Country Report No. 10/346	Est.	IMF Country Report No. 10/346	Proj.	
Trade balance	-123.3	-26.7	81.3	138.2	62.1	383.0	330.1
Exports	1,787.6	1,364.2	1,922.8	2,073.5	2,168.4	2,851.2	3,063.0
Of which: Iron ore	823.4	521.6	920.0	997.0	1,113.0	1,486.3	1,658.4
Imports, fob	-1,910.9	-1,390.9	-1,841.5	-1,935.3	-2,106.3	-2,468.2	-2,732.9
of which Imports of extractive industries	-717.9	-477.3	-591.7	-852.6	-808.3	-939.4	-995.1
Services and income (net)	-596.2	-427.7	-576.1	-617.2	-573.1	-861.7	-893.4
Services (net)	-626.7	-479.8	-611.9	-548.7	-617.3	-634.3	-552.6
Income (net)	30.5	52.1	35.8	-68.5	44.3	-227.4	-340.8
Credit	130.5	118.0	105.8	113.7	105.8	125.6	126.5
Of which: EU fishing compensation	117.0	107.5	92.5	97.8	92.9	95.8	95.3
Debit	-100.0	-65.9	-69.9	-182.2	-61.5	-353.0	-467.4
Of which: compensation of employees and investment income	-15.7	-23.4	-139.3	-286.9	-395.7	-347.0	-334.6
Current transfers (net)	196.6	130.8	176.3	162.1	191.8	179.0	164.5
Private unrequited transfers (net)	71.7	66.4	68.4	59.3	76.8	77.1	80.2
Official transfers	124.9	64.4	107.9	102.8	115.0	101.9	84.3
Current account balance	-522.9	-323.6	-318.4	-316.9	-319.2	-299.7	-398.8
Capital and financial account	408.6	212.1	1,389.3	552.9	455.7	1,246.6	396.3
Capital account	30.9	0.0	1,073.0	209.0	143.3	869.0	0.0
Financial account	377.7	212.1	316.3	343.9	312.4	377.6	396.3
Direct investment (net)	338.4	-3.1	56.6	128.3	74.2	195.3	152.7
Official medium- and long-term loans	200.5	172.6	353.6	176.5	429.3	536.9	442.5
Disbursements	280.7	240.7	409.5	232.2	503.7	614.2	523.5
Amortization	-80.2	-68.0	-55.9	-55.6	-74.4	-77.3	-81.0
Other financial flows	-161.2	42.6	-93.9	39.0	-191.0	-354.6	-198.9
Errors and omissions	68.9	-1.3	0.0	0.0	0.0	0.0	0.0
Overall balance	-45.4	-112.7	1,070.8	235.9	136.6	947.0	-2.5
Financing	45.4	112.7	-1,070.9	-235.9	-136.5	-946.9	2.5
Net foreign assets	-9.1	80.2	-27.4	-46.0	-23.4	-91.4	-25.3
Central bank (net)	10.9	32.8	-17.4	-40.8	-13.4	-81.4	-15.3
Commercial banks (net)	-20.0	47.4	-10.0	-5.2	-10.0	-10.0	-10.0
Oil account flow	13.5	12.8	9.9	-1.8	0.0	-9.8	0.0
Exceptional financing 2/	41.0	19.7	-1,053.4	-188.2	-113.2	-845.8	27.8
Memorandum items:							
Nominal GDP (in millions US dollars)	3,536.3	3,031.2	3,608.9	3,628.9	3,989.3	3,998.7	4,322.2
Trade Balance (in percent of GDP)	-3.5	-0.9	2.3	3.8	1.6	9.6	7.6
Current account balance (in percent of GDP)	-15.8	-10.7	-8.8	-8.7	-8.0	-7.5	-9.2
Gross official reserves							
In millions of US dollars	194.9	238.0	277.2	287.8	317.5	395.1	441.3
In months of imports excluding extractive industries	1.9	2.4	2.5	2.1	2.7	2.7	3.0
Oil account balance	46.4	33.6	23.4	35.4	23.4	45.1	45.1

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

1/ Excluding HIPC grants on debt service that have fallen subject to MDRI relief.

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

Table 3. Mauritania: External Financing Requirements, 2009–13 1/
(In millions of US dollars)

	2008	2009	2010	2011	2012	2013
Total Requirements	585	372	353	364	467	497
Current account deficit	523	324	317	300	399	433
Scheduled public debt amortization	62	49	36	64	68	64
Total Sources	585	372	353	364	467	497
Capital inflows	513	362	344	398	451	518
FDI, net	338	-3	128	195	153	132
Disbursements from official creditors (WB, AfDB, FADES)	261	193	131	226	254	246
Other flows	-86	172	85	-23	45	140
Of which: SNIM	20	27	97	363	270	250
Financing Items	44	41	60	83	62	43
IMF	3	0	35	35	34	17
France	0	0	4	4	0	0
Arab Monetary Fund	0	22	0	22	0	0
Exceptional financing	41	20	21	23	28	25
Change in oil account (- increase)	12	13	-2	-10	0	-12
Change in reserves (- increase)	14	-43	-49	-107	-46	-51
Residual financing gap	1	0	0	0	0	0
Memorandum item:						
Overall balance	-45	-113	27	78	-3	42

Source: Mauritanian authorities, and Fund staff estimates and projections.

1/ External arrears (US\$ 1.2 billion at end-December 2008) are not included.

Table 4a. Mauritania: Central Government Operations, 2008–13
(In billions of Oguiya, unless otherwise indicated)

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	IMF Country Report No. 10/346	Prov.	IMF Country Report No. 10/346	Rev. Proj.	Proj.	Proj.
Non-oil revenue and grants	189.0	188.5	245.7	250.3	246.9	287.9	304.5	323.9
Non-oil revenue	182.5	182.4	223.3	238.7	227.3	273.0	292.0	311.0
Tax revenue	114.7	106.6	128.5	145.6	146.1	162.9	195.9	212.0
Nontax revenue	67.8	75.8	84.8	83.1	81.1	110.1	96.1	99.0
<i>Of which: Fish revenues</i>	38.7	41.0	38.8	42.3	41.3	43.0	44.2	45.2
Exceptional revenue 1/	-	-	10.0	10.0	0.0	0.0	0.0	0.0
Total grants	6.5	6.1	22.4	11.6	19.6	14.9	12.6	12.9
<i>Of which: Projects</i>	4.0	3.7	9.7	0.6	7.8	7.8	7.6	7.5
Expenditure and net lending	262.0	242.9	295.7	282.9	286.2	331.8	368.4	380.2
Current expenditure	206.4	186.7	189.2	204.5	197.3	242.8	251.7	253.8
Compensation of employees	71.3	77.0	84.5	83.6	89.5	89.5	94.9	100.0
Goods and services	54.0	51.6	49.4	47.2	51.8	51.8	55.3	59.6
Subsidies and transfers 2/	42.8	20.3	15.3	27.0	16.4	62.1	57.2	50.4
Interest	16.5	16.2	16.4	19.4	20.1	20.1	24.6	23.2
External	5.8	5.1	4.9	7.5	8.4	8.4	12.8	10.9
Domestic	10.7	11.1	11.5	11.9	11.7	11.8	11.8	12.3
Special accounts and others 3/	6.8	4.9	10.0	12.6	10.0	10.0	10.0	10.0
Capital expenditure	55.6	51.8	93.3	65.1	88.4	88.4	116.4	126.3
Foreign-financed investment	12.0	14.9	39.0	13.7	33.4	33.4	54.4	55.7
Domestically financed investment	43.6	36.9	54.3	51.5	55.0	55.0	62.0	70.6
Restructuring and net lending	0.0	4.4	13.3	13.4	0.5	0.5	0.3	0.1
Common reserves	15.1	16.6	13.6	13.2	9.4	9.4	9.8	10.7
Basic non-oil balance; program definition 4/	-61.7	-40.5	-28.5	-23.0	-17.1	-17.0	-9.2	-2.5
Non-oil balance excluding grants	-79.5	-60.5	-72.4	-44.2	-58.9	-58.8	-76.4	-69.2
Non-oil balance including grants	-73.0	-54.4	-50.0	-32.7	-39.3	-43.9	-63.8	-56.3
Net revenue from oil	17.4	13.7	11.4	13.5	10.1	12.8	13.2	13.1
Overall balance including grants	-55.6	-40.7	-38.6	-19.2	-29.2	-31.1	-50.6	-43.2
Financing	55.8	42.5	38.6	20.4	29.2	31.1	50.6	43.1
Domestic financing	44.3	25.0	3.8	12.0	7.0	-1.9	3.6	1.6
Banking system	19.2	37.7	3.1	5.6	8.8	-9.6	0.2	-1.4
CBM	20.0	20.4	0.0	-5.7	3.9	0.0	-0.3	-2.0
Commercial banks	12.5	3.0	3.1	15.8	4.9	-9.6	0.5	0.6
Nonbanks	14.8	-5.9	3.8	-2.5	1.3	10.8	6.2	6.5
Amortization 5/	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-3.5
Domestic arrears	-1.8	0.3	-0.3	7.2	-0.3	-0.3	0.0	0.0
External financing	11.6	17.5	34.8	8.4	22.2	33.0	47.0	41.6
Oil account (net)	3.3	3.4	1.2	-0.5	0.0	-2.8	0.0	-3.8
Net revenue from oil (net)	-17.4	-13.7	-11.4	-13.5	-11.6	-12.8	-13.2	-13.1
Oil account contribution to the budget	20.7	17.1	12.6	13.0	11.6	10.0	13.2	9.4
Other (net)	8.3	14.2	33.6	8.9	22.2	35.8	47.0	45.3
Net borrowing (net)	1.9	9.0	28.5	3.2	13.4	29.2	38.8	37.5
Exceptional financing	6.4	5.2	5.1	5.7	8.8	6.7	8.3	7.8
Errors and Omissions	0.3	1.8	0.0	1.2	0.0	0.0	0.0	0.0

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

1/ Tax arrears from the national electricity company paid in 2010.

2/ Including transfers to public entities outside the central government. For 2012 and 2013, it also includes payments arrears to hydrocarbon companies and SOMELEC.

3/ These include the development fund (FAID).

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

5/ Amortization of debt owed to the central bank.

Table 4b. Mauritania: Central Government Operations, 2008–13
(In percent of non-oil GDP, unless otherwise indicated)

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	IMF Country Report No. 10/346	Prov.	IMF Country Report No. 10/346	Proj.	Proj.	Proj.
Non-oil revenue and grants	23.7	24.9	25.5	26.3	23.0	26.3	24.7	24.3
Non-oil revenue	22.9	24.1	23.2	25.1	21.2	24.9	23.7	23.4
Tax revenue	14.4	14.1	13.4	15.3	13.6	14.9	15.9	15.9
Nontax revenue	8.5	10.0	8.8	8.7	7.6	10.0	7.8	7.4
<i>Of which: Fish revenues</i>	4.9	5.4	4.0	4.4	3.9	3.9	3.6	3.4
Exceptional revenue 1/	-	-	1.0	1.0	0.0	0.0	0.0	0.0
Total grants	0.8	0.8	2.3	1.2	1.8	1.4	1.0	1.0
<i>Of which: Projects</i>	0.5	0.5	1.0	0.1	0.7	0.7	0.6	0.6
Expenditure and net lending	32.9	32.1	30.7	29.7	26.7	30.3	29.9	28.6
Current expenditure	25.9	24.6	19.7	21.5	18.4	22.2	20.4	19.1
Compensation of employees	8.9	10.2	8.8	8.8	8.4	8.2	7.7	7.5
Goods and services	6.8	6.8	5.1	5.0	4.8	4.7	4.5	4.5
Subsidies and transfers 2/	5.4	2.7	1.6	2.8	1.5	5.7	4.6	3.8
Interest	2.1	2.1	1.7	2.0	1.9	1.8	2.0	1.7
External	0.7	0.7	0.5	0.8	0.8	0.8	1.0	0.8
Domestic	1.3	1.5	1.2	1.3	1.1	1.1	1.0	0.9
Special accounts and others 3/	0.9	0.7	1.0	1.3	0.9	0.9	0.8	0.8
Capital expenditure	7.0	6.8	9.7	6.8	8.3	8.1	9.4	9.5
Foreign-financed investment	1.5	2.0	4.1	1.4	3.1	3.1	4.4	4.2
Domestically financed investment	5.5	4.9	5.6	5.4	5.1	5.0	5.0	5.3
Restructuring and net lending	0.0	0.6	1.4	1.4	0.0	0.0	0.0	0.0
Common reserves	1.9	2.2	1.4	1.4	0.9	0.9	0.8	0.8
Basic non-oil balance; program definition 4/	-7.7	-5.3	-3.0	-2.4	-1.6	-1.6	-0.8	-0.2
Non-oil balance excluding grants	-10.0	-8.0	-7.5	-4.6	-5.5	-5.4	-6.2	-5.2
Non-oil balance including grants	-9.2	-7.2	-5.2	-3.4	-3.7	-4.0	-5.2	-4.2
Net revenue from oil	2.2	1.8	1.2	1.4	0.9	1.2	1.1	1.0
Overall balance including grants	-7.0	-5.4	-4.0	-2.0	-2.7	-2.8	-4.1	-3.2
Financing	7.0	5.6	4.0	2.1	2.7	2.8	4.1	3.2
Domestic financing	5.6	3.3	0.4	1.3	0.7	-0.2	0.3	0.1
Banking system	2.4	5.0	0.3	0.6	0.8	-0.9	0.0	-0.1
CBM	2.5	2.7	0.0	-0.6	0.4	0.0	0.0	-0.2
Commercial banks	1.6	0.4	0.3	1.7	0.5	-0.9	0.0	0.0
Nonbanks	1.9	-0.8	0.4	-0.3	0.1	1.0	0.5	0.5
Amortization 5/	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.2	-0.3
Domestic arrears	-0.2	0.0	0.0	0.8	0.0	0.0	0.0	0.0
External financing	1.4	2.3	3.6	0.9	2.1	3.0	3.8	3.1
Oil account (net)	0.4	0.4	0.1	0.0	0.0	0.1	0.0	0.0
Net revenue from oil (net)	-2.2	-1.8	-1.2	-1.4	-1.1	-1.2	-1.1	-1.0
Oil account contribution to the budget	2.6	2.3	1.3	1.4	1.1	0.9	1.1	0.7
Other (net)	1.0	1.9	3.5	0.9	2.1	3.3	3.8	3.4
Net borrowing (net)	0.2	1.2	3.0	0.3	1.3	2.7	3.1	2.8
Exceptional financing	0.8	0.7	0.5	0.6	0.8	0.6	0.7	0.6
Errors and Omissions	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil GDP (in billion of ouguiya)	796.8	757.6	962.5	952.9	1,071.5	1,095.8	1,231.8	1,331.3
Total revenue	25.1	25.9	24.4	26.5	22.2	26.1	24.8	24.3
Revenue excluding extractive industries	25.0	24.6	27.0	27.1	24.9	26.8	25.9	25.3
Tax Revenue excluding extractive industries	15.9	15.3	16.4	17.4	16.5	17.5	17.9	17.9
Oil fund balance (in billion of ouguiya)	11.7	8.8	6.1	9.7	6.4	12.9	13.4	17.6

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

1/ Tax arrears from the national electricity company paid in 2010.

2/ Including transfers to public entities outside the central government. For 2012 and 2013, it also includes payments arrears to hydrocarbon companies and SOMELEC.

3/ These include the development fund (FAID).

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

5/ Amortization of debt owed to the central bank.

Table 5. Mauritania. Monetary Situation, 2008–12
(In billions of ouguiya at end-of-period exchange rates, unless otherwise indicated)

	2008	2009	2010	2010	2011	2011	2012
			IMF Country Report No. 10/346	Prov.	IMF Country Report No. 10/346	Proj.	Proj.
Monetary survey							
Net foreign assets	-9.5	-3.3	6.4	9.4	12.5	36.1	45.6
Net Domestic Assets	250.1	279.9	317.3	302.7	352.1	317.6	355.4
Net domestic credit	381.5	424.2	444.9	470.9	479.7	497.6	535.5
Net credit to the government	141.7	175.5	182.2	186.8	191.0	177.2	177.4
Credit to the economy	239.8	248.7	262.8	284.1	288.8	320.5	358.1
Other items net	-131.4	-144.4	-127.6	-168.2	-127.6	-180.1	-180.1
Broad money	240.6	276.5	323.7	312.1	364.6	353.7	401.0
Monetary authorities							
Net foreign assets	10.1	1.6	3.5	13.3	6.9	37.2	43.7
Net Domestic Assets	100.5	124.3	145.4	113.6	162.2	106.6	119.3
Net domestic credit	115.3	146.2	137.3	141.1	141.2	141.1	140.8
Net credit to the government	95.6	127.0	130	122.3	133.9	122.3	122.0
Other items net	-14.8	-21.9	-5.1	-27.5	-5.1	-33.3	-33.3
Reserve money	110.6	125.9	149	126.9	169.1	143.8	163.0
Currency in circulation	70.0	81.6	96.8	91.3	109.9	103.4	105.7
Commercial banks							
Net foreign assets	-19.6	-5.0	2.9	-3.9	5.7	-1.1	1.9
Net domestic credit	269.6	280.7	312.1	334.0	343.0	360.8	398.9
Net credit to the government	46.1	48.5	52.2	64.5	57.1	54.9	55.4
Credit to the private sector	223.4	232.3	260	269.5	285.9	305.9	343.6
Other items net	-116.7	-122.5	-122.5	-140.7	-122.5	-146.7	-146.7
Memorandum items:							
Velocity of broad money	3.3	2.7	3	3.1	2.9	3.1	3.1
Velocity of broad money (GDP excluding, extractive industries)	2.5	2.2	2.1	2.2	2.1	2.1	2.1
Credit to the private sector (percent of GDP)	28.0	30.7	27	28.3	26.7	27.9	27.9
Net foreign assets of banks (in millions of U.S. dollars)	-74.8	-18.9	10.3	-13.8	20.3	-3.8	6.2

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

Table 6. Mauritania. Banking System at a Glance, 2007–10

(Percent, unless otherwise indicated)

	2007	2008	2009	2010 Est.
Balance sheet				
Assets (percent of non-oil GDP)	44.7	45.2	52.5	46.6
Private sector credit / total assets	59.6	62.0	58.3	60.7
Public enterprise credit / total assets	15.4	15.0	13.1	13.0
Government securities / total assets	13.6	14.7	13.6	15.8
Private sector credit growth (y-o-y)	19.0	23.6	4.0	16.0
Nonperforming loans / gross loans	32.9	26.4	27.7	28.7
Provisions / nonperforming loans	63.2	84.1	85.2	87.7
Uncovered nonperforming loans / gross loans	12.1	4.2	4.1	3.5
Deposits / total assets	47.0	47.4	49.0	49.7
Private-sector loans / private sector deposits	126.8	130.9	119.2	122.1
Capital ratio				
Capital / total assets	17.2	14.2	14.2	14.0
Capital adequacy ratio	27.3	33.0	37.9	34.5
Foreign exchange exposure				
Fx assets / total assets 1/	8.4	5.1	8.4	7.0
Fx assets / fx liabilities (on balance sheet) 1/	114.8	75.0	123.7	112.1
Open fx position / capital (including off balance sheet)	6.8	-19.1	5.0	-16.0
Profitability and liquidity				
Return on assets	0.5	1.9	1.4	0.4
Return on equity	3.6	10.7	8.5	2.7
Liquid assets / total assets 2/	75.3	77.3	73.5	75.2
Memorandum items:				
Share of assets held by three largest banks	57.2	53.4	53.6	53.7
Number of banks 3/	10.0	10	10.0	10

Sources: Mauritanian authorities; and Fund staff.

1/ Only includes fx-denominated assets and liabilities to nonresidents.

2/ Liquid assets: cash, reserves, treasury bills, and short-term credit.

3/ Two new banks received banking licenses in 2010, and will start operating in 2011.

Table 7. Mauritania: Indicators of Capacity to Repay the Fund, 2011–16

	2011	2012	2013	2014	2015	2016
	Projections					
Fund obligations based on existing credit	(In millions of SDRs)					
Principal	0.0	0.7	1.9	2.1	3.2	6.5
Charges and interest	0.2	0.4	0.4	0.4	0.4	0.4
Fund obligations based on existing and prospective credit	(In millions of SDRs)					
Principal	0.0	0.7	1.9	2.1	3.2	7.6
Charges and interest	0.2	0.5	0.5	0.5	0.5	0.5
Total obligations based on existing and prospective credit						
In millions of SDRs	0.2	1.1	2.4	2.6	3.7	8.1
In millions of US\$	0.2	1.7	3.7	4.0	5.7	12.6
In percent of exports of goods and services	0.0	0.1	0.1	0.1	0.2	0.4
In percent of debt service	0.2	1.5	1.8	1.7	2.4	5.5
In percent of GDP	0.0	0.0	0.1	0.1	0.1	0.2
In percent of Gross International Reserves	0.1	0.4	0.8	0.8	1.0	1.9
In percent of quota	0.2	1.7	3.7	4.0	5.7	12.6
Outstanding Fund credit						
In millions of SDRs	54.5	75.9	85.1	83.0	79.9	72.3
In millions of US\$	82.6	118.8	132.9	129.5	124.4	112.5
In percent of exports of goods and services	2.8	3.7	4.3	4.3	4.2	3.6
In percent of debt service	74.0	101.1	65.6	53.6	52.0	48.9
In percent of GDP	2.1	2.7	2.9	2.8	2.6	2.2
In percent of Gross International Reserves	20.9	26.9	27.0	25.0	20.8	16.7
In percent of quota	84.6	117.9	132.1	128.9	124.0	112.2
Net use of Fund credit (in millions of SDRs)	22.1	21.4	9.2	-2.1	-3.2	-7.6
Disbursements	22.1	22.1	11.0	0.0	0.0	0.0
Repayments	0.0	0.7	1.9	2.1	3.2	7.6
Memorandum items:						
Exports of goods and services (in millions of US\$)	2,976.5	3,190.1	3,117.5	2,978.6	2,956.6	3,117.9
Debt service (in millions of US\$)	111.6	117.6	202.5	241.7	239.2	230.0
Nominal GDP (in millions of US\$)	3,998.7	4,322.2	4,525.6	4,642.3	4,876.5	5,216.3
Gross international reserves (in millions of US\$)	395.1	441.3	492.4	517.4	597.2	673.9
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4

Sources: Fund staff estimates and projections.

Table 8. Mauritania: Selected Economic and Financial Indicators, 2008–16

	2008	2009	2010	2010	2011	2011	2012	2013	2014	2015	2016
	Est.	Est.	IMF Country Report No. 10/346	Proj.	IMF Country Report No. 10/346	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
(Percent; unless otherwise indicated)											
National income and prices											
GDP at constant prices	3.5	-1.2	5.0	5.2	5.2	5.1	5.7	6.3	5.7	5.7	5.5
Non-oil GDP at constant prices	3.9	-1.1	5.6	5.7	5.5	5.3	5.8	6.4	5.8	5.8	5.6
GDP excluding extractive industries at constant prices	3.4	-1.1	5.0	5.7	5.2	5.2	5.3	5.4	5.5	5.5	5.5
GDP deflator	12.4	-5.9	19.3	19.4	5.0	9.4	5.9	1.3	-0.8	1.4	3.4
Consumer price index (period average)	7.3	2.2	6.1	6.3	5.2	7.3	6.7	6.0	5.5	5.2	5.2
Consumer price index (end of period)	3.9	5.0	5.3	6.1	5.1	7.5	6.9	6.2	5.7	5.4	5.4
External sector											
Value growth of exports of goods, f.o.b.	27.5	-23.7	40.9	52.0	12.8	37.5	7.4	-2.4	-4.8	-0.9	5.6
Value growth of imports of goods, f.o.b.	21.8	-27.2	27.3	39.1	14.4	27.5	10.7	-0.9	-0.4	-2.3	5.2
Current account balance (percent of GDP)	-14.8	-10.7	-8.8	-8.7	-8.0	-7.5	-9.2	-9.6	-10.9	-9.1	-8.0
Gross official reserves 1/ In millions of US dollars, end of period	194.9	238.0	277.2	287.8	317.5	395.1	441.3	492.4	517.4	597.2	673.9
In months of following year's imports excluding extractive industries	2.1	2.6	2.5	2.1	2.7	2.7	3.0	3.3	3.5	3.7	4.0
PPG external debt (percent of GDP)	80.8	93.5	55.2	74.8	49.0	54.8	55.8	59.4	60.5	60.4	57.1
Money											
Money and quasi-money (y-o-y growth)	13.7	15.2	16.8	12.9	12.6	13.3	13.4	15.3	13.0	13.0	13.2
Credit to the private sector (y-o-y growth)	28.9	3.7	11.7	14.2	9.9	12.8	11.7	12.8	12.3	10.4	11.5
Investment and savings											
Gross investment (percent of GDP)	27.3	24.6	32.2	24.5	33.5	25.7	27.3	27.0	26.3	27.3	26.3
Gross savings (percent of GDP)	12.5	13.9	23.4	15.7	25.5	18.2	18.1	17.5	15.5	18.2	18.3
(Percent of non-oil GDP; unless otherwise indicated)											
Consolidated government operations											
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.0	-2.4	-1.6	-1.6	-0.8	-0.2	0.6	0.8	1.6
Overall balance including grants	-7.0	-5.4	-4.0	-2.0	-2.7	-2.8	-4.1	-3.2	-2.7	-1.3	-0.4
Central Government Gross debt (percent of GDP)	43.0	50.6	46.2	41.3	43.6	42.2	45.3	44.9	45.5	45.7	44.7
Memorandum items:											
Nominal GDP (in billions of UM)	854	794	995	997	1,100	1,147	1,284	1,382	1,450	1,554	1,695
GDP per capita (in US dollars)	1,123	940	1,093	1,099	1,093	1,183	1,248	1,277	1,279	1,312	1,370
Price of iron ore (US\$/Ton)	62.8	79.9	148.0	146.9	145.0	182.8	172.5	150.0	130.0	125.0	125.0

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

1/ Excluding the oil account.

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

Table 9. Mauritania: Access and Phasing Under the Three-Year ECF Arrangement, 2010–13 1/

Timing	Disbursement		Conditions
	Amount in SDR	Percent of Quota	
March 15, 2010	11.04	17.1	Approval of the arrangement.
November 19, 2010	11.04	17.1	Completion of the first review (relevant PCs for end-June 2010).
March 31, 2011	11.04	17.1	Completion of the second review (relevant PCs for end-December 2010).
September 30, 2011	11.04	17.1	Completion of the third review (relevant PCs for end-June 2011).
June 30, 2012	11.04	17.1	Completion of the fourth review (relevant PCs for end-December 2011).
November 30, 2012	11.04	17.1	Completion of the fifth review (relevant PCs for end-June 2012).
June 30, 2013	11.04	17.1	Completion of the sixth (final) review (relevant PCs for end-December 2012).
Total	77.28	120.0	

¹ Mauritania's quota is SDR 64.4 million.

ATTACHMENT I. LETTER OF INTENT

Nouakchott, June 6, 2011

Mr. John Lipsky
Acting Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Mr. Lipsky:

1. The Mauritanian Government succeeded in improving macroeconomic stability in 2010, thanks to its strong commitment to prudent policymaking and despite significant challenges posed by soaring energy and food prices. The continued implementation of prudent macroeconomic policies throughout 2010 and the increases in prices of Mauritania's export products (iron, copper, and gold) have contributed to a stable macroeconomic environment and high economic growth. The fiscal stance remains sound, monetary policy continues to be prudent, and inflation is under control, while official foreign exchange reserves have been rebuilt to a relatively comfortable level. However, unemployment remains high and the economy has had to deal with rising international commodity and petroleum prices.
2. Eradicating poverty is a strategic objective that we have prioritized in all our national policies. To ensure the consistency of our macroeconomic objectives with our poverty reduction strategy, we have revised our Poverty Reduction Strategy Paper (PRSP) and finalized its third action plan for 2011-2015 in a process that involved all stakeholders. The strategic orientations of the new PRSP action plan are consistent with the objectives of the IMF's Extended Credit Facility-supported program (ECF) and built on the following five pillars: (i) boosting growth and maintaining macroeconomic stability; (ii) making growth more inclusive; (iii) improving the potential of the Mauritanian people and their access to basic social services; (iv) enhancing governance and institutional development; and (v) improving planning, monitoring and evaluating systems.
3. We met the 2010 objectives of the ECF-supported program by meeting all continuous and quantitative performance criteria for end-December 2010 (Table 1). However, the indicative target on poverty-related spending has been missed because of a delay in the execution of the public investment program. All the structural benchmarks (Table 2a) have also been fulfilled, except for the issuance of a single taxpayer identification number to all taxpayers, which has only been completed for the subset of known registered taxpayers. The

generalization to all taxpayers has been delayed by the bidding process for selecting a consulting firm to conduct the taxpayer census, which is necessary before the structural benchmark on taxpayer identification numbers can be completed.

4. This Letter of Intent (LOI) is based on the Letter of Intent and Memorandum of Economic and Financial Policies (MEFP) approved on November 2, 2010. Our macroeconomic policy program will continue to strike a balance between focusing on macroeconomic stability and responding to the urgent challenges posed by increasing petroleum and food prices. In order to achieve the program objectives, we are committed to continue implementing prudent, appropriate, and coherent macroeconomic policies. We remain firmly bound to structural reforms, which will help accelerate economic growth and reduce poverty, in particular by reinvigorating the public enterprise sector, modernizing tax and customs administration, strengthening the financial sector, improving the business climate, and promoting good governance.

I. RECENT ECONOMIC DEVELOPMENTS

5. The second half of 2010 was characterized by a strengthening of the recovery that started in the beginning of the year, driven by buoyant external demand, a surge in commodity prices, and renewed dynamism in non-extractive activities. As a result, real GDP grew by 5.2 percent in 2010, in line with the initial projections. This was achieved in spite of a decline in oil production. Moreover, inflation remained under control at 6.1 percent on a year-on-year basis. Despite the increase in food and petroleum prices, the current account deficit improved as foreseen by the program mostly as a result of higher prices for mining products exported by Mauritania (iron ore, gold, and copper). The stock of official exchange reserves increased to US287.8 million at end-December 2010, covering 2.1 months of imports.

6. In the public finance area, the second half of 2010 was characterized by a significant increase in tax and nontax revenue resulting from the rebound in economic activity, the good performance of the mining sector, and an under-execution of public investments as well as pro-poor spending. Notwithstanding, the basic budget balance remains in deficit for 2010, amounting to UM 23 billion, compared to an initial deficit of UM 28.5 billion foreseen under the program.

7. Regarding the monetary accounts, looser monetary conditions following the Central Bank of Mauritania (CBM)'s decision to lower interest rate from 12 percent to 9 percent in November 2009 have helped stimulate the economy. Accordingly, credit to the private sector grew by 14.2 percent in 2010, compared to 3.7 percent in 2009, contributing to a moderate expansion of the money supply. The exchange rate depreciated by 5.7 percent in 2010, and the CBM continued to limit its interventions to smoothing excessive exchange rate fluctuations.

II. PROGRAM FOR 2011

8. Overall, Mauritania's economic outlook remains favorable despite the challenges posed by the surge in food and petroleum prices. In particular, real GDP is expected to grow by 5.1 percent in 2011 and the CBM's vigilance will help contain inflation to 7.5 percent. The external current account deficit is expected to improve due to higher prices for mining products, which allows for a higher foreign exchange reserves target (about 2.7 months of imports). Achieving these objectives requires the pursuit of prudent macroeconomic policies and a firm commitment to structural reforms. However, successful outcomes also depend on mobilizing external financing and the appropriate institutional capacity to manage them efficiently.

A. The macroeconomic program

Fiscal policy

9. In the context of persisting social tensions in the region, the government is seriously concerned by the significant recent rise in international food and petroleum prices. In response, we have prepared a short-term temporary emergency program ("Solidarity Program") costing about UM 40 billion that aims at: (i) giving the poor access to food products at subsidized prices in 600 shops throughout the country; (ii) maintaining the purchasing power of the population by increasing subsidies for cooking gas and electricity; (iii) improving agricultural production by subsidizing fertilizers and seeds; and (iv) developing income-generating activities. The component on subsidizing food products has already taken effect through the advance decree No 2011-090 dated March 29, 2011 authorizing spending for UM 10.4 billion. The costs of the remaining program components will be covered through an advance decree by end-June 2011 and under the amended budget law that we will adopt by end-year. To reduce costs for 2011, we raised in May 2011 for the first time in four years the price for cooking gas (a 10 percent increase in the price of a butane gas bottle).

10. The government will adopt an advance decree in early June 2011 to cover deficits incurred so far this year and for the rest of 2011 by the hydrocarbon distribution companies. These losses result from a large gap between administered fuel prices and world prices. This action takes into account savings expected from implementing the following steps by June 2011 (structural benchmark): (i) applying market prices to large consumers for their purchase of petroleum products (including mining companies); and (ii) gradually increasing fuel prices to reduce the corrective margin required to set administered prices. The government would still expect petroleum companies to reimburse the State if declines in world prices leads to profits for petroleum companies (i.e., as a consequence of above market retail prices). In the meantime, we intend to remedy the shortcomings of the current price structure of petroleum products, which is no longer suitable in an environment of persistently high oil prices. To this

end, we have requested Fund technical assistance to help us introduce a system that is more appropriate in the new international context. In the meantime, we will take stock of the arrears incurred to the petroleum distribution companies over the past years, and create a plan for clearing those arrears.

11. Nevertheless, cognizant of the high vulnerability of the Mauritanian economy to exogenous shocks, particularly to fluctuations in mineral prices, we remain committed to pursuing fiscal consolidation. Accordingly, the financing of the additional expenditure associated with the emergency program (the 2011 Solidarity Program) will be covered by supplementary mining receipts, land sales, improved tax collection, and the redeployment of some non-essential investment expenditures. Fiscal discipline will be accompanied by better streamlining of current expenditures, intensified revenue collection efforts, and an optimal management of mining resources. In this context, the 2011 target on the basic non-oil deficit will remain consistent with the initial program forecast of 1.6 percent of non-oil GDP. In the event of a revenue shortfall, we intend to cut non-essential spending, particularly goods and services and through a more accelerated phase-out of subsidies, to meet the fiscal deficit objective.

12. To meet the revenue target that we have set out (24.9 percent of non-oil GDP), we will rely heavily on mining receipts. In particular, we will establish a 25 percent dividend payout ratio on the profits of the state-owned mining company SNIM. In addition, as part of the 2011 revised budget law, we will reintroduce excises on tobacco and increase excises on vehicles, in line with recommendations of the latest IMF technical assistance mission on tax policy. On the expenditure side, the wage bill will be contained and an effort will be made to streamline nonessential current expenditures. These actions should create additional budget space for supporting growth, reducing poverty, and making progress towards the Millennium Development Goals (MDGs).

Monetary, financial, and foreign exchange policies

13. The objective of monetary policy will continue to be geared towards controlling inflation. The monetary program for 2011 aims to increase money supply by 13.3 percent, allowing credit to the private sector to rise at a pace consistent with the need to support the expected dynamism of non-extractive industries. The monetary authorities stand ready to tighten monetary policy, in particular by adjusting the key interest rate or the reserve requirement ratio if signs of accelerating core inflation start to materialize. Monetary and fiscal policies will be more closely coordinated, particular regarding the issuance of treasury bills. We will finalize in 2011, based on Fund recommendations, a strategy for strengthening the CBM's liquidity management instruments.

14. We remain convinced that greater exchange rate flexibility will foster confidence of all market participants and will contribute to easing pressures on foreign exchange reserves.

To improve the functioning of the exchange market and in keeping with Fund staff recommendations, we have recently taken the following actions: (i) served on a pro rata basis all orders submitted at the same price as the fixing, rather than on the basis of their size or their order time; and (ii) sent the statements on foreign exchange transactions executed during the auction process to primary banks on the same day as the auction itself to allow for same-day settlements. The CBM will improve the functioning of the exchange rate market by limiting bids to purchase dollars to the equivalent of 130 percent of the banks' free reserves, and by immediately providing banks with the foreign exchange purchased at auctions. The CBM will continue to refrain from any intervention that might distort the functioning of the market and will limit its interventions to smoothing excessive exchange rate fluctuations.

15. Financial sector reform will be carried out in accordance with the FSAP recommendations and the safeguard technical assistance missions of 2010 with a view to strengthening the safeguards framework and correcting weaknesses identified in this area. On banking supervision, the CBM firmly intends to strictly apply the existing prudential regulations and to gradually adopt the Basel II capital framework for banks. In order to improve financial transparency and to bring its accounting system in line with IFRS standards, the CBM has hired a consultant who will assist in the implementation of this project, together with the support of Fund staff, in particular from West AFRITAC. The CBM will continue to have its accounts, including its reserves, audited by an international auditing firm selected in an international bidding process. So far, most banks have increased their capital to UM 4.5 billion, and the CBM will ensure that the capital of the commercial banks is brought to a minimum of UM 5 billion (approximately US\$18 million) by end-2011 (structural benchmark for end-December). Moreover, the audits of commercial banks' financial statements will be carried out by the agreed date (structural benchmark for end-September 2011).

External sector and debt management

16. Despite increasing prices for foodstuffs and petroleum products, the favorable outlook for gold, copper, and iron ore in 2011 are likely to generate additional revenues and reduce the current account deficit to about 7.5 percent of GDP, down from the initial projections of the program for 2011. This deficit will be financed by higher external financing and foreign direct investment in the mining and oil sectors.

17. With regard to external borrowing, the overriding principle is to finance our public investment program while preserving debt sustainability. To this end, we are committed to identify and mobilize concessional resources. However, given the limited pool of concessional resources, we estimate that we will need nonconcessional resources of US\$105 million to finance a hybrid power plant (fuel and natural gas). This plant will have a capacity of 120 MW to ensure adequate electricity supply to the Mauritanian economy, at an overall cost of US\$227 million. The study on the relevance and feasibility of this project was carried

out by the Arab Fund for Economic and Social Development. Moreover, to improve monitoring of external debt and enhance internal capacity for analyzing concessionality, a national public debt committee will become operational in 2011. We will continue our efforts to introduce before end-year an external debt management strategy (structural benchmark) that takes into account World Bank recommendations on debt management and medium-term debt strategy. Furthermore, agreement was reached to address the stock of external payment arrears, including Algeria (total cancellation of the debt stock) and Libya (cancellation of all interest payment and rescheduling of principal payments). We are continuing to make best efforts in reaching possible debt relief agreements with remaining creditors, particularly Kuwait where discussions are still ongoing.

B. Structural reforms

18. We pay great attention to structural reforms aimed at achieving a high rate of inclusive growth, which could contribute to poverty reduction. To this end, we have established an interministerial committee, which meets regularly to take stock of progress made in implementing economic reforms, resolve delays in their implementation, and coordinate the actions of the different institutions involved in the reform agenda. We have also broadened the discussion framework on reforms to technical and financial partners, which meet quarterly with the Technical Monitoring Committee.

Strengthening the social protection system and gradual elimination of subsidies

19. While a number of efforts were undertaken, social protection remains weak and inadequate, marked by insufficient targeting of vulnerable populations, weak organizational capacities, lack of human and logistic resources, and the absence of an appropriate mechanism to coordinate various programs and stakeholders. In this context and with support from UNICEF, the government prepared a diagnostic study of existing social programs in March 2010, highlighting priority needs to strengthen and streamline the social protection system. We will use the study's recommendations to prepare a national social protection strategy that calls for, inter alia, the generalization of pilot conditional cash transfer programs.

20. In the meantime, we will undertake an assessment of the functioning of the shops introduced in the context of the 2011 solidarity program and consider the possibility of gradually replacing these by cash transfers. This assessment will be carried out under the supervision of a Steering Committee, which is composed of representatives of the involved ministries, a representative of the Food Security Commission (CSA), a representative of the National Statistical Office (ONS), civil society representatives, a representative of the World Food Program (WFP), and a representative of UNICEF. We also intend to conduct, with WFP staff, a vulnerability and poverty survey that will be used to update the available information on vulnerable groups (structural benchmark for end-October). The survey results will also be used in drawing up an action plan for the distribution of identification "cards" to

the poor and vulnerable groups who would eventually benefit from cash transfers. The introduction of this mechanism in early 2012 would be in line with our objective to gradually transition from existing subsidies to a less costly and better targeted cash transfer mechanism.

Public finance reforms

21. Effective execution of the 2011 budget and preparation of the 2012 budget as an instrument for macroeconomic management require measures to improve revenue collection, strengthen control of budget execution, and increase transparency. These actions will be taken in accordance with the recommendations made by recent technical assistance missions from the IMF, West AFRITAC, the World Bank, and the European Union. The public finance master reform plan is currently being finalized with technical assistance from the African Development Bank, and will be introduced by end-October 2011.

Improving revenue collection

22. With respect to revenue, we have activated a committee within the CTS to steer tax reform. This committee will monitor the computerization of the General Tax Directorate (DGI) and the preparation of a plan for recovering tax arrears that will be finalized by end-June 2011 (structural benchmark). The taxpayer census has already started and will be completed as planned by end-September 2011. A progress report on this operation will be available by end-June 2011. Issuing unique identification numbers to taxpayers has already been completed for known taxpayers and will be finalized for all taxpayers by end-December 2011 (structural benchmark). To improve taxpayer compliance and increase tax receipts, we will also establish an action plan for the gradual elimination of VAT withholding-at-source, starting with large taxpayers. We also intend to take stock of all existing tax credits at end-June 2011 to activate the provisions already in place for the timely reimbursement of VAT credits by end-October 2011, in particular to the mining companies. To ensure the success of this reform, we require IMF technical assistance.

23. We will also continue to strengthen Customs Administration (DGD). All customs offices have adopted the new ASYCUDA++ system and undertook the migration to the central server. The transition to this new system will help, inter alia, improve the management of exemptions and introduce numerical archiving that will be introduced as scheduled by end-2011. To improve efforts against tax evasion, the customs modernization strategy focuses on inspecting and crosschecking import data with information provided by the SGS inspection company. To this end, we will optimize the benefits from our contract with SGS and settle its invoices as they fall due. This will enable us to create a valuation office and develop a customs value database to reconcile data and introduce an interface between customs and SGS. To enhance the synergies with the DGI and formalize exchanges of information on taxpayers, a memorandum of understanding between the DGD and the DGI

will be drawn up. The draft of the new customs code is currently being prepared and will be adopted by end-2011.

Managing public expenditure

24. Improving the decision-making framework and strengthening the instruments for cash flow management are government priorities. To this end, meetings of the coordination committee on fiscal and monetary policies will be held regularly and will produce minutes that will contain analyses of the cash flow situation and three-month rolling cash forecasts. In this context, the Ministry of Finance has started introducing a single Treasury account by end-2011 as recommended by recent missions from the IMF's Fiscal Affairs Department and the French cooperation authorities. Prior to this, the cash flow plan will be made operational and strengthened by the introduction of an automated computer link between the Central Bank and the Directorate-General of the Treasury.

25. Mindful of the need to improve budget preparation and execution, the authorities will take all necessary measures to strengthen the budget process. To this end, recourse to exceptional spending procedures will be limited in order to cut on the total volume of requests for immediate payment, transfers for the provision of cash ("*Mises a disposition*") and cash advances. In addition, and in line with the recommendations of IMF TA and the World Bank's public expenditure review, we will speed up efforts to operationalize an integrated public financial management system, enhance internal control and ex-post control capacities of public spending, and fully implement the new procurement code and its related decrees. Furthermore, the efficiency and effectiveness of public spending will also depend on: (i) improving budget preparation and execution, including through better coordination between the ministry of finance and the ministry of economic affairs and development in the preparation and execution of the budget; and (ii) developing internal capacities to conduct project selection, appraisal and budgeting.

Containing the wage bill and improving the quality of public services

26. We are committed to reactivating and accelerating civil service reforms. To this end, we will reconcile the payroll on the basis of the outcome of the census of all public workers, which will help improve payroll budgeting, execution and management. This should help contain the wage bill and free up resources for poverty reduction. A methodology for forecasting the wage bill will be developed and introduced at the Ministry of Finance, with support from West AFRITAC. In addition, as part of the civil service reform, we are committed to strengthening human and logistical capacities, modernizing tools used for work performance, and raising the quality and ethical standards among government officials and employees to reduce the temptation to mismanage public assets.

Improving public enterprise performance

27. Public enterprises put a heavy burden on the budget due to sizable transfers and subsidies. We are committed to rehabilitating and further clarifying the relations between these enterprises and the government by conducting a study on the financial situation of all major public enterprises (structural benchmark for end-December 2011). This study will be based on the findings of the audit of the public electricity company (SOMELEC) and the new financial and technical audits that will be undertaken in 2011 for MAURIPOST, SNDE, SOMAGAZ, and SONIMEX. This study will help identify problems faced by these enterprises and improve the monitoring of their performance, which will generate better management of the companies' operations and lead to further reductions in government transfers, especially through program contracts. We are also committed to regularly inspect financial conditions of public enterprises and to improve coordination between the involved departments through regular meetings between the Directorate-General of Government Property, the Directorate-General of Budget, the Directorate-General of Treasury and Public Accounting, and the supervisory ministries. Technical assistance from development partners, in particular the World Bank, is needed to improve the monitoring of public enterprises, strengthen governance, and upgrade the information system.

Reforming the electricity sector

28. A study financed by the World Bank and the French Development Agency (AFD) on the restructuring of the electricity sector and SOMELEC has been completed and validated at two evaluation workshops held in June and September 2010. We have begun implementing this study's recommendations by increasing SOMELEC's capital by UM 20 billion, followed by an additional increase of UM13 billion scheduled by end-2011 with no incidence on the budget. The Government started paying its electricity bills on time and is committed to provide SOMELEC the required subsidy for its operations at regular intervals throughout the year. This will enable the company to recover and limit its recourse to bank borrowing at prohibitive rates, which would jeopardize the progress made to date. We have clarified the financial relationship between SOMELEC and the Central Government, and will put in place an arrears settlement plan by end-December 2011 (structural benchmark). We will await finalization of the tariff study scheduled for end-2011 before moving forward with revising tariffs, particularly those applied to major consumers.

Improving the business climate and promoting the private sector

29. We are set on addressing of the investment climate weaknesses and constraints impeding promotion of the private sector. To this end, we have prepared a new investment code, which will be adopted by the Council of Ministers by end-June 2011. We are also committed to make the one-stop facility for business start-ups operational to further reduce and simplify the administrative procedures related to the creation of new companies and

investments. A national strategy for developing skills needed by the private sector will also be introduced. Along the same lines, we will simplify the tax system and promote SME access to bank loans, while building SME capacities for producing reliable financial statements.

30. As far as employment is concerned, a labor market study will be conducted by end-year to establish a reliable database on employment. In the meantime, we will continue to implement an integration program for young unemployed university graduates to help them develop their own activities and encourage them to initiate projects in the agricultural sector. Moreover, this program will be broadened to cover the fish sector. Efforts will also be made to integrate non-graduate unemployed people through the support of income-generating activities (IGAs) in rural areas (livestock, crop protection) and urban areas. Alongside the measures mentioned above, we intend to introduce, with the technical and financial support of the World Bank, a broad training and integration program focusing on the unskilled. Going forward, we will also re-orient education priorities to ensure existing curricula are aligned with private sector needs.

Strengthening governance and transparent management of public resources

31. Fighting corruption is a government priority. In this connection, we adopted in 2010 a national anti-corruption strategy aimed at ending impunity and limiting fiscal evasion, fraud, and poor management of public resources. The government is also committed to ensuring total transparency in the exploitation and use of the financial resources coming from extractive industries. To illustrate this commitment, Mauritania has become a member of the Extractive Industries Transparency Initiative (EITI) since 2005. We expect to become fully compliant with the EITI principles during 2011.

Improving economic statistics

32. The compilation of reliable statistical information is essential for designing and implementing macroeconomic policies, assessing PRSP results, and monitoring progress made towards achieving MDGs. We plan to continue improving the quality of the economic and financial statistics produced by capitalizing on recommendations made by recent IMF technical assistance missions on government finance, national accounts, and balance of payments statistics. To this end, we will establish a committee that will meet monthly to validate public finance data, strengthen reconciliation efforts with the national accounts, and introduce cross-checking with the data received by different ministries. We plan to conduct a new household survey on living conditions (EPCV), which will make it possible to update employment and poverty data in 2012. We will continue the organizational and institutional reform of the National Statistics Office (ONS) and will operationalize the statistical function in all ministerial departments to improve data collection and processing of macroeconomic

aggregates, national accounts, prices, debt, and the balance of payments. In this context, we will request technical assistance from our development partners.

C. Risks

33. Various risks may hamper achievement of the program objectives. These include: (i) the vulnerability of the Mauritian economy to exogenous shocks, such as price volatility of its principal export commodities (iron ore, copper, gold) and changes in the prices of its imports such as wheat or oil; (ii) low mobilization of external financing; and (iii) the adverse effects on agriculture and livestock farming resulting from the vagaries of the climate. The government stands ready to take appropriate measures to mitigate the effects of such risks, should they materialize. If need be, corrective measures will be taken in consultation with IMF staff.

III. Conclusion

34. Given the achievement of the main program objectives, the government requests completion of the second review under the ECF-supported program and the associated disbursement of SDR 11.04 million. In view of the improving macroeconomic outlook and the introduction of the government's emergency program, we request a modification of the 2011 end-June performance criteria related to net international reserves, net domestic assets, and the basic fiscal balance. We will maintain a close policy dialogue with the Fund and stand ready to take additional actions, if appropriate, to ensure achievement of the program objectives. We will continue to provide Fund staff with the information necessary for regular program monitoring. New performance criteria, including for the ceiling on nonconcessional loans, are being proposed for end-December 2011, as have indicative targets for end-September 2011 (Table 1). New structural benchmarks are being proposed for 2011 (Table 2b). These quantitative criteria and benchmarks are set out in the attached Technical Memorandum of Understandings. The third review is expected to be concluded by December 31, 2011, and the fourth by June 30, 2012.

Very truly yours,

Thiam Diombar /s/
Minister of Finance

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

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

Table 1 . Mauritania: Quantitative Benchmarks and Performance Criteria for 2010-2011
(Cumulative change from end-December 2009 and from end-December 2010)

	<u>End-Dec</u> 2009	<u>End-Dec. 2010</u>		<u>End-Mar. 2011</u>			<u>End-Jun.</u> 2011	<u>End-Sep.</u> 2011	<u>End-Dec.</u> 2011	
	Initial level	Performance criteria	Performance criteria adjusted	Actual	Indicative Target	Indicative Target adjusted	Actual	Revised Performance criteria	Indicative Target	Performance criteria
Quantitative targets										
Net international reserves of the CBM (floor); in millions of US dollars 2/	-47.8	34.4	-0.6	69.1	4.4	14.5	44.2	46.9	108.5	82.9
Net domestic assets of the CBM (ceiling); in billions of ouguiyas 2/	125.1	20.4	29.6	-11.6	4.7	2.0	-9.5	-8.4	-19.0	-7.5
Basic non-oil balance ; in billions of ouguiyas		-28.5	-28.5	-23.0	-8.6	-8.6	17.2	7.9	15.5	-17.0
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, CBM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 3/	44.0	0		0	0		0	0	105	105
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, CBM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0		0	0		0	0	0	0
New external arrears on non reschedulable debt (continuous quantitative performance criterion)		0		0	0		0	0	0	0
Poverty-related expenditures, in billions of ouguiyas (indicative target)		106.7		89.9	19.6		5.8	32.0	68.9	106.5
Adjustors (in millions of US dollars)										
Net international assistance	...	35.4		-9.4	6.9		30.0	24.8	31.2	32.8
Cumulative disbursements of official loans and grants in foreign currency	...	76.6		34.0	13.9		37.6	51.0	64.1	92.6
Impact of any additional debt relief	...	0		0	0		0	0	0	0
Cumulative amounts of external cash debt service payments	...	-41.2		-43.4	-7.0		-7.6	-26.2	-33.0	-59.8
FNRH contribution to the budget	65.1	47.2		47.2	13.0		0.0	22.5	22.5	34.8
Cumulative disbursements of official grants in foreign currency		46.9		34.0	13.7		2.2	15.6	15.6	24.6
Memorandum item:										
UM/\$ exchange rate (program)	262				262		281	262	262	262

1/ For definitions, see Technical Memorandum of Understanding.

2/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.

3/ The higher ceiling for 2011 accommodates only the financing of a hybrid power plant. Ceiling for other nonconcessional borrowing is still zero.

Table 2a. Mauritania: Structural Benchmarks under the ECF Arrangement, 2010

Item	Measure	Date (End of Period)	Outcome	Comment
<u>General</u>				
1	Adopt the ministerial decision establishing the Technical Monitoring Committee.	March 2010	Met	
<u>Tax administration</u>				
2	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2010	Not met; Target date moved to December 2011	Numbers have already been distributed to all known taxpayers. After the completion of the taxpayer census, numbers will also be distributed to all taxpayers by end-December 2011. A database will be sent to the Fund once compiled.
<u>Public financial management</u>				
3	Establish a rolling three-month cash management plan.	June 2010	Met	
<u>Central bank transparency</u>				
4	CBM should publish on its website audited financial statements together with audit opinion of the years ended:			
	December, 31, 2007.	March 2010	Met	
	December, 31, 2008.	March 2010	Met	
	December, 31, 2009.	June 2010	Met	
5	Audit the CBM's NIR and NDA data as of June 30, 2010	September 2010	Met	

Table 2b. Mauritania: Structural Benchmarks under the ECF Arrangement, 2011

Item	Measure	Date (End of Period)	Outcome	Comment
<u>Tax administration</u>				
1	Finalize a plan for recovering corporate tax arrears.	June 2011		A draft plan is already available at the Tax agency.
2	Conduct a census of all businesses, including medium size enterprises.	September 2011		Some SMEs are now also being processed by the large taxpayer unit. Census is expected to be completed on-time.
3	Fully implement and use ASYCUDA++ in major customs offices.	December 2011		ASYCUDA ++ is already installed in major customs offices. Full implementation is expected by end-year.
4	Issue, while surveys are underway, new identification numbers to taxpayers.	December 2011	Not met in December 2010	Numbers have already been distributed to all known taxpayers. After the completion of the taxpayer census, numbers will also be distributed to all taxpayers by end-December 2011. A database will be sent to the Fund once compiled.
<u>Expenditure policy</u>				
5	Revise petroleum price structure as defined in the TMU (TMU, paragraph 12).	June 2011		
<u>Public financial management</u>				
6	Introduce a Treasury Single Account.	December 2011		The selection process of the consulting firm that would need to install the interface between the CBM and Treasury was initiated with World Bank assistance.
7	Design an overall external debt management strategy.	December 2011		The World Bank has finalized a proposed external debt strategy, which is now under discussion with the government.
8	Complete a study on the financial situation of the main public enterprises, following financial audits of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPPOST and SONIMEX.	December 2011		An audit of SOMELEC was completed last year. Invitations to tender for the remaining four audits are expected to be issued by end-June. The World Bank will provide financial assistance.
9	Finalize a repayment strategy for the debt owed by the government to SOMELEC.	December 2011		
<u>Central bank transparency</u>				
10	Audit the CBM's NIR and NDA data as of December 31, 2010.	March 2011	Met	End-December targets were audited by end-March but a completed audit opinion was only provided by the external audit firm (Ernst and Young) after March as problems in Côte d'Ivoire impacted its regional operations.
11	Finalize the audit of the CBM's NIR and NDA target as of June 30, 2011.	September 2011		
12	CBM should publish on its website audited financial statements together with audit opinion of the year ended on December 31, 2010.	June 2011		
<u>Financial sector</u>				
13	Conduct an audit of commercial banks' financial statements (as of end-December 2010) by a firm hired through invitation to tender.	September 2011		Ongoing. Some audits have already been completed and the results transmitted to the CBM.
14	Increase banks' minimum capital to UM 5 billion (\$18 million).	December 2011		Ongoing. All but two smaller banks already met the 2011 threshold at the end of 2010.
<u>Social policy</u>				
15	Conduct with the support of the World Food Program a new poverty survey.	October 2011		

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Letter of intention (LOI) and reported in Table 1. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.
2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference periods described in Table 1 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (CBM) are defined as the difference between the reserve assets of the CBM (i.e., the external assets that are readily available to, and controlled by, the CBM, as per the 5th edition of the IMF *Balance of Payments Manual*) minus the foreign exchange liabilities of the CBM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on November 30, 2009 (US\$1,127 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**, the November 30, 2009 exchange rates between the U.S. dollar and the ouguiya (UM/US\$262.0), the SDR (US\$/SDR 1.61), the Euro (Euro/US\$1.49), and other non-dollar currencies as published in the IFS.
4. **Net domestic assets** (NDA) of the CBM are defined as reserve money minus net foreign assets (NFA) of the CBM. **Reserve money** comprises: (a) currency in circulation (currency outside banks and commercial banks' cash in vaults); and (b) deposits of commercial banks at the CBM. NFA are defined as gross foreign assets of the CBM, including the external assets not included in the reserve assets, minus all foreign liabilities of the CBM (i.e., $NDA = \text{Reserve Money} - \text{NFA}$, based on the CBM balance sheet). NFA will be measured at the **program exchange rates** as described in Paragraph 3.
5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001)*, excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (*revenue recorded by Treasury*). Expenditure

will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the CBM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the CBM).

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

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

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

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

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

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

B. Structural Benchmarks

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

- Conduct by end-March 2011 an audit of NIR and NDA data of the CBM as of end-December 2010.
- CBM should publish on its website by end-June 2011 the CBM’s audited financial statements together with audit opinion as of December 31, 2010.
- Modify, by end-June 2011, the petroleum price structure by applying market prices to large consumers (including mining companies) of petroleum products and gradually increasing fuel prices.
- Finalize by end-June 2011 a tax arrears recovery plan.
- Finalize by end-September 2011 an audit of NIR and NDA data of the CBM as of end-June 2011. Observance of this benchmark will require transmission to the IMF staff of the final audit report.
- Conduct a census of all businesses, including medium-size enterprises by end-September 2011.
- Conduct by end-September 2011 an audit of commercial banks’ financial statements as of end-December 2010 by a firm hired through invitation to tender.

- Conduct by end-October 2011, with assistance from the World Food Program, a poverty study to actualize data on the neediest population.
- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number. Observance of this benchmark will require transmission to IMF staff by end-December 2011 of the database, including all taxpayers and their single identification number.
- Full implementation and use of ASYCUDA++ in major customs offices by end-December 2011.
- Introduction of a Treasury Single Account by end-December 2011.
- Design by end-December 2011 an overall external debt management strategy.
- Increase by end-December 2011 bank minimum capital to UM 5 billion (US\$18 million).
- Complete by end-December 2011 the study on the financial situation of major public enterprises. This will be based on the financial audit of the following companies: SOMELEC, SOMAGAZ, SNDE, MAURIPOST and SONIMEX.
- Complete by end-December a government arrears repayment plan for SOMELEC.

II. PROGRAM ADJUSTORS

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

14. In case **net international assistance or the contribution of the FNRH to the budget falls short** of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA ceiling, this amount will be converted into ouguiya at the program exchange rates. The cumulative downward adjustments to NIR will be limited to US\$35 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of US\$35 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts

projected in Table 1, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

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

III. REPORTING REQUIREMENTS

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

Central Bank of Mauritania (CBM)

- The monthly balance sheet of the CBM, and monthly data on (a) CBM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.
- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.
- Data on Treasury bills auctions and the new stock outstanding within a week following each auction.
- Monthly data on the level of liabilities of each public enterprise to the banking sector, within one month from the end of each month.
- Monthly external debt data within 30 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:
 - The external debt data file: service of the external debt of the CBM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.
 - The monthly list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying for each loan: the creditor, the

borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor, and by currency) within 30 days following the end of each quarter.
- Bi-monthly table projecting foreign exchange flows and flows of monetary liquidity within one week.

Ministry of Finance

- The Treasury's monthly cash and liquidity management plan, updated by the fiscal and monetary policy coordination committee, will be reported on a monthly basis along with the minutes of the weekly meetings.
- Monthly Treasury data on budget operations, revenues (including transfers from the FNRH), expenditures, and financing items, data on operations of special accounts, data on the execution of the domestically-financed part of the investment budget (including the data on capital spending, spending on goods and services, and salaries included in the investment budget), and Customs and Tax Departments monthly revenue collection reports (*Rapports mensuels des recettes*) within two (2) weeks following the end of each month.
- Monthly data reconciled between the Treasury and the Budget Directorate on the execution of expenditure on wages, including the breakdown of civil service base pay and back pay, wages for which payment has been authorized or is pending authorization for diplomatic missions, the military, the police, the national guard, and public institutions.
- Monthly data on the execution of the foreign-financed part of the investment budget based on the summary presentation included in the Consolidated Investment Budget document (*Budget consolidé d'investissement*) and data on foreign grants and loans received by government, its agencies, and by public enterprises by donor or creditor and by currency of disbursement within two (2) weeks following the end of each month.
- A detailed monthly report on the expenditures planned in the government's emergency response program ("Solidarity Program") and to repay petroleum distributors.
- Monthly reports on oil- and other hydrocarbon-related production and financial flows, including data on oil sales and repartition of oil revenue among all partners involved in oil production within one (1) month from the end of each month.

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

National Statistical Office

- Monthly consumer price index within two (2) weeks following the end of each month.
- Quarterly industrial production index within one (1) month of the end of each quarter.
- Quarterly note on economic activity and international trade.

Technical Monitoring Committee

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

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

IV. CENTRAL GOVERNMENT OPERATIONS TABLE

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

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of CBM and SNIM (including the part of the AFD/BFD debt relief on Cologne terms).
- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account but excluding the deposits of public establishments and other administrative units (*EPA*) with the CBM).
- **Domestic nonbank financing** of the government deficit is defined as a net change in holdings of Treasury bills by nonbanks.

- **Domestic arrears** are defined as a net change in the Treasury float and in the stock of domestic claims (beyond a period of three months) on government acknowledged by the Ministry of Finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).
- **External financing** is defined as the sum of the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of technical arrears and passive debts as defined in Paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

ANNEX**DEFINITION OF DEBT SET FORTH IN NO. 9 OF THE GUIDELINES**

The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt reads as follows:

(a) For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances on money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ creditors) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. For the purpose of the guideline, 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 excluding those payments that cover the operation, repair or maintenance of the property.

(b) Under the definition of debt set out in point 9 (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payments on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Second Review Under the Three-Year Extended Credit Facility Arrangement

Informational Annex

Prepared by the Middle East and Central Asia Department

June 7, 2011

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ANNEX I. RELATIONS WITH THE FUND

As of April 30, 2011

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

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

III. SDR Department	SDR Million	% Allocation
Net cumulative allocation	61.67	100.00
Holdings	0.20	0.32

IV. Outstanding Purchases and Loans	SDR Million	% Quota
ECF Arrangements	32.39	50.30

V. Latest Financial Arrangements

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount (SDR Million)</u>
ECF	Mar 15, 2010	Mar 14, 2013	77.28	22.08
PRGF	Dec 18, 2006	Nov 01, 2009 ¹	16.10	10.31
PRGF	Jul 18, 2003	Nov 07, 2004 ⁶	6.44	0.92

VI. Projected Payments to Fund

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

	<u>Forthcoming</u>				
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Principal	0.00	0.65	1.87	2.06	3.17
Charges/Interest	0.16	0.47	0.52	0.53	0.52
Total	0.2	1.1	2.4	2.6	3.7

⁶ Cancellation date.

VII. Implementation of HIPC Initiative

Enhanced

	<u>Framework</u>
I. Commitment of HIPC assistance	
Decision point date	Feb. 2000
Assistance committed by all creditors (\$millions) ⁷	622.00
<i>Of which:</i> IMF assistance (\$millions)	46.76
(SDR equivalent in millions)	34.80
Completion point date	Jun. 2002
II. Disbursement of IMF assistance (SDR millions)	
Assistance disbursed to the member	34.80
Interim assistance	16.88
Completion point balance	17.92
Additional disbursement of interest income ⁸	3.63
Total disbursements	38.43

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

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

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

⁷ Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts cannot be added.

⁸ Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million) ⁹	32.91
Of which: MDRI	30.23
HIPC	2.68

II. Debt Relief by Facility (SDR Million):

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

IX. Safeguards Assessments

An update safeguards assessment of the Central Bank of Mauritania (CBM) was completed on April 30, 2010. While the CBM has weathered a range of economic and political challenges in 2008-2009, these events have exacted a toll on the safeguards framework of the bank and significant risks continue to exist. Since the completion of the safeguards assessment, governance oversight was restored, and timely publication of the audited financial statements resumed. Further action is needed on developing capacity in the areas of financial reporting, information systems and internal audit; and updating procedures to ensure the integrity of data reported to the IMF. The permanent cessation of the cash operations of the BCM foreign offices is also a safeguards priority.

X. Exchange Rate Arrangement

The currency of Mauritania is the ouguiya (UM). In August 2002, the CBM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second imposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the CBM. In July 2005, this surrender requirement was reduced to 60 percent. In July 2006, the surrender requirement was cancelled for small-scale pelagic fish exports and in October 2006, it was further reduced to 25 percent for exports of the public trading company SMCP. The CBM eliminated in October 2006 foreign exchange rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2 (a). From October 2005 to January 2007, the ouguiya was de facto pegged to the U.S. dollar, at an exchange rate of

⁹ The Multilateral Debt Relief Initiative (MDRI) provides 100 percent debt relief to eligible member countries that are qualified for the assistance. The debt relief covers the full stock of debt owed to the Fund as of end-2004, which remains outstanding at the time the member qualifies for such debt relief. The MDRI is financed by bilateral contributions and the Fund's own resources, as well as the resources already disbursed to the member under the HIPC Initiative (see Section VII above).

UM 268.6 per dollar. The BCM launched a foreign exchange auction market in late January 2007. By end-2008, in response to a weakening external position triggered by the global economic slowdown, the central bank moved away from the auction system and rationed foreign exchange. In December 2009, the central bank lifted all restrictions on current account transactions and restored the auction system. Mauritania's de facto exchange rate is classified as "other managed arrangement".

XI. Last Article IV Consultation

Discussions for the 2009 Article IV consultation were held in Nouakchott during December 2-17, 2009. The Country Report No. 10/168 was considered by the Executive Board on February 26, 2010.

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

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

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

Some recommendations have already been implemented, including: upgrading the financial sector legal framework and gradually increasing competition in the banking sector by encouraging entry of reputable international banks.

The fiscal transparency module of the Report on the Observance of Standards and Codes (ROSC) was based on two missions, conducted from May 14–24, 2002, and from August 6–13, 2002, respectively. The final fiscal ROSC report is published on the IMF website.

XIII. Technical Assistance (since 2005)**1. MCM**

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

Peripatetic TA missions by panel expert on foreign exchange reserves management: July 13–26, 2005.

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

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

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

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

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

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

2. FAD

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

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

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

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

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

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

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

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

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

TA mission on Tax policy, September 19-30, 2010

TA mission on fiscal and trade tariff systems, Feb 8-22, 2011

3. **LEG**

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

4. **STA**

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

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

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

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

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

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

5. **AFRITAC**

Several TA missions in 2005–11, including on national accounts and price statistics, tax and customs administration, Central government operations, budgeting the wage bill and bank supervision, debt management, debt statistics, and microfinance supervision and regulation.

XIV. Resident Representative

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

Annex II—Mauritania: Relations with the World Bank Group (JMAP Implementation Matrix)			
Title	Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Public Expenditure Review Update		June 2011
	Public Expenditure follow-up work	Fall 2011	June 2012
	Preparation of CAS	Fall 2011	Fall 2013
	Food Response Project	Fall 2011	Spring 2012
	Port of Nouakchott Project	Fall 2011	Spring 2012
	Implementation support – Public Sector Capacity Building Project	June 2011, various	
	Implementation support – Second Mining Sector Project	various	
IMF work program in next 12 months	Staff visit (budget discussions and follow-up on reform implementation)	July 2011	July 2011
	Subsidy Reform FAD TA mission	July 2011	Final Report September 2011
	Mining taxation TA mission	Fall 2011	Fall 2011
	Follow-up mission on tax administration	Fall 2011	Fall 2011
	Follow-up mission on public financial management	Spring 2012	Spring 2012
	Third Review under the ECF	September 2011	November 2011
	Fourth Review and Article IV mission	March 2012	May 2012

B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Collaborate on LIC DSA	March 2011	April 2011
Bank request to Fund	Collaborate on PER follow up work	Fall 2011	Spring 2012
C. Agreement on joint products and missions			
Joint products in next 12 months	LIC-DSA		June 2011
	Joint Staff Assessment Note		June 2011

ANNEX III. ISLAMIC REPUBLIC OF MAURITANIA—STATISTICAL ISSUES

As of May 31, 2011

I. Assessment of Data Adequacy for Surveillance

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

National accounts: Substantial work is still required to implement the statistical methodologies of the *1993 System of National Accounts (1993 SNA)* and rebase constant price estimates to 1998. The National Statistical Office (ONS) has finalized estimates for 1998–2001 and produced provisional estimates for 2002–06. The ONS has completed the 2007 estimates and is working on 2008–2009. AFRITAC West is providing technical assistance.

Price statistics: The current edition of the consumer price index (CPI), developed with the assistance of AFRISTAT has been published since May 2004. Geographical coverage of the CPI is limited to Nouakchott, the capital. Due to budget pressures, the ONS scaled back data collection by end-2010, and started estimating, rather than calculating, the CPI.

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

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

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

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS). Metadata need to be updated.

No data ROSC is available.

III. Reporting to STA (Optional)

Mauritania does not report government finance statistics to STA.

Monetary data using SRFs 1SR and 2SR are reported on a preliminary basis. The CBM also reports monetary data based on its own template to the *International Financial Statistics* database.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of May 2011

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	Mar. 2011	Apr. 2011	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Mar. 2011	Apr. 2011	M	M	NA
Reserve/Base Money	Mar. 2011	Apr. 2011	M	M	NA
Broad Money	Mar. 2011	Apr. 2011	M	M	NA
Central Bank Balance Sheet	Mar. 2011	Apr. 2011	M	M	NA
Consolidated Balance Sheet of the Banking System	Mar. 2011	Apr. 2011	M	M	NA
Interest Rates ²	Apr. 2011	Apr. 2011	W	W	I
Consumer Price Index	Mar. 2011	Apr. 2011	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	Mar. 2011	Apr. 2011	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Mar. 2011	Apr. 2011	M	M	I
External Current Balance	Dec. 2010	Mar. 2011	Q	Q	I
Exports and Imports of Goods and Services	Dec. 2010	Mar. 2011	Q	Q	I
GDP/GNP	2010 ⁷	Apr. 2011	A	A	I
Gross External Debt	Mar. 2011	Apr. 2011	M	M	I

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I), Not Available (NA).

⁷Preliminary.

INTERNATIONAL MONETARY FUND

AND

INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF MAURITANIA

Joint IMF/IDA Debt Sustainability Analysis Update

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

Approved by Patricia Alonso-Gamo and Dhaneshwar Ghura, (IMF)
and Jeffrey D. Lewis and Marcelo Giugale (World Bank)

June 7, 2011

The updated joint IMF-World Bank low-income country debt sustainability analysis (LICDSA) shows a moderate risk of debt distress for Mauritania.¹⁰ Under the baseline scenario, debt burden indicators do not exceed their policy-dependent indicative thresholds, although the present value (PV) of debt-to-GDP ratio briefly hits the relevant threshold. Public debt indicators remain on broadly declining paths. Stress tests suggest that Mauritania is particularly vulnerable to export shocks, thus highlighting the need to pursue prudent macroeconomic policies, maintain a cautious borrowing strategy, improve debt management, and diversify the economy.

1. **This DSA is consistent with the macroeconomic framework outlined in the IMF's Second Review under the Extended Credit Facility.** Compared to the previous DSA,¹¹ prepared in February 2010 in connection with Mauritania's request for an arrangement under the Extended Credit Facility, this analysis includes a much more favorable near-term evolution of the external sector and fiscal balance, reflecting higher prices for the country's metal exports. By the end of the medium term, the outlook for the current account is broadly similar to that assumed in the previous DSA. In addition, whereas the previous DSA assumed that full cancellation of debt owed to remaining bilateral creditors occurred in

¹⁰ The DSA presented in this document is based on the standard low-income countries (LIC) DSA framework. In accordance with the approach established in [A Review of Some Aspects of the Low-Income Country Debt Sustainability Framework](#), and in the absence of significant changes in debt vulnerabilities since the full DSA undertaken in February 2010, this analysis is presented in streamlined format.

¹¹ See [Islamic Republic of Mauritania -- Staff Report for the 2009 Article IV Consultation and Request for Arrangement under the Extended Credit Facility](#).

2010, only a portion of this debt was, in the event, cancelled. While agreements with Algeria and Libya were finalized in 2010, negotiations with the remaining creditor (Kuwait) are continuing, and the current DSA assumes that the remaining debt will be cancelled in 2011. The DSA's macroeconomic assumptions are described in Annex I.

2. **The DSA includes, as part of its baseline scenario, two \$105 million external loans not yet signed but currently being considered by the authorities in connection with the expansion of Mauritania's electricity generation and distribution system.** The external borrowing for the project is structured as one nonconcessional and one concessional loan, each for \$105 million.¹² The DSA incorporates conservative assumptions regarding the financial terms of the loans, and the growth dividend from the expansion of the electrical network.¹³ Resort to concessional lending will continue to guide the authorities' debt strategy in the near term—with nonconcessional lending remaining the exception. Over the longer run, new borrowing will gradually shift away from concessional financing.

3. **External public and publicly guaranteed (PPG) debt burden indicators under the baseline scenario remain below their policy-dependent thresholds, with the exception of a marginal breach of the debt-GDP threshold over the medium term** (Figure 1, Table 1).¹⁴ However, stress tests reveal that Mauritania's external debt sustainability is very vulnerable to an export shock, with the standard shock (export growth in 2011-12 returning to its historical average minus one standard deviation) leading to sizable breaches of all thresholds (Figure 1, Table 2). This reflects the country's reliance on mining exports (iron, copper, and gold), whose prices are highly volatile on global markets. This underscores the importance of policies aimed at diversifying the economy and a highly prudent approach to external borrowing.

4. **Indicators of overall public debt (external plus domestic debt) and debt service follow a similar pattern as those for external public debt** (Table 3). Public debt sustainability hinges on containing the fiscal deficit in the medium and long term, which will help reduce public debt to 34 percent of GDP by 2030. Like the external debt position, stress

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

¹³ While terms of the loans have still not been finalized, it is assumed that the concessional loan has a 35 percent grant element, while the nonconcessional loan has a grant element of 18 percent. The loans are disbursed over the 2012-14 period.

¹⁴ The indicative external debt burden thresholds for Mauritania are based on its classification as a "medium policy" performer given its (2007–09) score of 3.31 on the World Bank's Country Policy and Institutional Assessment index (CPIA). Median Policy Performers are those countries with a CPIA rating between 3.25 and 3.75.

tests (Table 4 and Figure 2) reveal that public debt is vulnerable to external shocks, notably shocks to the exchange rate, and to lower GDP growth.

5. **As was the case with the previous full DSA, this update concludes that Mauritania's external debt burden is subject to a moderate risk of debt distress.** The sustainability of Mauritania's external PPG debt appears vulnerable to adverse shocks to the prices of its key commodity exports. This highlights the need for prudent debt management, including continuing to seek external resources on concessional terms wherever possible. Adding domestic debt, while raising the debt burden indicators, does not change the overall assessment of debt vulnerabilities but highlights the need for continued fiscal consolidation. In the absence of debt relief from remaining creditors, assumed to occur in 2011, Mauritania's debt-to-GDP ratio would continue to breach the applicable threshold, leading to a more elevated risk of debt distress.

ANNEX I

MAIN MACROECONOMIC ASSUMPTIONS AND PRELIMINARY DSA RESULTS

Real GDP growth: Real GDP growth is projected to be sustained at 5.7 percent per year on average over 2011–15, supported by strong activity in the mining sector, which is primarily driven by significant investment programs boosting capacity of the national iron ore company, and private copper and gold production. Upon completion of these projects, we expect growth to converge to about 4½ percent per year by 2030. Near-term risks include volatility in the commodity market, notably a larger-than-expected drop in iron ore, gold, and copper prices from their current high levels, unfavorable climate conditions, a fall in the external demand, and a prolonged shortfall in power supply. On the upside, accelerated structural reforms to improve the business environment and higher return on ongoing investment could spur growth outside the traditional extractive industries sector.

Inflation: Continued prudent monetary and fiscal policies will lead to an inflation rate converging to about 5 percent in 2016 and thereafter.

Current account balance: After narrowing in 2011 amid high metal export prices and expanded production, the current account deficit is expected to widen over 2012–14 as a result of increased imports associated with the implementation of major mining and infrastructure projects, as well as a projected moderation of prices for key mining exports. The assumed longer-term current account deficit is broadly consistent with estimates of the norm (a deficit of about 7 percent of GDP) for Mauritania’s current account based on the methodology developed by the IMF’s Consultative Group on Exchange Rates (CGER).¹⁵

Government balances: The framework assumes the following: (a) non-oil revenue remains stable at about 23 percent of non-oil GDP throughout the period; and (b) grants are expected to stabilize at about ½ percent of GDP in the long run. The government’s non-oil deficit including grants is projected to improve gradually from 3.4 percent to about 0.3 percent of non-oil GDP between 2010 and 2030. The projected primary balance improves from a deficit of 1 percent of GDP in 2010 to a surplus of about 1½ percent of GDP in 2030.

External financing: The commitments made at the recent donors’ roundtable in Brussels have improved the country’s prospects for mobilizing external support. The baseline scenario assumes that, with the exception of the nonconcessional loan undertaken to finance the electricity generation plant discussed above, Mauritania will borrow essentially on concessional terms in the medium term. However, it is expected that new borrowing will

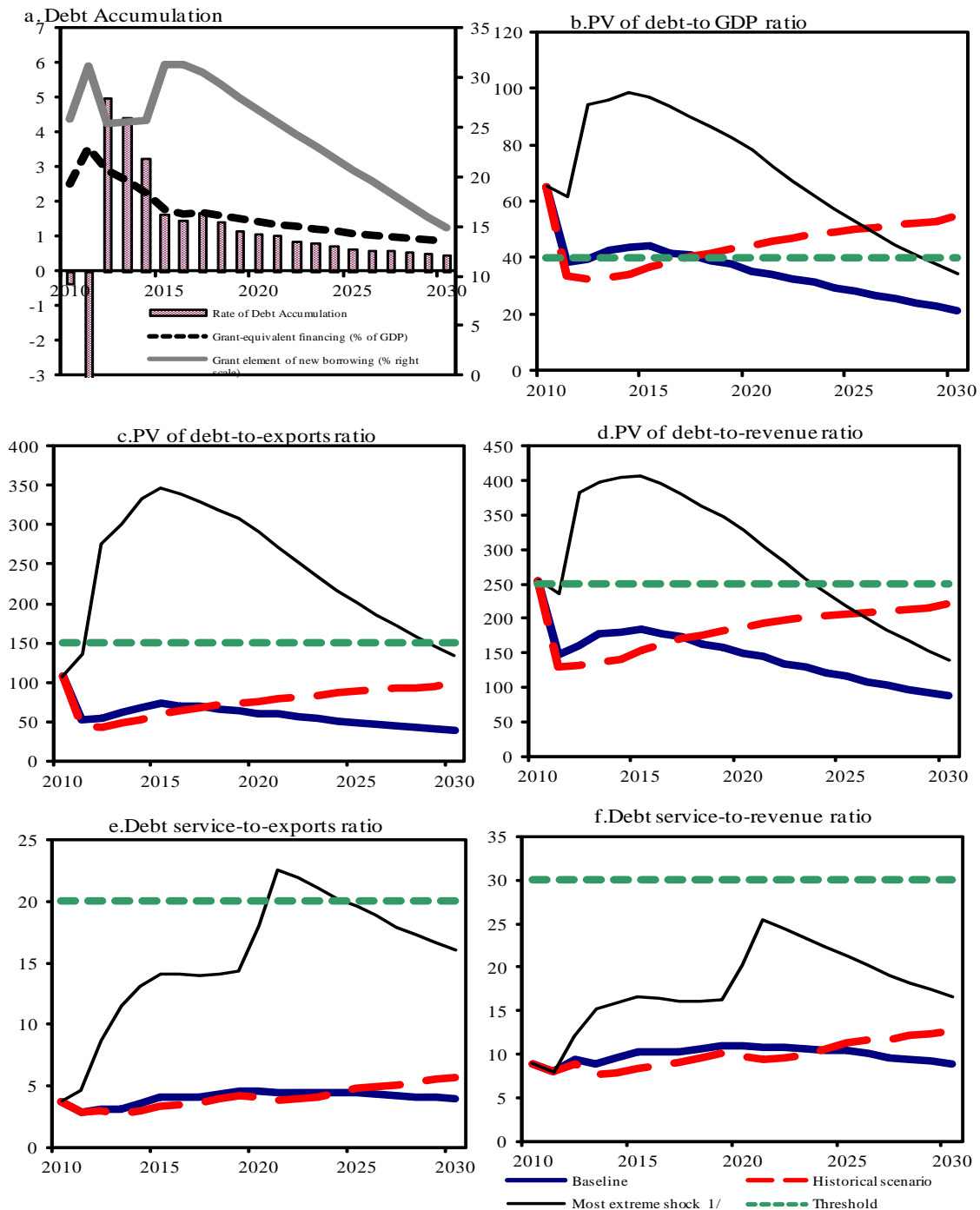
¹⁵ The CGER framework assesses the consistency of a country’s exchange rate with medium-term fundamentals, based on three complementary methodologies. Two of the three approaches involve estimating an equilibrium current account or “norm.”

gradually shift away from concessional financing over the longer run. As a result, the average grant element on new borrowing will decline to below 20 percent by 2030.

Domestic debt: mainly treasury bills held by the banking sector, stood at just under 9 percent of GDP at end- 2010. It is projected to stay around 7 percent at the horizon 2030.

Real interest rates: The real interest rate of the short-term domestic debt approaches 4 percent in 2016 and thereafter.

Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010–30 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock.

Table 1: External Debt Sustainability Framework, Baseline Scenario, 2007–30 1/
(In percent of GDP, unless otherwise indicated)

	Actual						Historical		Projections																
	2004	2005	2006	2007	2008	2009	Average	Standard Deviation	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2011-2015 Average	2020	2030	2016-2030 Average			
External debt (nominal) 1/	208.0	176.2	89.3	85.2	88.6	109.7																			
<i>Of which: public and publicly guaranteed (PPG)</i>	203.2	168.9	86.9	82.9	80.8	99.5			24.6	74.8	54.8	55.8	59.4	60.5	60.4	57.1	55.8	52.4	50.8	58.2	47.6	27.7	41.8		
Change in external debt	-16.2	-31.9	-86.8	-4.1	3.4	21.0			-22.8	-14.0	5.6	7.2	0.3	-1.5	-5.0	-3.0	-4.9	-3.0	-0.5	-4.3	-2.4	-3.0			
Identified net debt-creating flows	-23.0	-37.2	-59.3	0.5	-4.4	25.9			-17.3	3.5	5.0	4.3	3.9	-2.2	-2.0	-1.2	-1.1	-1.2	2.9	-0.9	-3.2	-1.1			
Non-interest current account deficit	34.4	46.7	0.5	16.3	14.8	10.7	15.8	15.8	3.7	6.2	7.7	7.7	8.6	6.9	6.0	5.1	5.1	6.3	7.4	6.6	5.3	5.9			
Deficit in balance of goods and services	46.3	59.4	4.7	22.4	22.2	16.7			11.3	6.3	5.1	5.1	7.0	5.7	5.3	3.7	3.2	5.4	5.8	6.5	3.4	4.7			
Exports	32.9	37.9	53.6	51.1	54.5	50.2			60.4	74.4	73.8	68.8	64.1	60.5	59.7	59.0	58.5	58.0	68.3	58.1	55.0	57.2			
Imports	79.2	97.3	58.3	73.4	76.6	66.9			71.7	80.7	78.9	73.9	71.1	66.2	65.0	62.7	61.7	63.4	74.2	64.6	58.4	61.9			
Net current transfers (negative = inflow)	-7.3	-8.7	-5.9	-5.0	-5.6	-4.3	-7.4	2.3	-4.5	-4.5	-3.8	-3.3	-3.5	-3.2	-3.1	-2.9	-2.8	-2.7	-3.7	-2.6	-1.8	-2.4			
<i>Of which: official</i>	-4.1	-5.4	-3.4	-2.5	-3.5	-2.1			-2.8	-2.5	-1.9	-1.5	-1.7	-1.4	-1.3	-1.2	-1.2	-1.1	-1.8	-1.0	-0.6	-0.9			
Other current account flows (negative = net inflow)	-4.6	-4.0	1.7	-1.1	-1.9	-1.7			-3.1	4.3	6.4	5.9	5.1	4.4	3.8	4.4	4.7	3.6	5.2	2.7	3.7	3.6			
Net FDI (negative = inflow)	-26.2	-43.8	-5.7	-10.8	-5.0	-1.3	-11.7	13.2	-4.6	4.0	1.1	-1.8	-4.9	-7.2	-5.8	-4.3	-4.3	-5.7	-1.8	-5.9	-7.4	-5.5			
Endogenous debt dynamics 2/	-31.2	-40.1	-54.1	-5.1	-14.1	16.6			-16.4	-6.6	-3.8	-1.5	0.2	-1.8	-2.3	-2.0	-1.9	-1.7	-2.7	-1.6	-1.1	-1.5			
Contribution from nominal interest rate	0.2	0.5	0.8	1.4	1.0	1.8			1.6	1.4	1.6	2.0	2.4	2.3	2.1	1.8	1.7	1.5	1.9	1.4	0.7	1.1			
Contribution from real GDP growth	-10.0	-9.1	-13.9	-0.8	-2.5	1.3			-4.7	-4.0	-3.9	-4.7	-4.8	-4.6	-4.4	-3.8	-3.5	-3.2	-4.4	-3.0	-1.7	-2.6			
Contribution from price and exchange rate changes	-21.4	-31.5	-41.1	-5.6	-12.6	13.5			-13.3	-4.0	-1.6	1.2	2.6	0.5	...	...	...	...	-0.3	-1.3	...	-1.2	
Residual (3-4) 3/	6.8	5.4	-27.5	4.6	7.8	-4.9			-5.5	-17.5	0.6	2.9	-3.6	0.7	-2.9	-1.8	-3.8	-1.8	-3.4	-3.4	0.8	-1.9			
<i>Of which: exceptional financing</i>	3.9	3.4	1.2	1.2	1.2	0.7			-5.2	-21.2	0.6	0.6	0.6	0.5	0.5	0.2	0.2	0.2	-3.8	0.2	0.0	0.2			
PV of external debt 4/	...	...	...	...	...	95.0			77.1	56.5	62.3	69.0	69.4	68.2	64.3	61.8	57.9	55.5	65.1	52.1	33.3	46.7	
In percent of exports	...	...	...	...	...	189.1			127.7	76.0	84.4	100.3	108.3	112.6	107.7	104.6	99.0	95.6	96.3	89.7	60.6	81.3	
PV of PPG external debt	...	...	...	...	...	84.8			65.1	38.5	39.6	42.7	44.0	44.1	41.8	41.0	38.7	37.6	41.8	35.4	21.5	31.3	
In percent of exports	...	...	...	...	...	168.9			107.8	51.7	53.7	62.1	68.6	72.9	70.1	69.5	66.2	64.9	61.8	60.9	39.0	54.5	
In percent of government revenues	...	...	...	...	...	380.2			255.7	147.8	161.0	177.2	180.9	185.1	177.2	173.3	163.2	158.4	170.4	148.7	87.0	130.6	
Debt service-to-exports ratio (in percent)	4.5	3.8	2.7	3.8	2.7	6.7			5.5	4.1	4.5	5.9	8.5	8.9	8.4	8.0	7.8	7.7	6.4	7.1	4.2	6.0			
PPG debt service-to-exports ratio (in percent)	4.3	3.6	2.1	3.0	2.2	4.2			3.8	2.8	3.1	3.1	3.6	4.0	4.1	4.1	4.3	4.5	3.3	4.5	4.0	4.3			
PPG debt service-to-revenue ratio (in percent)	4.5	-5.6	1.8	5.9	5.0	9.5			8.9	8.0	9.4	8.8	9.6	10.3	10.3	10.3	10.6	11.0	9.2	11.0	8.9	10.2			
Total gross financing need (Billions of U.S. dollars)	0.2	0.2	0.0	0.3	0.5	0.5			0.3	0.7	0.7	0.6	0.6	0.4	0.4	0.5	0.5	0.5	0.6	0.5	0.2	0.5			
Non-interest current account deficit that stabilizes debt ratio	50.6	78.6	87.3	20.5	11.4	-10.4			26.5	20.1	2.2	0.4	8.4	8.4	11.0	8.1	10.0	9.3	7.9	10.9	7.7	8.9			
Key macroeconomic assumptions																									
Real GDP growth (in percent)	5.2	5.4	11.4	1.0	3.5	-1.2	3.7	3.5	5.2	5.1	5.7	6.3	5.7	5.7	5.5	5.2	5.0	4.8	5.7	4.6	4.5	4.7			
GDP deflator in US dollar terms (change in percent)	10.6	17.9	30.4	6.7	17.4	-13.2	6.7	13.3	13.8	4.8	2.2	-1.5	-3.0	-0.6	1.4	2.7	2.7	2.8	0.4	2.8	2.9	2.8			
Effective interest rate (percent) 5/	0.1	0.3	0.7	1.7	1.4	1.7	0.9	0.6	1.8	1.8	2.4	2.7	2.8	2.8	2.6	2.5	2.3	2.2	2.5	2.1	1.7	2.0			
Growth of exports of G&S (US dollar terms, in percent)	35.6	43.3	105.2	2.8	29.6	-20.9	18.8	36.7	44.0	35.7	7.2	-2.3	-4.5	-0.7	5.5	6.8	6.8	6.9	7.1	7.8	6.8	6.9			
Growth of imports of G&S (US dollar terms, in percent)	62.3	52.8	-12.9	35.8	26.9	-25.1	17.3	28.4	28.3	24.0	5.7	-1.9	-1.4	-2.2	5.0	4.2	6.2	10.7	4.8	9.7	3.4	6.7			
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...	...	25.8	31.1	25.5	25.5	25.7	31.3	31.3	30.6	29.3	28.0	27.8	26.8	14.9	23.2	
Government revenues (excluding grants, in percent of GDP)	31.4	-24.3	62.1	26.3	23.4	22.3			25.5	26.0	24.6	24.1	24.3	23.8	23.6	23.7	23.7	23.8	24.6	23.8	24.7	24.1			
Aid flows (in Billions of US dollars) 7/	0.0	0.9	0.1	0.0	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1			
<i>Of which: Grants</i>	0.0	0.9	0.1	0.0	0.0	0.0			0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1			
<i>Of which: Concessional loans</i>	0.0	0.0	0.0	0.0	0.0	0.0			0.1	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.1			
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...			2.5	3.6	2.9	2.6	2.2	1.8	1.6	1.7	1.6	1.5	2.6	1.4	0.9	1.2	
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...			40.3	42.1	34.4	35.1	36.5	43.1	42.9	41.2	40.6	39.8	38.3	39.0	32.4	37.1	
Memorandum items:																									
Nominal GDP (Billions of US dollars)	1.5	1.9	2.7	2.9	3.5	3.0			3.6	4.0	4.3	4.5	4.6	4.9	5.2	5.6	6.1	6.5	...	7.0	14.6	...			
Nominal dollar GDP growth	16.3	24.3	45.3	7.8	21.5	-14.3			19.7	10.2	8.1	4.7	2.6	5.0	7.0	8.0	7.9	7.7	6.1	7.6	7.6	7.5			
PV of PPG external debt (in Billions of US dollars)	...	...	...	...	...	...			2.4	1.5	1.7	1.9	2.0	2.1	2.2	2.3	2.3	2.4	...	2.5	3.1	...	
(Pvt-Pvt-1)/GDPt-1 (in percent)	...	...	...	...	...	...			-0.4	-23.9	5.0	4.4	3.3	1.6	1.4	1.7	1.4	1.2	-1.9	1.1	0.5	0.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010–30
(In percent)

	2010	2011	2012	2013	2014	Projections						2030
						2015	2016	2017	2018	2019	2020	
PV of debt-to-GDP ratio												
Baseline	65	38	40	43	44	44	42	41	39	38	35	21
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2010-2030 1/	65	34	32	33	34	37	39	40	42	43	44	55
A2. New public sector loans on less favorable terms in 2010-2030 2/	65	40	43	47	50	51	50	49	48	47	46	35
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	65	39	44	46	48	48	46	44	42	41	39	23
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	65	61	94	96	99	97	94	90	86	83	78	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	65	43	50	53	55	54	52	50	48	46	44	26
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	65	33	32	35	37	36	35	34	32	31	29	19
B5. Combination of B1-B4 using one-half standard deviation shocks	65	50	71	74	77	75	73	70	67	64	61	31
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	65	52	55	58	61	60	58	56	53	51	49	29
PV of debt-to-exports ratio												
Baseline	108	52	54	62	69	73	70	69	66	65	61	39
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2010-2030 1/	108	45	44	48	53	61	65	68	71	74	76	100
A2. New public sector loans on less favorable terms in 2010-2030 2/	108	53	58	68	78	84	84	83	82	81	79	64
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	108	50	53	60	68	71	69	67	65	63	60	38
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	108	136	276	302	332	346	339	329	319	308	291	135
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	108	50	53	60	68	71	69	67	65	63	60	38
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	108	44	44	51	57	60	59	57	55	53	51	35
B5. Combination of B1-B4 using one-half standard deviation shocks	108	83	118	131	146	152	149	144	140	135	128	68
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	108	50	53	60	68	71	69	67	65	63	60	38
PV of debt-to-revenue ratio												
Baseline	256	148	161	177	181	185	177	173	163	158	149	87
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2010-2030 1/	256	130	131	137	140	154	163	171	176	182	186	223
A2. New public sector loans on less favorable terms in 2010-2030 2/	256	152	173	193	207	213	211	207	202	197	193	143
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	256	151	177	192	199	200	195	187	179	171	162	94
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	256	236	383	398	406	407	397	380	364	348	329	139
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	256	164	201	218	227	228	222	213	203	194	185	107
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	256	127	132	145	152	152	148	142	136	129	124	78
B5. Combination of B1-B4 using one-half standard deviation shocks	256	193	290	307	315	317	308	296	283	270	256	125
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	256	201	222	241	251	252	245	235	225	214	204	118
Debt service-to-exports ratio												
Baseline	4	3	3	3	4	4	4	4	4	5	5	4
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2010-2030 1/	4	3	3	3	3	3	3	4	4	4	4	6
A2. New public sector loans on less favorable terms in 2010-2030 2/	4	3	3	3	4	4	4	4	5	5	5	6
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	4	3	3	3	4	4	4	4	4	4	4	4
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	4	5	9	12	13	14	14	14	14	14	18	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	4	3	3	3	4	4	4	4	4	4	4	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	4	3	3	3	3	4	4	4	4	4	4	3
B5. Combination of B1-B4 using one-half standard deviation shocks	4	4	5	6	7	7	7	7	7	8	8	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	4	3	3	3	4	4	4	4	4	4	4	4
Debt service-to-revenue ratio												
Baseline	9	8	9	9	10	10	10	10	11	11	11	9
A. Alternative Scenarios												
A1. Key variables at their historical averages in 2010-2030 1/	9	8	9	8	8	8	9	9	10	10	10	13
A2. New public sector loans on less favorable terms in 2010-2030 2/	9	8	9	9	10	10	10	11	11	12	13	12
B. Bound Tests												
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	9	8	10	10	11	11	11	11	12	12	12	10
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	9	8	12	15	16	17	16	16	16	16	20	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	9	9	12	11	12	13	13	13	13	14	14	11
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	9	8	9	8	9	9	10	10	10	10	10	8
B5. Combination of B1-B4 using one-half standard deviation shocks	9	9	12	13	14	15	15	15	15	15	17	14
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	9	11	13	12	13	14	14	14	15	15	15	12
<i>Memorandum item:</i>												
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	18	18	18	18	18	18	18	18	18	18	18	18

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline, while grace and maturity periods are the same as in the baseline.

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–30
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate					Projections				
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	90.1	90.6	109.9			84.6	63.1	63.7	67.2	68.2	67.6	69.1	53.8	34.1	48.3
<i>Of which: foreign-currency denominated</i>	82.9	80.8	99.5			74.8	54.8	55.8	59.4	60.5	60.4	61.0	47.6	27.7	41.8
Change in public sector debt	-2.2	0.5	19.2			-25.3	-21.5	0.6	3.5	0.9	-0.5	-7.0	-2.9	-2.3	-2.2
Identified debt-creating flows	-6.3	0.3	26.0			-27.6	-25.8	-1.1	1.5	0.1	-0.7	-8.9	-4.3	-3.6	-3.4
Primary deficit	-0.4	4.8	7.7	0.6	13.8	1.0	1.0	2.4	1.5	0.8	-0.5	1.0	-0.8	-1.6	-1.1
Revenue and grants	27.1	24.2	23.1			26.7	27.4	25.6	25.1	25.2	24.5	25.7	24.4	25.2	24.6
<i>of which: grants</i>	0.9	0.8	0.8			1.2	1.4	1.0	1.0	0.9	0.7	1.0	0.6	0.5	0.6
<i>of which: oil revenue</i>		2.3	2.4			1.4	1.0	0.8	0.8	0.8	0.7	0.9	4.3	2.1	3.1
Primary (noninterest) expenditure	26.7	29.0	30.9			27.7	28.4	28.0	26.5	26.0	24.0	26.8	23.6	23.7	23.6
Automatic debt dynamics	-7.0	-5.8	17.6			-23.1	-4.6	-4.2	-0.6	-1.3	-0.7	-5.7	-3.6	-2.1	-2.5
Contribution from interest rate/growth differential	-0.9	-2.6	4.2			-6.2	-4.1	-2.9	-3.0	-2.8	-3.1	-3.7	-2.5	-1.4	-2.2
<i>of which: contribution from average real interest rate</i>	0.1	0.5	3.1			-0.8	0.0	0.5	0.7	0.8	0.6	0.3	0.0	0.1	0.1
<i>of which: contribution from real GDP growth</i>	-0.9	-3.1	1.1			-5.4	-4.1	-3.4	-3.8	-3.6	-3.7	-4.0	-2.5	-1.6	-2.3
Contribution from real exchange rate depreciation	-6.1	-3.2	13.4			-16.9	-0.5	-1.3	2.5	1.5	2.3	-2.1	...	...	-0.2
Other identified debt-creating flows	1.1	1.3	0.7			-5.6	-22.3	0.7	0.6	0.6	0.5	-4.2	0.2	0.0	0.2
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	1.1	1.3	0.7			-5.6	-22.3	0.7	0.6	0.6	0.5	-4.2	0.2	0.0	0.2
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	4.0	0.2	-6.7			2.4	4.4	1.7	2.0	0.8	0.2	1.9	1.3	1.3	1.2
Other Sustainability Indicators															
PV of public sector debt	7.2	9.8	95.3			74.9	46.7	47.5	50.5	51.6	51.3	53.8	41.6	27.9	37.8
<i>Of which: foreign-currency denominated</i>	0.0	0.0	84.8			65.1	38.5	39.6	42.7	44.0	44.1	45.7	35.4	21.5	31.3
<i>Of which: external</i>	...	...	84.8			65.1	38.5	39.6	42.7	44.0	44.1	45.7	35.4	21.5	31.3
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	...
Gross financing need 2/	11.1	18.1	23.1			12.8	12.9	13.2	12.0	11.6	10.1	12.1	7.8	7.3	8.0
PV of public sector debt-to-revenue and grants ratio (in percent)	26.6	40.7	411.5			280.7	170.7	185.3	201.5	204.8	209.1	208.7	170.3	110.7	153.8
PV of public sector debt-to-revenue ratio (in percent)	27.5	42.1	426.9			294.1	179.6	193.0	209.5	212.3	215.2	217.3	174.7	113.1	157.6
<i>Of which: external 3/</i>	...	...	380.2			255.7	147.8	161.0	177.2	180.9	185.1	184.6	148.7	87.0	130.6
Debt service-to-revenue and grants ratio (in percent) 4/	23.0	28.6	17.1			14.3	12.4	13.6	12.9	13.6	14.1	13.5	13.2	10.8	12.4
Debt service-to-revenue ratio (in percent) 4/	23.7	29.5	17.8			15.0	13.1	14.2	13.4	14.1	14.6	14.1	13.6	11.1	12.7
Primary deficit that stabilizes the debt-to-GDP ratio	1.8	4.3	-11.5			26.3	22.5	1.8	-2.1	-0.1	0.0	8.1	2.1	0.7	1.2
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	1.0	3.5	-1.2	3.7	3.5	5.2	5.1	5.7	6.3	5.7	5.7	5.6	4.6	4.5	4.7
Average nominal interest rate on forex debt (in percent)	1.2	1.0	1.0	0.7	0.5	1.1	1.1	1.5	1.6	1.6	1.6	1.4	1.6	1.9	1.7
Average real interest rate on domestic debt (in percent)	16.7	6.0	30.5	8.2	11.1	-6.3	2.9	5.9	10.3	12.3	9.9	5.8	4.0	2.9	3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.1	-4.0	16.3	-4.6	10.8	-17.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.3	9.0	-13.2	7.3	12.1	23.5	9.9	6.7	2.0	-0.2	1.7	7.3	4.9	5.0	4.9
Growth of real primary spending (deflated by GDP deflator, in percent)	0.2	12.5	5.1	4.8	15.6	-5.6	7.8	4.3	0.7	3.7	-2.5	1.4	4.6	4.6	4.6
Grant element of new external borrowing (in percent)	...	...	...	...	...	25.8	31.1	25.5	25.5	25.7	31.3	27.5	26.8	14.9	...

Sources: Country authorities; and staff estimates and projections.

1/ Non-financial public sector gross debt.

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

3/ Revenues excluding grants.

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

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

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt 2010–30

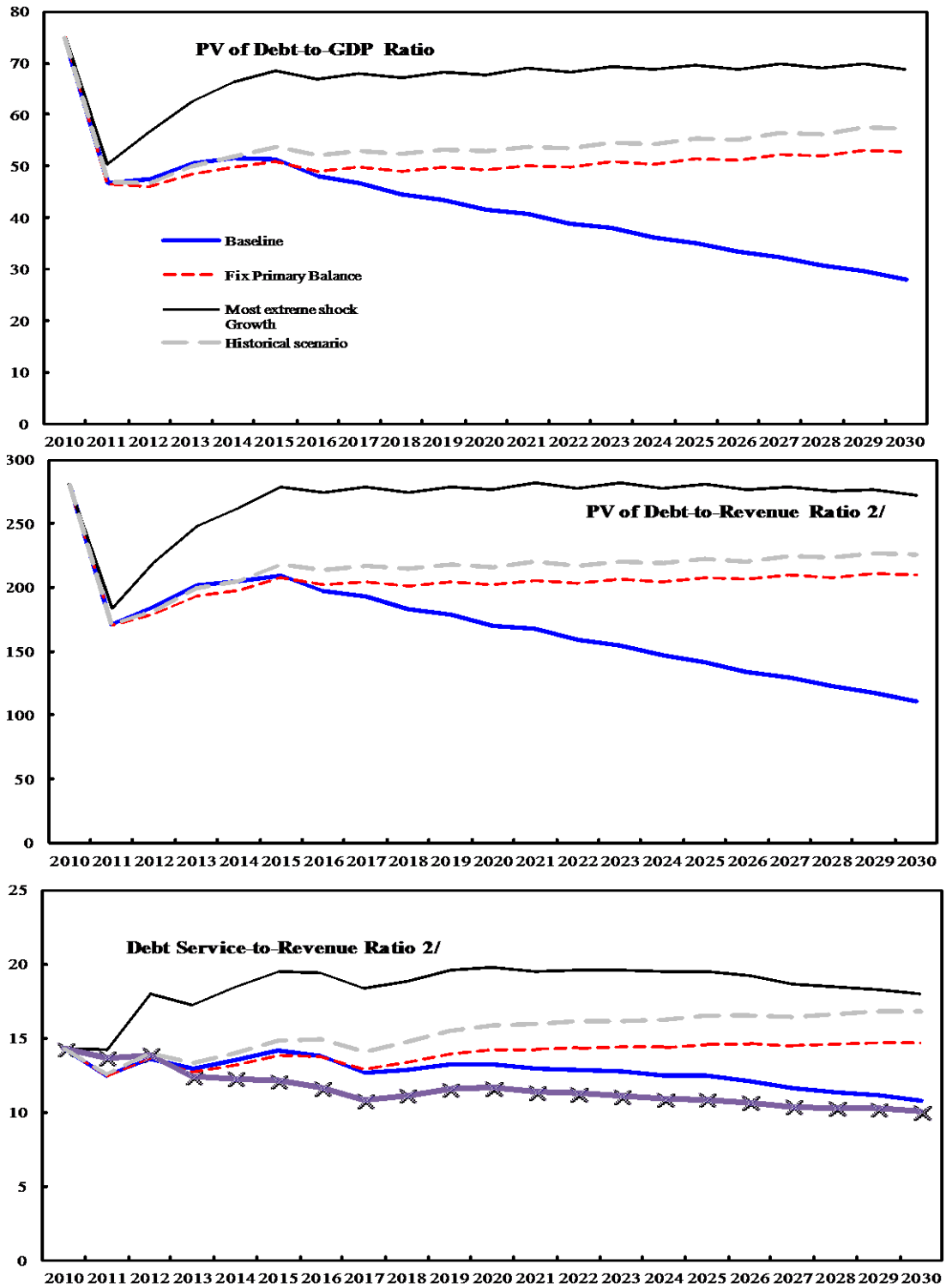
	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	75	47	48	51	52	51	42	28
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	75	47	47	50	52	54	53	57
A2. Primary balance is unchanged from 2010	75	47	46	49	50	51	49	53
A3. Permanently lower GDP growth 1/	75	47	49	53	55	56	54	66
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	75	50	57	62	66	69	68	69
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	75	60	72	75	76	76	62	43
B3. Combination of B1-B2 using one half standard deviation shocks	75	55	62	67	70	71	66	60
B4. One-time 30 percent real depreciation in 2011	75	73	71	73	73	73	59	43
B5. 10 percent of GDP increase in other debt-creating flows in 2011	75	57	57	60	61	61	50	34
PV of Debt-to-Revenue Ratio 2/								
Baseline	281	171	185	202	205	209	170	111
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	281	171	182	199	205	218	215	226
A2. Primary balance is unchanged from 2010	281	170	180	194	198	208	202	210
A3. Permanently lower GDP growth 1/	281	172	190	210	218	227	220	260
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	281	183	220	248	262	278	276	272
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	281	219	281	300	303	310	255	170
B3. Combination of B1-B2 using one half standard deviation shocks	281	199	241	266	276	290	269	236
B4. One-time 30 percent real depreciation in 2011	281	266	276	291	291	297	241	172
B5. 10 percent of GDP increase in other debt-creating flows in 2011	281	207	222	240	243	248	203	134
Debt Service-to-Revenue Ratio 2/								
Baseline	14	12	14	13	14	14	13	11
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	13	14	13	14	15	16	17
A2. Primary balance is unchanged from 2010	14	12	14	13	13	14	14	15
A3. Permanently lower GDP growth 1/	14	13	14	13	14	15	15	18
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	14	13	15	15	16	17	18	19
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	14	12	16	17	18	18	17	14
B3. Combination of B1-B2 using one half standard deviation shocks	14	13	16	16	17	17	17	17
B4. One-time 30 percent real depreciation in 2011	14	14	18	17	18	20	20	18
B5. 10 percent of GDP increase in other debt-creating flows in 2011	14	12	15	15	15	16	15	12

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Figure 2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2010–30 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2020.

2/ Revenues are defined inclusive of grants.



Press Release No. 11/248
FOR IMMEDIATE RELEASE
June 22, 2011

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review Under ECF Arrangement for Mauritania and Approves US\$17.6 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed its second review of Mauritania's economic performance under a program supported by the Extended Credit Facility arrangement (ECF)¹⁶. The decision enables Mauritania to draw an additional amount equivalent to SDR 11.04 million (US\$17.6 million), bringing total disbursements under the arrangement to an amount equivalent to SDR33.12 million (about US\$52.9 million).

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

Following the Executive Board discussion, Ms. Nemat Shafik, Deputy Managing Director and Acting Chair, issued the following statement:

“The Mauritanian authorities are to be commended for the strong performance under the ECF-supported program. Sound policies, coupled with rising external demand and export prices, have helped restore macroeconomic stability and improve near-term prospects. At the

¹⁶ The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (<http://www.imf.org/external/np/exr/facts/ecf.htm>). The Fund reviews the level of interest rates for all concessional facilities every two years.

same time, high unemployment, widespread poverty, and vulnerability to external shocks are still serious challenges that need to be addressed decisively.

“The authorities are firmly committed to fiscal consolidation, while increasing spending in the short run to mitigate the impact of higher fuel and food prices, mostly through temporary subsidy payments. To this end, it will be important to enhance revenue mobilization, reduce nonpriority spending, and pursue a cautious borrowing strategy. Moreover, fiscal discipline and social cohesion would also be strengthened by the authorities’ plans to replace general subsidy schemes by well-targeted and more cost effective social safety nets.

“While the current monetary policy stance appears appropriate, the authorities stand ready to respond to any inflationary pressures. The increased flexibility of the exchange rate over the past year is commendable and should be reinforced by continuing to limit foreign exchange intervention to smoothing excessive volatility. Additional external buffers by increasing net international reserves are also needed to further reduce vulnerability.

“Ongoing plans to reform the financial sector, including through improved banking supervision and accounting standards, are welcome. Timely implementation of the latest safeguards assessment recommendations is of the highest priority.

“The newly finalized poverty-reduction strategy paper appropriately addresses the main challenges facing Mauritania, and continued close engagement with donors will be important. The planned structural reforms aimed at restructuring public enterprises, enhancing the labor market, strengthening transparency, and improving the business climate are key to promote sustainable employment and broad-based inclusive growth.”

Statement by Kossi Assimaidou
Executive Director for The Islamic Republic of Mauritania
June 22, 2011

1. Introduction

On behalf of my Mauritanian authorities, I would like to thank staff for the quality of the policy discussions held last April in Nouakchott, as part of the second review under the ECF.

Mauritania continues to make good progress towards economic stabilization while growth has resumed strongly following the 2009 recession thanks in part to a surge in the prices of the country's main mineral exports. Program performance was satisfactory as Mauritania met all end-December 2010 quantitative performance criteria and all but one structural benchmark.¹⁷ Although the indicative target on poverty-related expenditures was missed due to a delay in the execution of the public investment program, my authorities would like to reiterate their firm commitment to the fight against poverty, which remains at the heart of their development agenda.

In their efforts to stabilize the economy and raise growth to higher, more inclusive levels, my authorities continue to face significant challenges due to the sharp increase in international fuel and food prices and the effects of the social unrest in the region. To address these concerns, they have designed and are currently implementing an ambitious emergency program which has built-in safeguards to avoid jeopardizing fiscal balances.

My Mauritanian authorities are aware of the risks associated with a potential reversal of the international prices of the commodities they export. They welcome the conclusions of the Ex-Post Assessment in this regard, and share the view that further efforts are needed to diversify the economy away from extractive industries. Accordingly, they have agreed to save more of the windfall from the current mining boom, notably through a more rapid build-up of foreign exchange reserves. Thus, in agreement with staff, the NIR program targets for end-June and end-December 2011 have been increased. However, my authorities would also like to stress the importance of continued financial support from the international community through the provision of steady financial aid to shield the country from potential adverse shocks and help them fulfill their development agenda.

2. Recent economic developments

In 2010, Mauritania's real GDP grew by 5.2 percent as the country swiftly recovered from the 2009 recession (growth declined by 1.2 percent in 2009). Thanks to the dynamism of the mining sector and the higher export prices of iron ore, gold, and copper, the current account deficit narrowed while the build-up of international reserves gathered pace. Higher tax

¹⁷ Due to a delay in the bidding process for selecting a consulting firm to conduct the taxpayer census, the benchmark on the issuance of a single taxpayer identification number to all taxpayers could not be met.

receipts from the mining sector also helped improve the **fiscal balance** (although under-execution of public investment also played a role in this regard).

Following the end-2009 move by the central bank to reduce the main policy rate from 12 percent to 9 percent, the accommodative **monetary policy** stance led to an increase in the credit to the private sector which rose by 14.2 percent (compared to 3.7 percent in 2009). This helped support the economic recovery. Nonetheless, the monetary authorities have underscored their intention to increase the main policy rate (or reserve requirements) should signs of inflationary pressures appear. In this regard, it is to be noted that, despite high international fuel and food prices, inflation remained in the single-digits in 2010 (6.1 percent).

As regards the **medium-term outlook**, my authorities agree with staff that economic prospects remain favorable despite high energy and food prices. They are, however, aware that this outlook is dependent on a continuously improving international environment and their pursuit of sound policy implementation, including infrastructure development. In that context, they would like to stress that a crucial element in the support of the ongoing economic recovery and the promotion of the business environment is the expansion of the capacity of the **electricity sector** to provide adequate supply to the economy and keep pace with a fast growing demand. My authorities have therefore undertaken the construction a 120 MW power plant which will be financed in part by a nonconcessional loan of \$105 million. I would like to stress in this regard that this loan is consistent with the need to preserve debt sustainability, as indicated in the paper on the debt sustainability analysis. On behalf of my Mauritanian authorities, I would also like to reiterate their commitment to a prudent debt strategy as they continue to make every effort to borrow exclusively on concessional terms.

3. Policies under the ECF

Better targeting subsidies. As detailed in the staff report, Mauritania has launched an ambitious emergency program (*Programme de Solidarité*) to alleviate the impact of rising food and fuel prices on the population. The program involves subsidies for various products (food, cooking gas, fertilizers, seeds) and seeks to promote income-generating activities for the youth in urban and in rural areas in the agriculture and fishing sectors. Despite the size of the program —3.4 percent of GDP— my authorities intend to keep the fiscal deficit (basic non-oil) within the 2011 target under the ECF (1.6 percent of non-oil GDP). To remain within this target, the emergency program will be financed by additional mining receipts, land sales, and a prioritization of investment expenditures. In case of a revenue shortfall, the authorities will further cut non-essential current expenditures.

However, given the costs associated with the emergency program and concerns over the need to better target vulnerable groups, my authorities intend to gradually transition from existing subsidies to a less costly and better targeted cash transfer program. Efforts are under way with the assistance of the World Food Program to update the available information on vulnerable groups who would eventually benefit from such cash transfers with a view to resume the

provision of cash transfers by 2012. In an effort to contain subsidy payments, my authorities are gradually increasing diesel fuel prices and plan to apply market prices to large consumers (such as mining companies) for their purchase of petroleum products in the next few weeks.

Containing the wage bill. To help contain the wage bill, my authorities are committed to accelerating civil service reform. Efforts to reconcile the payroll on the basis of the outcome of the census of all public workers are under way. This will not only help remove ghost workers from public payroll but also improve payroll budgeting execution and management.

Strengthening tax revenues. To enable an increase in poverty-related spending, efforts are under way to increase tax revenues through a number of important measures detailed in the LOI, the most important of which are an increase in excises on tobacco and cars, the preparation of a plan to recover tax arrears, the gradual elimination of VAT withholding-at-source, and the finalization of a taxpayer census.

Reforming public enterprises. With the assistance of development partners, including the World Bank and the *Agence Française de Développement*, efforts are under way to clarify the relations between public enterprises and the government through the conduct of a study on the financial situation of all major public enterprises. This study will be based on the financial and technical audits of five major public enterprises, including through an update of the audit of the electricity company. The study will help identify problems faced by these companies and improve the monitoring of their performance with a view to reducing government transfers.

4. Conclusion

My authorities have continued to make satisfactory progress under the ECF. Based on their strong achievements, I would like to request the Board's support for the completion of the second review under the ECF. I would also like to request Executive Directors' approval of the modification of the end-June 2011 performance criteria related to net international reserves, net domestic assets, and the basic fiscal balance, resulting from the country's improved economic situation and the impact of the emergency program.