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Islamic Republic of Mauritania: Sixth Review Under the Three Year Extended Credit Facility Arrangement and Request of Nonobservance of Performance Criterion—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Islamic Republic of Mauritania

In the context of a combined discussion of the Sixth Review Under the Three-Year Extended Credit Facility Arrangement and Request of Nonobservance of Performance Criterion with the Islamic Republic of Mauritania, the following documents have been released and are included in this package:

- The staff report for the Sixth Review Under the Three-Year Extended Credit Facility Arrangement and Request of Nonobservance of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on May 2, 2013, with the officials of the Islamic Republic of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 31, 2013. 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 Press Release, summarizing the views of the Executive Board as expressed during its June 17, 2013, discussion of the staff report on issues related to the IMF arrangement.

- A statement by the Executive Director for the Islamic Republic of Mauritania.

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

Letter of Intent sent to the IMF by the authorities of the Islamic Republic of Mauritania *
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

May 31, 2013

SIXTH REVIEW UNDER THE THREE-YEAR EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context: Mauritania benefited from a strong economic rebound in 2012, despite the poor performance of mining, and growth is maintaining its momentum in 2013. Construction, services, and agriculture are driving economic growth. Fiscal and external buffers remain at near-record levels due to windfall donor assistance, fishing proceeds, and better tax collection.

Program: Mauritania has performed strongly under the three-year ECF-supported arrangement, which will end with this review. The authorities met all but one of the quantitative performance criteria. They request a waiver for the nonobservance of the continuous performance criterion on nonconcessional borrowing, on the basis of corrective actions. The authorities met the prior action for the completion of this review, and the structural benchmarks for March 2013. However, the structural benchmarks for end-December have not been met due to delays. The authorities have confirmed their interest in a successor Fund-supported program.

Outlook: The near-term outlook remains favorable despite subdued global demand. But several downside risks to the growth outlook are still prominent, and the economy is vulnerable to negative terms-of-trade shocks. Reducing the economy's vulnerabilities to external shocks and ensuring more inclusive growth, which will require a comprehensive structural reform strategy, remain the overarching priorities. Further, Mauritania needs to overcome longstanding obstacles to more inclusive growth: a narrow production base, high growth dependence on mining sector developments over the medium term, a weak business climate, and elevated poverty and unemployment.

Approved By
Daniela Gressani and Dhaneshwar Ghura

Discussions were held in Nouakchott during April 23–May 2, 2013. The team comprised M. Vera Martin (head), R. Blotevogel, L. Moers, and A. Touré (all MCD). A. Mati (outgoing mission chief) participated in the first week of discussions. T. Najeh (Resident Representative) assisted. Mr. Sidi Bouna (EOD) attended most meetings.

The mission met with President Mohamed Ould Abdel Aziz, the Governor of the Central Bank Sid' Ahmed Ould Raiss, Minister of Finance Thiam Diombar, Minister of Economic Affairs and Development Sidi Ould Tah, and other ministers, senior officials, parliamentarians, private sector representatives, and representatives of the diplomatic community, donors, and civil society.

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BACKGROUND

1. **Mauritania's economy is set to register a second year of strong economic growth**. After last year's rebound from the drought, economic activity in 2013 is powered by strong agriculture and services, smoother mining production, and large-scale infrastructure projects: the new airport, an overland electricity line, and a water supply system. Policy space has improved considerably through the ECF-supported program, and the fiscal stance has also moved to a more prudent path. The spike in iron ore prices and strong mining inflows will protect external and fiscal buffers.

2. **The upcoming legislative elections will take place in a difficult political environment**. After a long disagreement on the organization of the legislative elections, a newly created electoral commission (*Commission Electorale Nationale Indépendante,* CENI) has announced parliamentary elections in October 2013. Opposition parties, whose participation in the elections has not been confirmed, have complained that improvements in living standards have not spread to the population in general. While the conflict in Mali has had a limited effect—amidst significant donor coordination to support refugees—the political climate has turned more hostile as a result of an open dispute between the government and one of the country's leading businessmen. Pre-electoral spending pressures are limited, and most analysts expect policy continuity following the October 2013 legislative and the 2014 presidential elections.

3. **Economic growth is not yet sufficiently inclusive to alleviate poverty and unemployment**. Mauritania's strong macroeconomic performance has not translated into improving living standards more broadly. Social safety nets to protect the most vulnerable are not yet fully in place. Poor infrastructure, an unfavorable business climate, significant human capital deficiencies, and restricted access to finance constrain private-sector development, which remains essential for diversifying the economy away from commodity dependence.

PROGRAM IMPLEMENTATION

4. **Program implementation has been strong, although the authorities missed the continuous performance criterion on medium and long-term nonconcessional external debt**.

- ***The authorities met all quantitative performance criteria (PC) for end-December 2012*** with comfortable margins (TMU, Table 1). However, they missed the continuous performance criterion on contracting or guaranteeing of new medium and long-term nonconcessional external debt in January (see below), when parliament ratified three nonconcessional loans from regional development funds for essential infrastructure projects.

Mauritania: Nonconcessional Loans Approved in January 2013				
Creditor	Project	Amount in mln U.S. dollars	Percent of GDP	Grant Element
Saudi Fund for Development	High-voltage electricity line between two largest cities	75.0	1.7	26.6
Arab Fund for Economic and Social Development	Clean water supply in rural areas	71.0	1.6	30.4
Islamic Development Bank	Clean water supply in rural areas	47.3	1.1	22.3
Source: Mauritanian authorities.				

- ***The structural reform agenda under the ECF-supported program is nearing completion*** (TMU, Table 1). The prior action for the completion of the Sixth review, fixing the modality of the repayment of government claims to the Central Bank of Mauritania (CBM) and the Ministry of Finance (originally structural benchmark for end-December) was completed on May 2. The structural benchmark for March 2013—on the audit of the CBM's net international reserve and net domestic assets data as of end-December 2012—was completed on time. The two end-December benchmarks have not been completed. The study of the main public enterprises is still ongoing, while the review of electricity tariffs is still outstanding (LOI, ¶2 and Tables 2a and 2b). As regards public enterprises, the report for Mauripost has been finalized, while those related to SNDE, SONIMEX, SOMAGAZ are being prepared. Prospects for the increase in electricity tariffs for large consumers before the end of the program appear dim because of delays in the tariff study and the challenging political environment of the upcoming elections.

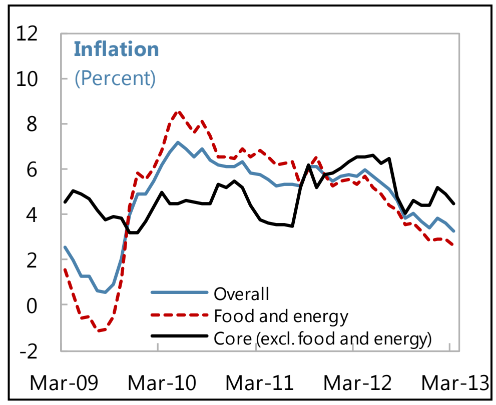
5. **The authorities request a waiver for the nonobservance of the performance criterion on contracting or guaranteeing of new medium and long-term nonconcessional external debt, based on corrective actions**. Staff supports this request. As corrective actions, the authorities will sign in early June a memorandum of understanding that enhances coordination between the ministries and the central bank (which is in charge of coordinating the ECF supported program) and, crucially, establishes early consultation on new external borrowing with Fund staff in advance (LOI ¶17).

6. **The authorities have stated their interest in a successor arrangement with the Fund**. They consider a new Fund-supported program a positive signal to investors, donors, and domestic citizens of their commitment to maintaining macroeconomic stability, strengthening governance, and ensuring more socially inclusive growth. In this context, they agreed to set quarterly indicative targets for NIR, NDA, the non-oil balance, and external borrowing for the remainder of 2013, to facilitate a smooth transition to the new program.

RECENT ECONOMIC DEVELOPMENTS

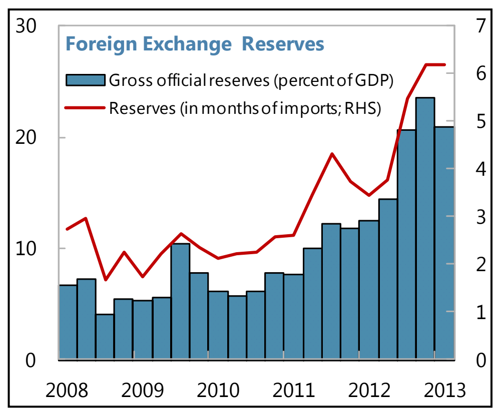
7. Strong economic growth, a buoyant fiscal performance, and record-high external buffers are Mauritania's key achievements under the current ECF-supported program (LOI, ¶4–7, Tables 1–8 and Figures 1–5):

- ***GDP growth in 2012 reached 6.9 percent,*** the result of a vibrant recovery in agriculture, a record performance in fishing, and brisk growth in construction activity associated with large infrastructure projects. The mining sector was, however, a drag on growth as it struggled with technical difficulties. Nonextractive GDP growth reached 8.0 percent.



- ***Inflation has been subdued***, with headline inflation falling to 3.3 percent (y-o-y) in March. Prices for domestically produced food have been rising weakly following the successful agricultural campaign, and administered prices for key imported food staples have continued to limit pass-through from international food prices.

- ***The current account deficit widened to 31.6 percent of GDP in 2012*** due to large FDI-financed investments in mining. Excluding these investments sharply reduces the deficit to 2.7 percent of GDP. The earlier-than-expected payment of the EU fishing license fee (at 2.1 percent of GDP and expected initially in 2013) and the exceptional one-off grant from Libya in the context of the 2010 Donor Roundtable (about 5 percent of GDP) further buttressed the external position, pushing gross foreign exchange reserves to US$962 million at end-2012, equivalent to 6.2 months of imports (almost double the target projected for 2012 at the inception of the current ECF-supported program).



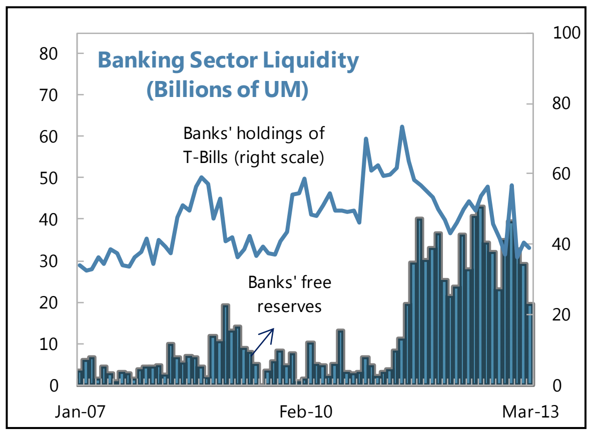
- ***The ouguiya continued to depreciate gradually***.[1] On a real effective basis, the exchange rate depreciated by 3.3 percent in 2012. However, the downward course has come to a halt since the beginning of this year, owing to the CBM's larger sale of foreign

[1] The exchange rate is de facto classified as "other managed arrangement."

exchange in the official market. Note, however, that about half of the CBM's foreign exchange sales in 2012 were performed with off-market operations, which provide foreign exchange to public sector entities and food importers at the market exchange rate.

- ***Fiscal performance has been strong.*** Revenues were significantly above program levels thanks to better tax collection efforts and improved tax administration; to the early payment of the EU fishing license fee; and to the exceptional grant from the 2010 Donor Roundtable. Higher revenues were used to finance higher food subsidies due to the drought emergency program; the repayment of domestic arrears accumulated in 2011 and electricity subsidies following the delay of the planned review of electricity tariffs. The wage bill remained contained during 2012. Expenditures overall were broadly in line with program targets, except capital spending, which the authorities accelerated to address infrastructure needs. For the first time in recent history, both the basic non-oil balance (excluding grants and foreign-financed capital expenditures) and the overall balance moved into surpluses; of 0.4 percent and 2.8 percent of non-oil GDP, respectively in 2012 (LOI, ¶6).

- ***Credit growth picked up to 17 percent in March***, against the backdrop of abundant liquidity in the banking sector and negative real T-bill yields. Banks have started to develop the market for short-term consumer finance; this segment barely existed previously and is still rather small at about 10 percent of GDP. Money creation was slightly lower at 15.6 percent because of implicit sterilization by the state-owned mining company. Foreign exchange receipts of the company are directly deposited at the CBM.



- ***Bank profitability has improved despite weak asset quality***. The recently completed international audits of 10 banks confirmed that nonperforming loans (NPLs) stood at 39 percent at end-2011. The audits also identified provisoning shortfalls equivalent to 5 percent of NPLs (½ percent of GDP). All but one bank have already absorbed these shortfalls through higher revenue from consumer lending and trade finance operations.

8. **Notwithstanding Mauritania's macroeconomic achievements under the ECF-supported program, poverty and unemployment remain elevated and implementation of Mauritania's Poverty Reduction Strategy Paper (PRSP) progresses unevenly.** The 2011 progress report on the PRSP depicts a mixed picture. On the positive side, Mauritania successfully weathered several exogenous shocks and returned to macroeconomic stability over the course of the past three years. The authorities are aggressively addressing infrastructure

needs, with a public investment envelope that will more than double as a share of non-oil GDP during 2010–13. Despite these efforts, most the 2015 Millennium Development Goals in education, health, and environmental sustainability appear out of reach (Table 9). There are no recent data on poverty incidence and unemployment, but the 2011 drought is likely to have had aggravating effects; 70 percent of the poor live in rural areas.

OUTLOOK AND RISKS

The near-term outlook remains favorable despite subdued global demand, but several downside risks to the growth outlook are still prominent, including terms-of-trade shocks that could reduce exports, investment and growth, and political uncertainty that could hinder investor confidence.

9. Economic growth is expected to maintain its momentum in 2013, with a slight drawdown in buffers. Real GDP growth is projected at about 6 percent, driven by construction, public works, agriculture, and services. Inflation is projected at 5 percent (y-o-y) due to higher pass-through from international prices. On the external side, the current account deficit will narrow only slightly because recovering mining exports will not fully compensate for the high imports linked to the ongoing infrastructure and mining projects and the drop in external assistance (Box 1). A drawdown in fiscal buffers is expected in 2013, while official reserves are projected at the equivalent of 7.4 months of imports by end-2013, which will exceed the 2017 target envisaged at the onset of the program.

Mauritania: Main Macroeconomic Indicators, 2009–13

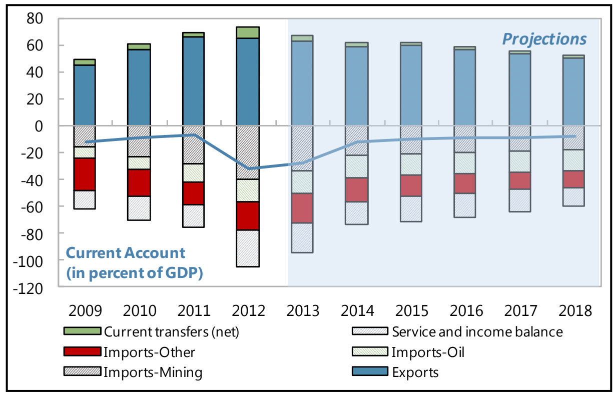
	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Real GDP growth (in percent)	-1.2	4.7	3.6	6.9	6.2
Real GDP growth excluding extractive industries (in percent)	-1.1	5.1	4.4	8.0	6.5
Inflation (end-of-period; in percent)	4.9	6.1	5.5	3.4	5.1
Current account balance (in percent of GDP)	-11.7	-9.1	-7.3	-31.6	-28.1
Current account balance excluding FDI-financed imports of extractive industries (in percent of GDP)	-12.2	-6.8	7.2	-2.7	-10.5
Gross official reserves (in months of following year's imports excluding extractive industries)	2.4	2.4	3.7	6.2	7.4

Sources: Mauritanian authorities; and IMF staff estimates.

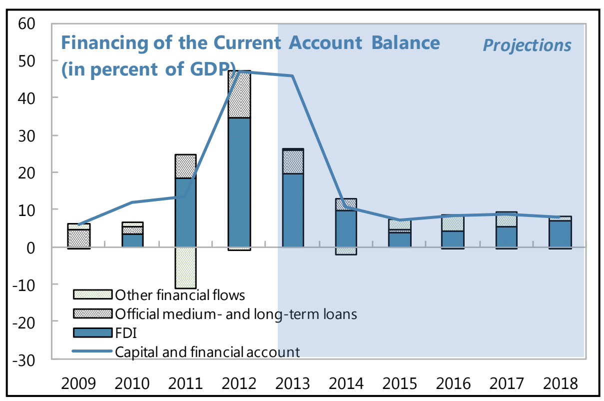
Box 1. How Sustainable is Mauritania's Current Account?

Lately, Mauritania's current account deficit significantly widened due to higher infrastructure and mining-related imports. The current account is, however, expected to remain sustainable over the medium term because these sizeable imports were meeting a temporary need and were mostly financed by FDI.

Mauritania's current account deteriorated from 7 percent of GDP in 2011 to 32 percent in 2012, due to imports associated with large-scale infrastructure projects in the mining sector and public works. Imports increased from 59 percent of GDP in 2011 to 78 percent of GDP in 2012, as extractive industries undertook investment plans to expand their mining capacity, and as the government engaged in large-scale infrastructure projects (airports, roads, electricity, and water) to fill their infrastructure gap. The current account deficit, excluding FDI-financed imports in mining, would have improved to 2.7 percent of GDP in 2012.



However, despite this exceptionally high deficit, there are reasons to believe that the current account is sustainable. First, the hike in imports responds to a temporary boom in investment that will phase out over the medium term. Second, the deficit is mostly financed by stable flows, such as FDI for the mining sector imports and external loans (mainly on concessional terms) for the government's infrastructure projects. Between 2011 and 2012, Mauritania doubled FDI from 18 percent to 35 percent of GDP (of which 81 percent were mining-related). External loan financing has also increased, but to a lesser extent than FDI, from 6.5 percent to 12.5 percent of GDP.



Starting in 2014, the current account deficit is expected to shrink in line with the decline in imports related to mining investments and infrastructure projects, and to remain at sustainable levels over the medium term. Staff projects the current account deficit to narrow to 2½ percent of GDP by 2017.

10. Downside risks dominate the outlook, but the economy is more resilient to shocks. As a commodity exporter (iron ore, copper, gold), Mauritania is exposed to terms-of-trade shocks that could hamper exports, investment, and growth prospects. A sharp fall in global growth—triggered by stalled or incomplete delivery of Euro area policy commitments in the short run, or by a protracted period of slower growth in Europe over the medium term—Mauritania's main trading partner—could cloud the growth outlook. As an oil and food importer, Mauritania is also vulnerable to spikes in the international prices for these commodities, which could significantly worsen the external and fiscal positions. Uncertainty about the political process could hamper investment plans ahead of the Parliamentary elections later this year and Presidential elections in 2014. Mauritania's sizeable fiscal and external buffers, built during the ECF-supported program, would provide a cushion against these downside risks.

11. Over the medium term, Mauritania needs to overcome longstanding challenges to ensure inclusive growth. They stem from a narrow production base, high growth dependence on mining sector developments, a weak business climate, and high poverty and unemployment. Under the baseline scenario, staff has revised growth prospects downward in 2015 (to 8.4 percent, from 27.3 percent at the time of the fifth review) due to delays related to the gold mine, which is now expected to be operational in 2017.

POLICY DISCUSSIONS

A. Fiscal Policy

12. The authorities and staff agreed that continuing fiscal consolidation is necessary for sustainability. The overall balance, excluding revenues from extractive industries and foreign-financed investment, will improve by 1½ percent of nonextractive GDP in 2013. The adjustment would have been larger had the EU paid the overall fishing license fee in 2013, as expected at the time of the Fifth Review. Other components of the 2013 fiscal performance are in line with the policy priorities discussed at the time of the Fifth Review: (i) the wage bill has been contained at 8 percent of GDP; (ii) capital spending has been boosted considerably (becoming the largest item in the budget); (iii) new progressive income tax rates have been introduced

Mauritania: Main Fiscal Indicators

	2009	2010	2011	2012	2013
	(In percent of non-oil GDP)				
Non-oil Revenue and grants	24.9	25.8	26.3	38.1	31.9
Non-oil Revenue	24.1	24.6	25.6	32.2	29.3
of which : Tax revenue	14.1	15.0	16.0	21.6	19.5
Expenditure and net lending	32.1	29.1	29.8	37.1	35.0
Current expenditure	24.6	21.1	21.6	25.3	21.1
Capital expenditure	6.8	6.7	8.0	11.8	13.9
Basic non-oil balance	-5.3	-2.4	-0.2	0.4	0.1
Net revenue from oil	1.8	1.4	2.0	1.9	1.0
Overall balance including grants (deficit -)	-5.4	-2.0	-1.5	2.8	-2.2
Memo Items:	(In percent of GDP excluding extractive industries)				
Primary fiscal balance excluding revenues from extractive industries	-12.6	-11.7	-15.1	-15.7	-15.5
Overall balance excluding revenues from extractive industries and foreign-financed investment	-12.0	-11.4	-13.3	-11.0	-9.6

Sources: Mauritanian authorities; and IMF staff estimates.

(although, with slightly different brackets than originally envisaged); and (iv) excise taxes and taxes on capital gains have been increased. This improvement in the overall balance (excluding extractive industries and foreign-financed investment) is consistent with a slight deterioration in the official program target, the basic non-oil balance, as receipts from the mining sector decline from their exceptional 2012 level.

13. The authorities are determined to protect pro-poor spending, and are trying to engineer a more equitable growth model by boosting capital expenditure:

- ***Public investment represents the largest spending category in 2013.*** Planned projects are concentrated in agriculture, energy, and infrastructure, all three sectors with large investment needs and in line with PRSP priorities. While the ramp-up in investment compared to the Fifth Review is mostly financed through domestic resources, staff urged the authorities to keep capital spending plans consistent with absorption capacity, the new procurement process, and the objectives of the PRSP.

- ***The income tax reform has lifted after-tax wages while containing the wage bill.*** Containing the wage bill, including limits on new recruitment, remains crucial for Mauritania, as its wage bill (about 8 percent of GDP and 30 percent of non-oil revenue) is still among the highest in Sub-Saharan Africa. The authorities have raised the exemption thresholds for lower wage categories and increased the marginal tax rate for the richest. The wage bill itself continues to rise in line with inflation, with higher wage increases for low-paid civil servants compensated by smaller hikes for those at the top.

- ***Fuel subsidy reform has progressed well.*** Prices for diesel products—adjusted currently on an ad hoc basis—are now above international levels, which make it possible to recoup subsidies from the past. Staff advocated for a strict implementation of the automatic pricing formula for diesel products. While cautioning against the buildup of price differentials, staff agreed on introducing a 3 percent cap on the retail price adjustment. This cap will ensure that large fluctuations in international prices do not lead to excessive retail price volatility that would undermine political support for the formula.

- ***Electricity tariffs for large consumers have not been increased (structural benchmark).*** Delays in completing the electricity tariff study, which calls for tariff increases, were the main reason. In absence of such increases, subsidies will continue to run around 0.4 percent of GDP as included in the 2013 budget. Increasing electricity tariffs, while keeping lifeline tariffs in place to protect the most vulnerable, remains crucial to maintaining the financial viability of SOMELEC (the state-owned electricity company), even after the new energy matrix is put into place. However, the authorities noted that it would be difficult to increase tariffs before the upcoming elections.

- ***The introduction of permanent and well-targeted social safety nets is proceeding apace (Box 2)***. The food subsidy program, involving 1200 "solidarity shops" throughout the country, has not always been effective in reaching the poorest households in rural areas. Now that the worst impact of the drought has passed, the authorities are reducing the number of subsidized products and scaling up well-targeted cash transfer schemes, in line with pilot experiences in Nouakchott and in rural areas, and in coordination with the World Food Program.

- ***Further public financial management reforms are crucial to ensure that the use of public resources is efficient, in line with the budget, and consistent with PRSP priorities.*** Actions include limiting the use of cash advances and exceptional spending procedures, finalizing the draft of the new organic budget law,[2] and ensuring that the new procurement procedures are used for all public projects. The authorities have followed the arrears repayment plan agreed to in 2012, and have taken actions to enhance VAT self-assessment procedures to reduce public-sector arrears linked to VAT refund claims.

14. The authorities continue strengthening revenue mobilization. Tax revenues in the first quarter of 2013 were 10 percent higher than envisaged in the budget, and the authorities are on track to reach the budget's revenue target of 30 percent of GDP. Higher tax revenues, in part thanks to the broader tax base, will partly compensate for lower revenues in 2013 as a result of the early payment of the EU fishing fee in 2012. In addition, the authorities have closed mining taxation loopholes, creating the legal basis to tax the transfer of mining assets between nonresidents (in line with Fund TA). The modernization of revenue administration continues: the large taxpayer unit with national jurisdiction has become more efficient, the customs valuation unit has started operations and the widespread use of taxpayer identification numbers has helped broaden the tax base and reduce tax evasion. Staff and the authorities agreed on the importance of ensuring fair and nondiscriminatory treatment of all taxpayers. On this front, staff welcomes the authorities' plans for an extensive communication strategy to explain tax collection, appeal procedures, and tax audit criteria.

15. The authorities agreed on the need to ensure full transparency in the use of mining revenues. Nonrenewable resources are playing an important role in the economy (Box 3), but the fiscal policy formulation does not incorporate the challenges associated with resource revenue exhaustibility and volatility and, therefore, does not prevent pro-cyclical fiscal policy. Strengthening the fiscal framework would require formally adopting an adequate fiscal anchor that manages Mauritania's nonrenewable wealth appropriately. This will also help enhance the predictability of public spending over the medium term while taking into account commodity price volatility and intergenerational equity in the use of resource wealth. In addition, part of the mining proceeds could be used to reduce external debt, which remains at elevated levels. The authorities recognized the challenge of formulating such a fiscal anchor in the context of large expenditure pressures to close the infrastructure and social gaps.

[2] The new law will include fiscal principles, setting of fiscal objectives, a medium-term framework for the budget, improved documentation, and a budgetary timetable with more time for legislative scrutiny, and deadlines for in-year reporting and production of accounts and audit reports.

Box 2. Reorienting Food Subsidies in Mauritania

Mauritania has relied on emergency food subsidies to help the most vulnerable cope with the 2011–12 drought and rising food prices. However, these subsidies were generally ill-targeted and costly. To strengthen social safety nets, the authorities are transforming the emergency food program into a permanent well-targeted program aiming at reducing the number of households at the risk of food insecurity.

Mauritania faced a severe drought in late 2011, raising the number of people living under food insecurity from about 450,000 to 900,000 people, and affecting more than 60 percent of the arable land, and 30 percent of livestock. The rural areas, which have traditionally relied on subsistence farming and livestock, were the most affected, with food insecurity rising from 9 percent to 25 percent in 2011.

As an emergency response to the drought, the authorities put in place the EMEL program, by expanding an existing scheme of subsidized food shops to distribute food at subsidized prices. The number of these shops increased from 1000 to 1223, of which 308 were located in Nouakchott and 915 in the countryside. The authorities initially hoped to split the EMEL cost with donors, but were forced to finance a larger share of the program through the budget as some donor payments were delayed and the drought's impact intensified. In the end, the fiscal cost of the food subsidies under the EMEL response came to about UM12.9 billion or 1.2 percent of non-oil GDP in 2012.

Mauritania: Food Subsidies

	2010	2011	2012	2013 1/
Food insecurity				
Share of households affected by food insecurity (in percent)				
Rural areas	8.7	24.6	19.4	...
Urban areas	5.1	11.1	13.2	...
Fiscal cost of food subsidies				
EMEL (in billion of UM)	...	7.6	12.9	6.0
Cash transfer (in billion of UM)	...	0.2	0.2	0.2
Total cost (in billion of UM)	...	7.8	13.2	6.2
Total cost (in percent of non oil GDP)	...	0.7	1.1	0.5

Sources: World Food Program, Mauritanian authorities, and Fund staff estimates.
1/ Fund staff projections.

To improve the efficiency of food subsidies, the authorities assessed the effectiveness of the initial food shops (end-December 2011 structural benchmark), and, with the support of the World Food Program (WFP), conducted a vulnerability and poverty survey in Nouakchott and other rural areas (end-April 2012 structural benchmark). The evaluation of the 2011 program served as input into the design and implementation of the 2012 successor under the EMEL program, reducing costs and eliminating inefficiencies. More recently, the authorities exploited the results of a vulnerability survey in Nouakchott and some rural areas to identify 10,000 households in Nouakchott that would receive monthly allowances of UM15,000 (equivalent to half of the legal minimum wage) via bank transfers. In June 2012, this cash transfer scheme was extended to 15,000 households in four rural areas deemed to be at high risk of food insecurity. The authorities now plan to further extend this targeted cash transfer scheme to other rural areas in the countryside with the help of the World Food Program.

To better tackle food insecurity given the recurrence of droughts and the high poverty rates, the authorities are scaling back the ill-targeted emergency food subsidy program for a better targeted permanent program. In line with their upcoming national social protection strategy, and using the results of the planned nationwide vulnerability survey, the authorities will decide on the right mix between food subsidies and cash transfers to better reduce food insecurity.

Box 3. The Role of Extractive Industries in Mauritania's Economy

Nonrenewable resources, mainly from mining, play an important role in Mauritania's economy. Mauritania struck oil in the middle of the first decade of the 2000s, but the finds have disappointed, while mining has increased its share in GDP. Oil production has declined significantly, from 22 percent of GDP in 2006 to less than 4 percent in 2012. The share of mining in GDP increased from 12.2 percent to 26.4 percent during the same period. Within mining, iron ore remains the most important, and gold has increased in importance.

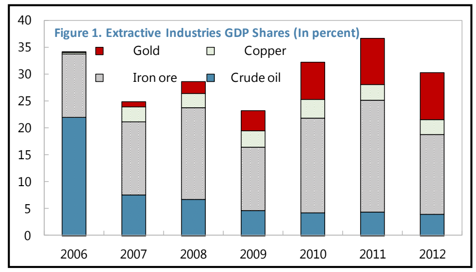


Figure 1. Extractive Industries GDP Shares (In percent)

Extractive industries play a prominent role in exports and imports. Mining accounted for 66 percent of exports in 2012, up from 34 ¾ percent in 2006. Oil share in total exports has rapidly declined since 2006 because of declining production. Iron ore export changes have been largely driven by price dynamics, while higher production and prices have been determining the evolution of copper and gold exports. Extractive industries are also playing a significant role in imports. Overall, imports associated with mining projects accounted for about half of total imports in 2012. Imports from Tasiast, the gold producer, accounted for about 25 percent of total imports in 2011–12. The increase in imports, financed mostly by FDI, reflects the expansion into a new gold mine, expected to become fully operational in 2017.

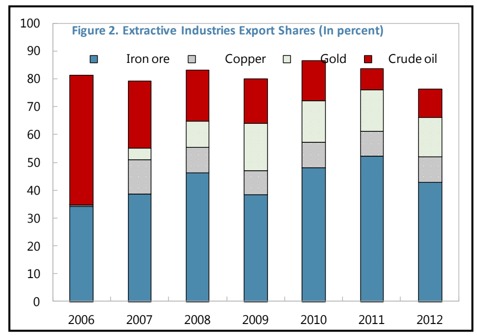


Figure 2. Extractive Industries Export Shares (In percent)

As expected, the fiscal position is increasingly benefiting from mining resources. The share of mining revenues in overall revenues (excluding grants) increased from 13.4 percent in 2006 to 29 percent in 2012. Mining nontax revenues (in particular dividends from SNIM) have played a role, but progress with structural reforms in mining taxation has also helped to ensure higher revenue. The authorities have aligned the tax and custom regimes with a new mining code, and introduced taxation of capital gains resulting from transfers of ownership of (mining) assets as well as a VAT self-assessment mechanism for services performed by foreign companies, in line with Fund technical assistance recommendations. However, the higher fiscal reliance on mining revenues poses challenges for the formulation of fiscal policy, which at present does not take into account the exhaustibility and volatility of such revenues. Anchoring fiscal targets on the nonextractive fiscal balance can be a way to strengthen the fiscal framework, bearing in mind Mauritania's high debt level. In this context, the adoption of a fiscal rule that determines the optimal balance between debt reduction, spending, and saving should be given careful consideration.

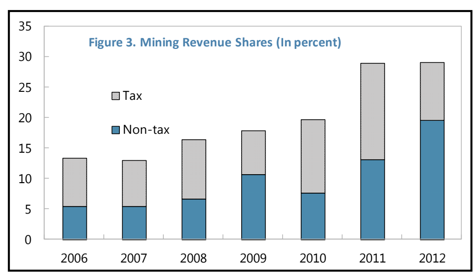


Figure 3. Mining Revenue Shares (In percent)

B. Monetary, Exchange Rate, and Financial Sector Policies

16. Establishing an active liquidity management framework is paramount to greater effectiveness of monetary policy. Excess liquidity in the banking system remains elevated and could result in rapid credit growth if the growth outlook remains positive. In the absence of inflationary pressures, the CBM has so far tried to manage liquidity solely through foreign exchange sales, but has abstained from issuing the new monetary policy instrument (a seven-day T-bill). Staff agreed with the authorities that active liquidity management will be preferable to a change in the policy rate for communicating the monetary policy stance.[3] Actively removing excess liquidity using the T-bills would help strengthen the traction of monetary policy, foster the development of the interbank market, and preemptively address the risks associated with rapid credit growth. Staff recommended the regular use of such liquidity instruments starting in June, with issuance totaling UM5–10 billion by end-2013. The renewed budgetary and monetary committee helps enhance liquidity forecasting and management. Staff agreed with the authorities on increasing reserve requirements only if excess liquidity produces destabilizing effects on the banking system.

17. There has been some progress towards the resolution of the dispute between the central bank and a corporate bank. This bank, associated with a leading businessman in an open dispute with the government**,** reopened its offices in mid-May, after having closed them for two months. The closure was triggered by an intense public dispute with the authorities over unpaid taxes and withdrawal of public companies' deposits. The systemic impact of the bank's closure was limited, given its moderate size, focused business model, and limited inter-connectedness with the rest of the financial system. Staff stressed the importance of evenhanded application of administrative decisions and laws and of transparency about procedures, both crucial for a positive business environment. The central bank is in discussions with the bank to ensure that the bank can sustain its operations.

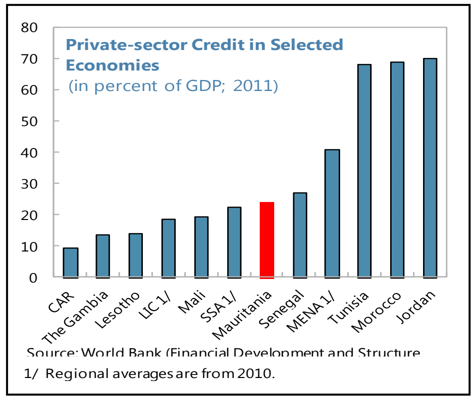
18. The CBM is actively working with the banks on improving asset quality, and is closely monitoring competition in the banking sector. With low interest rates and four new banks in the market, competitive pressures will rise. The intensification of competition plays out against a backdrop of abundant liquidity, downward pressure on profitability, and lingering concerns about banks' high levels of NPLs (39 percent at end-2011). So far, more dynamism has primarily focused on short-term consumer finance (Box 4). The authorities agreed that risks associated with rapid credit growth should be closely monitored. Staff therefore welcomed the performance contracts that have been drawn up with each bank, addressing provisioning shortfalls identified by last year's audits of banks' financial statements and their plans to remove fully-provisioned legacy NPLs from their balance sheets. Staff also supports the authorities' plans to consider setting up a private asset management company that will be responsible for managing legacy NPLs. Ongoing reforms of banking regulation and supervision, with the assistance of AFRITAC West, are an additional crucial

[3] See also IMF WP/13/77.

element in the authorities' strategy to safeguard financial stability and deepen financial markets (LOI, ¶16).

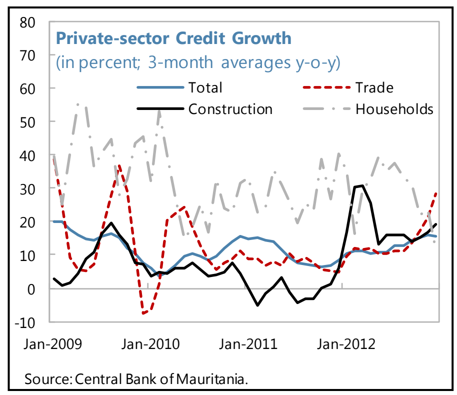
Box 4. Recent Credit Developments in Mauritania

Private-sector credit grew 15 percent in 2012, facilitated by the rebound in economic activity and a looser monetary policy stance (see ISRC/12/249). Mauritania's private-sector credit-to-GDP ratio has climbed to a level that is comparable to the average of Sub-Saharan countries, but is still some distance away from the market development in some of the more developed MENA countries.



The CBM's banking supervision has actively encouraged development of adequate credit risk analysis in the banking system. It has overhauled regulation on connected lending and concentration risk, and enhanced the credit bureau, which will start providing banks with timely information on new borrowers' credit histories. Meanwhile, to guard against an unhealthy credit spiral, it has asked banks to put in place best-practice internal risk management systems and intensified onsite and offsite supervision.

Nonetheless, credit growth was spread unevenly across industries and economic sectors. The most vibrant segment was lending to households, which expanded almost 60 percent over the last two years, making it the largest credit category for banks. Lending to trading and construction companies was also brisk, reflecting buoyant activity in these sectors. Credit to service-oriented businesses and the fishing industry, on the other hand, have fallen. Mortgage lending is almost nonexistent

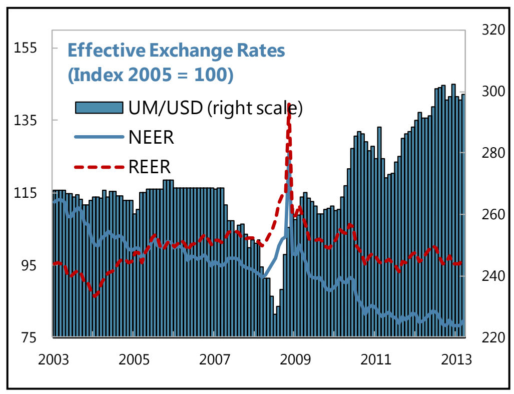


One credit segment that demands particular monitoring is household lending. Credit to households was the fastest-growing credit category since 2010 and has only recently slowed down somewhat. Household credit consists mostly of short-term salary advances. For these, banks typically require salary domiciliation as collateral. Because of the relatively attractive risk-return profile of this type of lending, banks have been willing to relax debt-to-income ratios. Some customers have been able to borrow more than a year's salary, pushing up the share of their income designated for debt servicing to 50 percent.

High debt-service-to-income ratios expose banks not only to credit risk, but also to legal risk. Mauritania's currently prevailing labor legislation caps debt-service-to-income ratios at 30 percent. Customers with high debt servicing costs who have a hard time making interest and amortization payments could start legal proceedings against the banks. The case would stand on the ground that the initial loan contract violated labor legislation. The first such case is yet to be filed; however, to guard against the risk that judicial courts might void loan contracts, staff believes it prudent to align prudential regulation on consumer loans with the current labor code.

19. The authorities reaffirmed their intention to improve the functioning and transparency of the foreign exchange market. Staff reiterated the importance of strictly limiting sales of foreign exchange to public-sector counterparts in off-market sessions and of reporting these operations publicly. The authorities agreed with staff on the need to regularly and predictably supply foreign exchange to the market and consider letting the state-owned mining company sell foreign exchange to the market, instead of to the CBM (LOI, ¶14). Second, the CBM could revamp the auction mechanism to strengthen the link between the balance of supply and demand in the market and the exchange rate. Third, the CBM could systematically improve transparency about market participants, volumes, and prices. The authorities agreed on publishing information on off-market operations and on defining an action plan reflecting upcoming TA recommendations on these fronts. The gradual depreciation of the ouguiya partly corrects the moderate overvaluation that staff identified during the 2012 Article IV Consultation.

20. The CBM continues to make some progress with its safeguards framework. The Council of Ministers has reached agreement on repayment modalities of loans and guarantees granted by the CBM to the government (prior action). Once the agreement is adopted by Parliament, the Ministry of Finance will validate and start the repayment of some of the outstanding government legacy loans included in a previous agreement, reached in 2004 (face value of UM116 billion or 9½ percent of GDP)[4] and proceed with interest payments starting with the parliamentary approval. The agreement also recognizes additional outstanding loans for UM36 billion as of December 2012. On this, staff noted that the principal repayment profile, a 10-year grace period and a 30-year maturity, and the no interest payment clause would not help enhance the financial resources at the disposal of the CBM for effective monetary policy implementation. Staff advised the authorities to work on securitizing the CBM's claim on the treasury in order to provide the central bank with full operational autonomy. An international accounting firm audited the end-December 2012 program targets, confirming compliance with the performance criterion, and the audit on the CBM's financial statements is ongoing.



C. Debt Management

21. Despite new nonconcessional borrowing, the dynamics of public and external debt in the baseline scenario follow a sustainable trajectory. Mauritania's debt risk status was previously assessed as moderate, but close to the high threshold, underscoring the need to continue improving debt management to safeguard medium-term sustainability, as well as the judicious use of the

[4] The non-overdue outstanding balance of the 2004 agreement represents UM 116 billion, out of which UM67 billion is interest-receivable, and the remaining UM49 billion is interest-free.

natural resource wealth for high-return projects (see tables 11 and 12, and figures 6 and 7). Staff cautioned about the serious risks associated with contracting additional debt on nonconcessional terms given elevated debt levels, and urged the authorities to strictly adhere to their recently adopted medium-term debt management strategy, which particularly highlights the importance of borrowing on concessional terms for large infrastructure projects. In line with their corrective actions, the authorities have agreed on consulting staff on project loans that are already in the pipeline but not ratified. Staff also underscored that Mauritania's favorable debt sustainability profile hinges on the successful restructuring of the passive debt outstanding with the Kuwait Investment Authority (KIA). While the authorities are pursuing their best efforts and the baseline scenario assumes such debt restructuring in 2013, discussions are still ongoing.

D. Other Structural Reforms

22. Diversifying the economy and making growth more inclusive and equitable will require a comprehensive structural reform strategy. The authorities recognize that high unemployment and poverty rates are challenges in urgent need of comprehensive solutions. The key priority is to continue improving the business climate and promote private-sector development. An improved business climate will support the creation of small- and medium-sized enterprises, contribute to diversifying the economy into manufacturing and services, and create more jobs. The new investment code, procurement law, and employment programs were important first steps, which should be reinforced by the following actions:

- ***Promoting employment***. Tailored vocational training programs will equip jobseekers to meet private-sector skill requirements. In addition, the new rural development strategy will create jobs in irrigated agriculture. Given the high levels of poverty in rural areas, raising agricultural employment is the most promising avenue for reducing poverty.

- ***Implementing the World Bank Action Plan to improve Mauritania's ranking in the Doing Business Indicator***. Mauritania ranked 167 out of 185 in the Doing Business Survey in 2013, with significant shortcomings in access to credit, and cumbersome processes for paying taxes and for starting a business. Measures to ease business registration, put in place a one-stop window to facilitate tax payments, simplify the tax appeals process, and protect taxpayers' rights will ease the cost of doing business. Similarly, the authorities will streamline contracts enforcement in judicial courts and protect investors against discretionary behavior. Finally, the authorities will enhance access to finance by developing a collateral registry and broadening the reach of the credit bureau.

- ***Reforming public enterprises*** (LOI, ¶31–32). The study on the financial situation of the main public enterprises following their financial audits (structural benchmark) has not been completed due to delays in procurement procedures. Based on the completed audits of public enterprises, they plan to restructure the national electricity and gas companies to improve their management and efficiency, helping limit fiscal risks. A comprehensive strategy to diversify energy generation away from fuel will result in improved electricity supply from 2014 onwards.

- ***Strengthening governance***. Full implementation of the anticorruption strategy adopted in 2010, and strict application of the new procurement code to all government projects, are essential to promoting private investment and enhancing the quality of public investment spending.

23. The authorities will continue improving transparency and economic statistics. The authorities are engaging in the best efforts to restore Mauritania's compliant status in the Extractive Industries Transparency Initiatives (EITI)—the membership was temporarily suspended due to delays in the preparation of a needed report.[5] With regard to statistics, staff encouraged the authorities to continue improving economic data provision through the construction of a new price index, updated employment and household surveys, new national accounts, and implementation of international statistical standards (particularly for its balance of payments and national account statistics).

STAFF APPRAISAL

24. Strong economic growth attests to the authorities' sound economic policies, but important challenges remain. Economic activity has rebounded strongly despite subdued external demand conditions and the aftermath of a drought in 2012. The authorities capitalized on the favorable environment to build up fiscal and external buffers. Inflation remains contained. The challenge remains to make growth more inclusive so as to reduce poverty and unemployment over the medium term.

25. Maintaining fiscal consolidation is crucial to help preserve fiscal sustainability. Staff welcomed the fiscal consolidation and the containment of the wage bill envisaged this year. Public-sector investment plans need to be consistent with absorption capacity, the new procurement process, and PRSP priorities. The authorities should mobilize domestic resources or external concessional financing to protect Mauritania's moderate debt rating status.

26. Strengthening the fiscal framework will enhance transparency and management of revenues related to extractive industries. The fiscal framework should cement the prudent management of nonrenewable resources, taking into account commodity price cycles and intergenerational equity. The framework will also need to take into account the need to close infrastructure and social gaps over time to ensure reducing poverty and unemployment.

27. The central bank needs to become more proactive with the use of monetary policy instruments. While staff agreed with the authorities that inflationary pressures have been contained

[5] The authorities used a grant from the World Bank to finance the report, and delays were reported in the procurement process to assign the project to an independent consultant.

to date, excess liquidity in the banking system could feed into rapid credit growth if economic growth becomes sustained. Staff recommends the issuance of the seven-day T-bill to manage liquidity more actively.

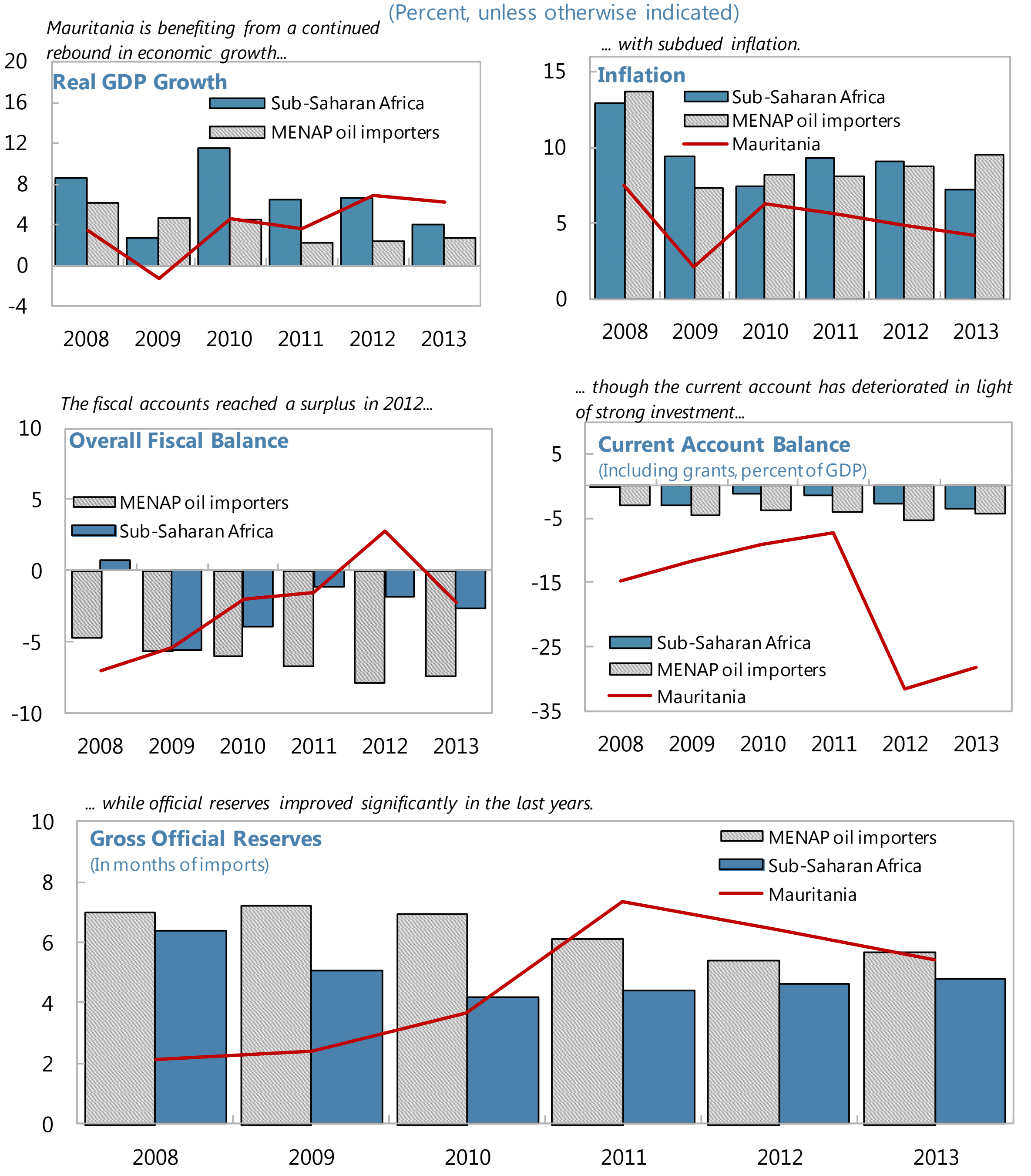
28. Greater flexibility will strengthen the role of the exchange rate as a shock absorber. Because Mauritania is a commodity exporter, higher exchange flexibility will help its economy address external shocks more smoothly. Regular sales of foreign exchange in the market, and strictly limiting off-market operations, are essential for the proper functioning of the foreign exchange market and for providing appropriate foreign exchange market signals. Staff welcomes the authorities' commitment to fully disclose off-market operations on a regular basis.

29. Progress with structural reforms is of paramount importance to diversifying the economy and ensure gains in reducing poverty and unemployment. Staff urges the authorities to swiftly complete the two end-December 2012 structural benchmarks. To become sustainable over the long term, economic growth will need to be driven by higher productivity and diversified away from extractive industries. Key priorities for the structural reform agenda include enhancing competitiveness; defining a nationwide strategy to remove infrastructure bottlenecks; improving the business climate to foster private-sector investment and development; and enhancing the role of the banking sector as an engine for growth. Elevated commodity prices, which are expected to persist over the medium term, provide the opportunity to put Mauritania on a sustainable high long-term growth path.

30. Staff recommends completing the sixth review under the ECF arrangement. Staff supports the authorities' requests for a waiver on the nonobservance of the continuous PC on contracting or guaranteeing of new medium and long-term nonconcessional external debt. The prior action (formerly a structural benchmark) for the completion of this review was completed on May 2, 2013. The ECF arrangement will expire on June 30, 2013. The authorities have shown interest in a successor Fund-supported program that is likely to be discussed this fall.

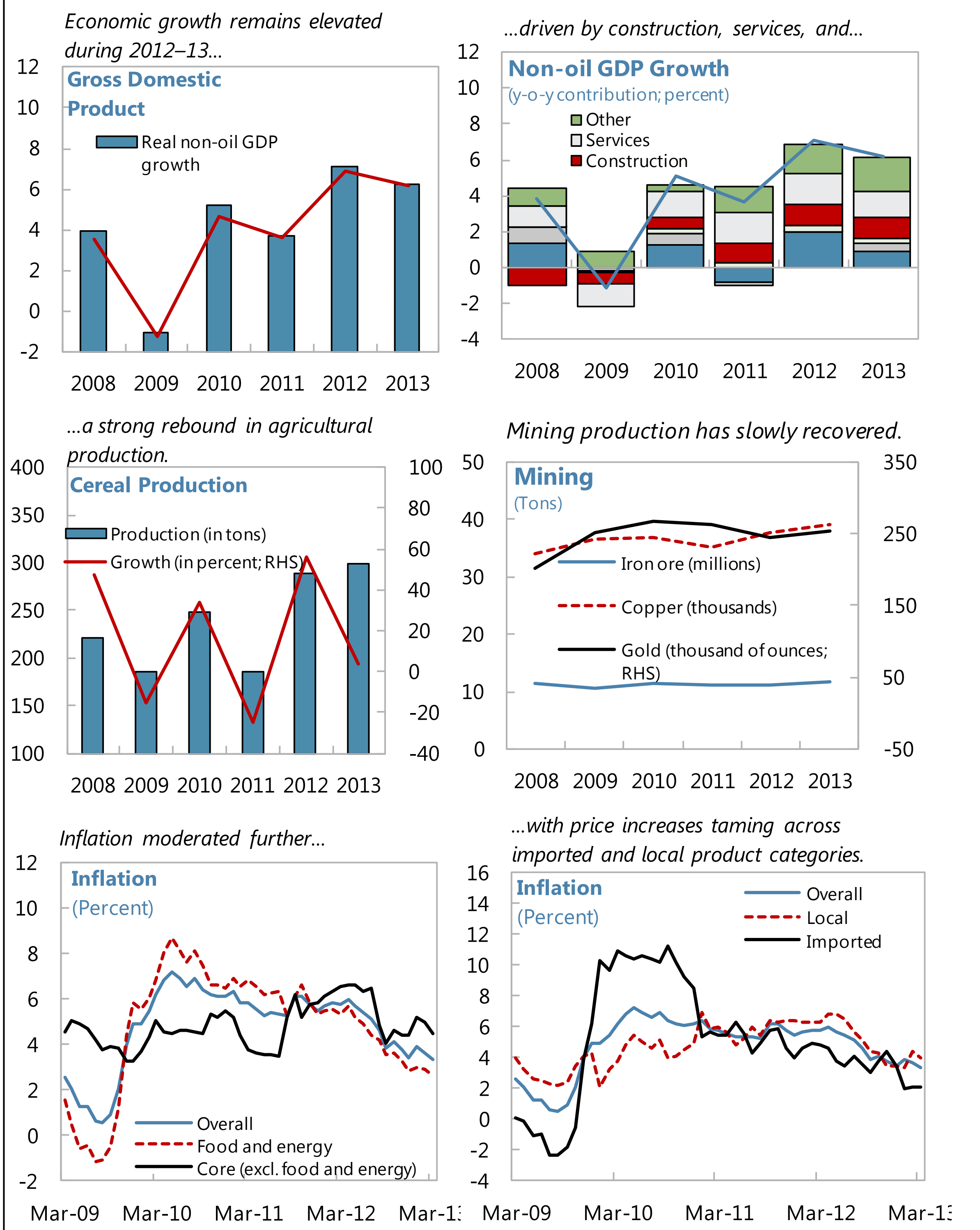
Figure 1. Mauritania: Recent Economic Developments, 2008–13

(Percent, unless otherwise indicated)



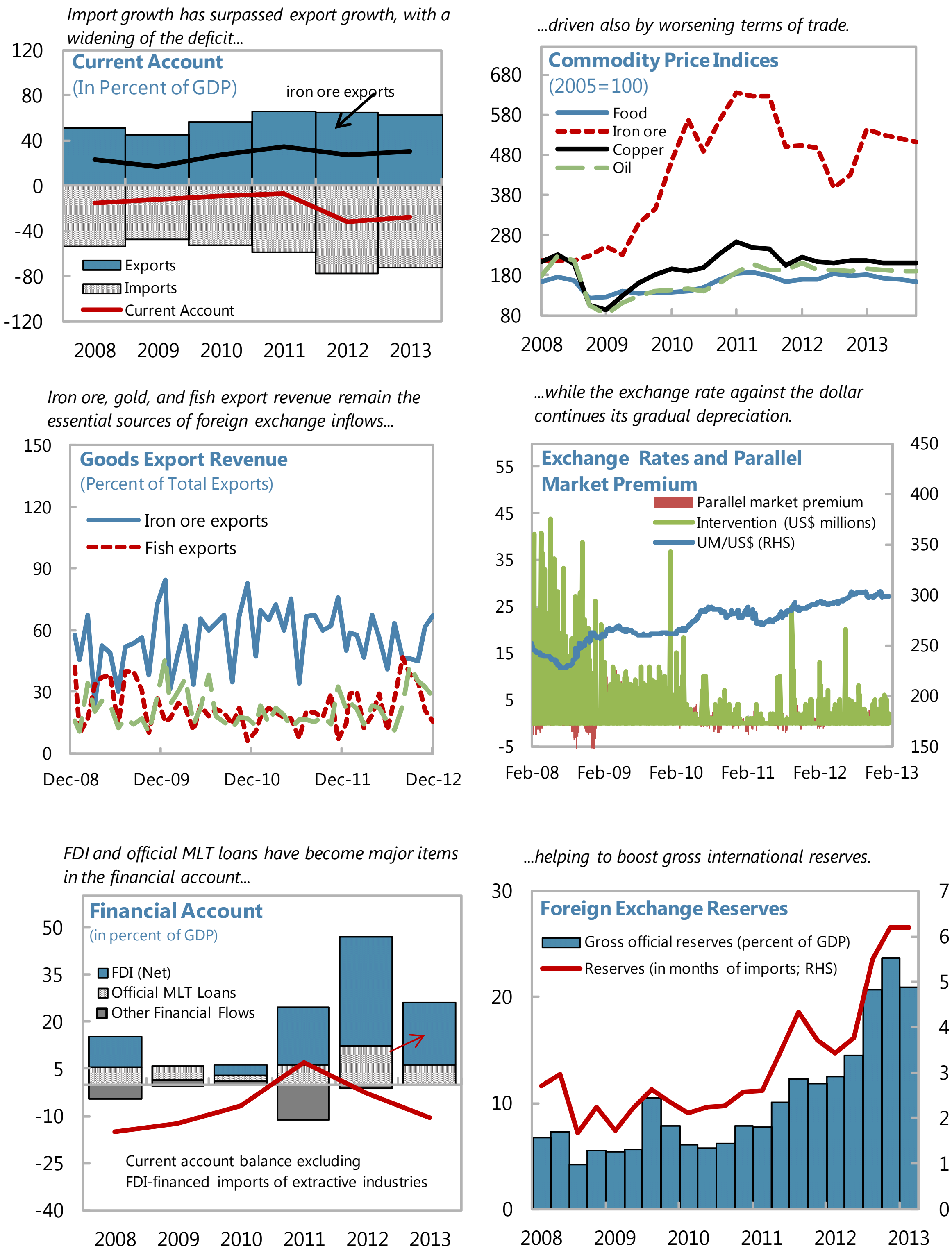
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 2. Mauritania: Real Sector Developments, 2008–13



Sources: Mauritanian authorities; and IMF staff estimates.

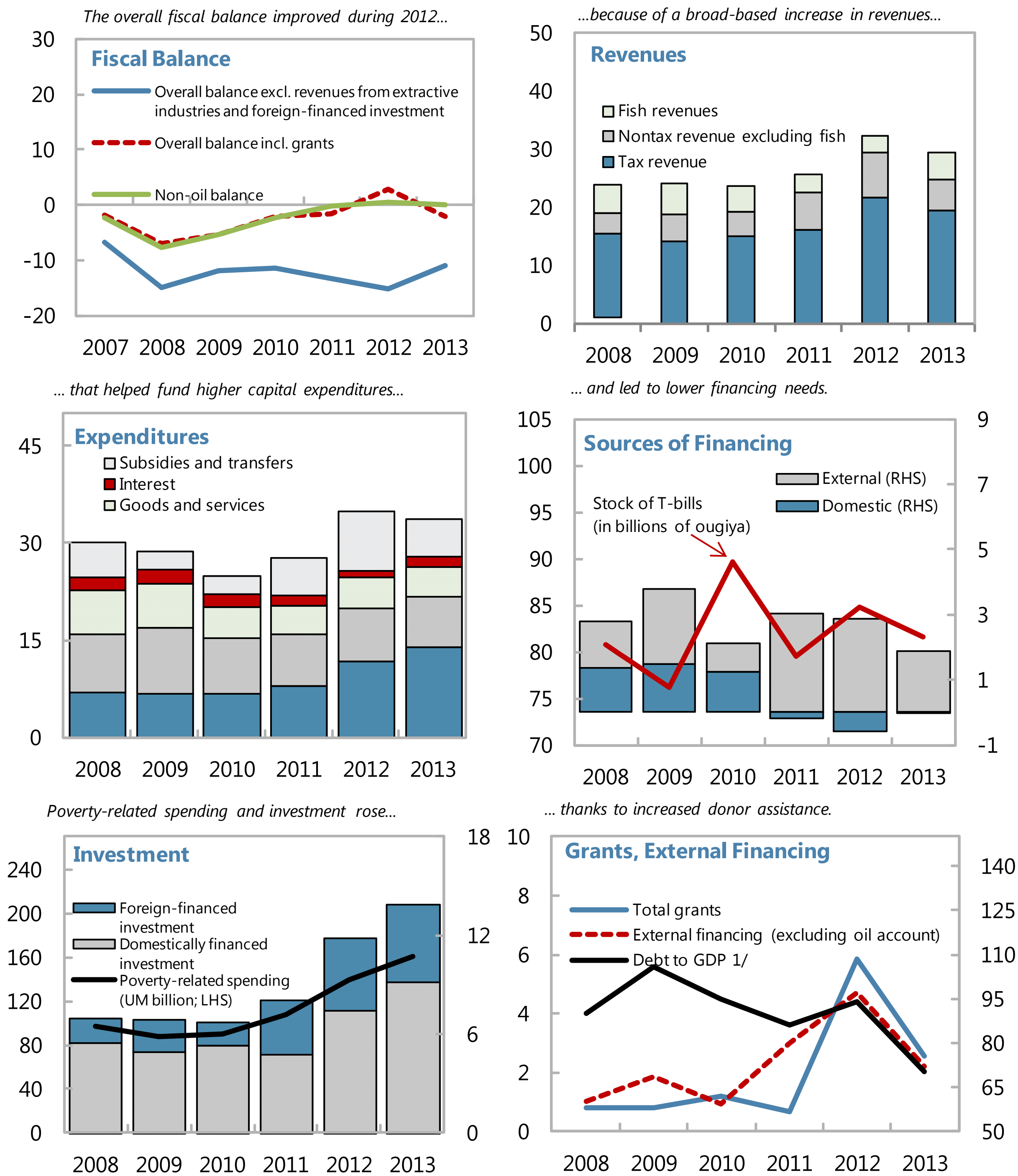
Figure 3. Mauritania: External Sector Developments, 2008–13



Sources: Mauritanian authorities; and IMF staff estimates.

Figure 4. Mauritania: Fiscal Sector Developments, 2008–13

(Percent of non-oil GDP, unless otherwise indicated)

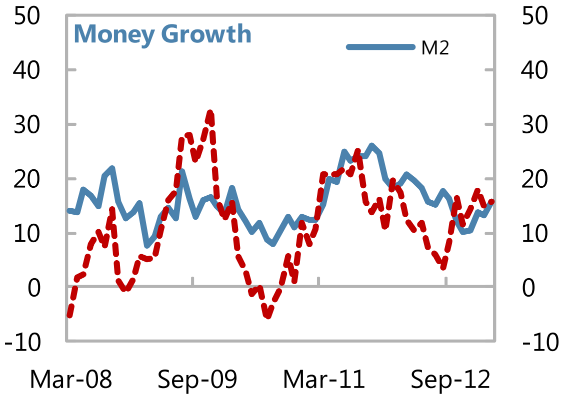


Sources: Mauritanian authorities; and IMF staff estimates.

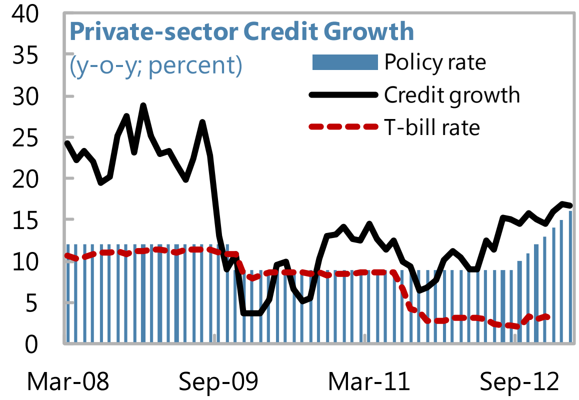
1/ Excluding passive debt in 2013.

Figure 5. Mauritania: Monetary and Financial Sector Indicators, 2008–13

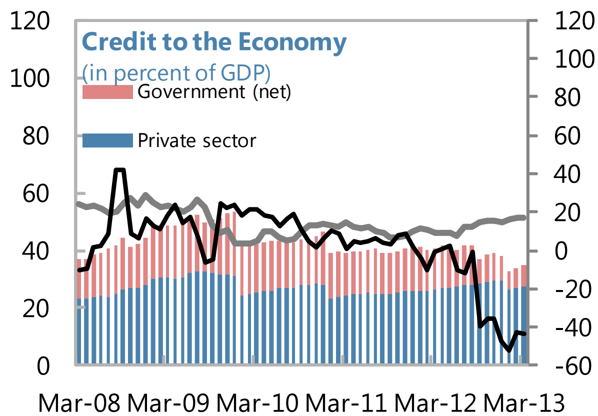
Broad money growth has stayed solid in 2012...



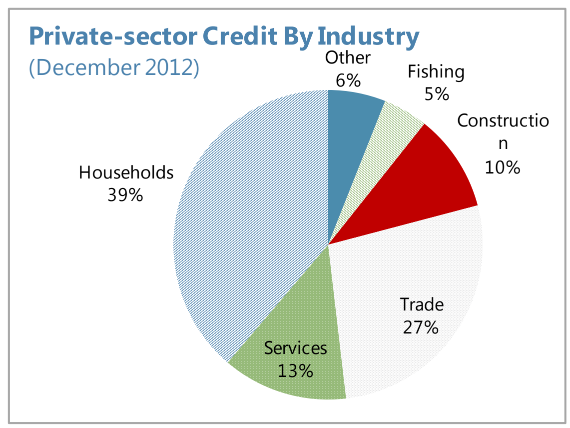
...with tentative signs of a pick-up in credit.



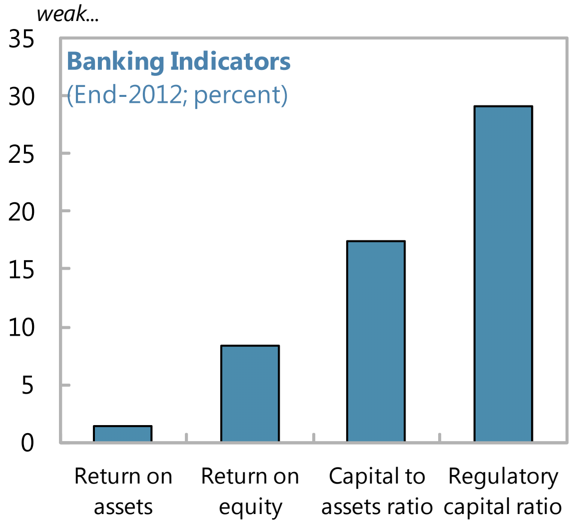
Government borrowing has declined since 2012 as additional mining revenue reduced the Treasury's financing needs.



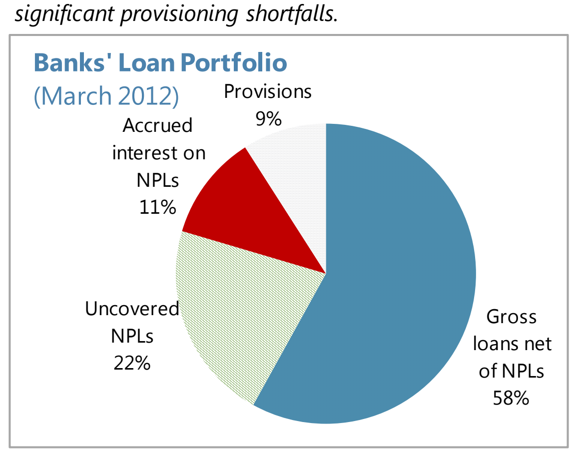
Household credit dominates credit to the private sector.



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



...due to fragile asset quality, potentially giving rise to significant provisioning shortfalls.



Sources: Mauritanian authorities; and IMF staff estimates.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2009–13

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

	2009	2010	2011	2012	2012	2013	2013
				CR/12/323	Est.	CR/12/323	Proj.
	(Percent; unless otherwise indicated)						
National income and prices (y-o-y growth)							
GDP at constant prices	-1.2	4.7	3.6	6.2	6.9	6.3	6.2
Non-oil GDP at constant prices	-1.1	5.2	3.7	6.3	7.1	6.4	6.2
GDP excl. extractive industries at constant prices	-1.1	5.1	4.4	7.4	8.0	5.9	6.5
GDP deflator	-5.9	21.9	14.1	-2.4	-5.8	2.8	6.5
GDP excl. extractive industries deflator	1.0	7.1	5.9	4.7	2.5	5.1	5.2
Consumer price index (period average)	2.1	6.3	5.7	5.9	4.9	6.1	4.7
Consumer price index (end of period)	4.9	6.1	5.5	6.0	3.4	6.3	5.1
External sector							
Value growth of exports of goods, f.o.b.	-23.7	52.0	35.7	-10.6	-6.1	2.9	5.1
Value growth of imports of goods, f.o.b.	-24.6	34.4	30.9	22.3	25.4	3.0	1.7
Current account balance (in percent of GDP)	-11.7	-9.1	-7.3	-27.6	-31.6	-25.1	-28.1
Gross official reserves 1/							
In millions of U.S. dollars, end of period	238.5	287.8	501.6	756.2	961.9	817.3	876.6
In months of following year's imports excluding extractive industries	2.4	2.4	3.7	5.3	6.2	6.6	7.4
PPG external debt (percent of GDP) 2/	96.3	86.1	79.4	62.1	87.2	61.4	62.6
Money							
Money and quasi-money (percentage change)	14.9	12.9	19.9	15.7	10.5	13.6	15.3
Credit to the private sector (percentage change)	3.7	14.2	10.1	13.9	14.6	14.7	15.3
Investment and savings							
Gross investment (percentage of GDP)	24.6	24.1	32.2	38.9	45.5	38.7	40.4
Gross savings (percentage of GDP)	12.3	15.0	25.0	11.3	13.9	13.6	12.4
	(Percent of non-oil GDP; unless otherwise indicated)						
Consolidated government operations							
Revenue and grants	26.7	27.2	28.3	36.3	39.9	31.6	32.8
Non-oil revenue	24.1	24.6	25.6	28.4	32.2	28.1	29.3
Oil revenue	1.8	1.4	2.0	1.6	1.9	1.5	1.0
Expenditure and net lending	32.1	29.1	29.8	35.9	37.1	33.4	35.0
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-2.0	0.4	-0.2	0.1
Overall balance including grants	-5.4	-2.0	-1.5	0.4	2.8	-1.8	-2.2
Public-sector debt (percent of GDP) 2/	105.9	94.9	86.0	70.8	94.2	69.2	70.2
Memorandum items:							
Nominal GDP (in billions of UM)	794.2	1,013.5	1,197.9	1,245.5	1,206.0	1,361.1	1,363.7
Nominal non-oil GDP (in billions of UM)	757.6	971.0	1,145.0	1,190.2	1,158.8	1,306.8	1,316.0
Nominal GDP (in millions of U.S. dollars)	3,031.2	3,665.3	4,272.3	4,193.7	4,072.0	4,427.6	4,435.9
Price of iron ore (US$/Ton)	80.0	146.7	167.8	133.9	128.5	120.3	147.8
Price of gold (US$/Ounce)	973.0	1,224.7	1,568.6	1,650.1	1,668.8	1,678.5	1,593.5
Price of copper (US$/Ton)	5,165.3	7,538.4	8,823.5	7,854.7	7,958.9	7,648.5	7,810.1

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ Debt relief from Kuwait under the MDRI was initially programmed in 2011, then shifted to 2012 and is expected in 2013.
3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

Table 2. Mauritania: Balance of Payments, 2009–13
(In millions of U.S. dollars, unless otherwise indicated)

	2009	2010	2011	2012 CR/12/323	2012 Est.	2013 CR/12/323	2013 Proj.
Trade balance	-76.0	138.2	280.8	-576.2	-533.9	-596.0	-452.0
Exports	1,364.2	2,073.5	2,813.5	2,475.0	2,641.8	2,546.0	2,777.0
Of which: Iron ore	521.6	997.0	1,470.6	1,150.5	1,131.4	1,147.9	1,335.5
Imports, fob	-1,440.2	-1,935.3	-2,532.7	-3,051.2	-3,175.7	-3,142.0	-3,229.0
Of which: Imports of extractive industries	-477.3	-848.5	-1,209.1	-1,428.8	-1,621.8	-1,404.6	-1,497.7
Of which: Imports for airport construction	-	-	-	-80.0	-80.0	-120.0	-120.0
Services and income (net)	-409.5	-632.1	-707.6	-969.1	-1,078.9	-697.7	-983.7
Services (net)	-479.1	-548.8	-532.7	-575.3	-875.5	-577.4	-802.2
Income (net)	69.6	-83.2	-174.9	-393.8	-203.4	-120.3	-181.5
Credit	118.0	113.7	126.9	24.2	109.3	249.6	177.0
Of which: EU fishing compensation	107.5	97.8	104.3	0.0	86.2	223.0	150.2
Debit	-48.4	-196.9	-301.8	-418.0	-312.7	-369.9	-358.5
Current transfers (net)	130.8	162.1	116.6	388.4	327.7	184.3	190.9
Private unrequited transfers (net)	66.4	59.3	31.5	46.0	42.8	46.9	43.6
Official transfers	64.4	102.8	85.1	342.4	284.9	137.5	147.3
Current account balance	-354.7	-331.7	-310.2	-1,156.9	-1,285.2	-1,109.4	-1,244.8
Capital and financial account	178.2	441.6	580.7	2,266.1	1,906.8	1,164.8	2,023.2
Capital account	0.0	209.0	0.0	869.1	30.6	0.0	869.1
Financial account	178.2	232.6	580.7	1,397.0	1,876.2	1,164.8	1,154.1
Direct investment (net)	-3.1	126.1	776.4	1,082.5	1,409.6	844.9	868.4
Official medium- and long-term loans	138.7	67.5	279.4	474.3	510.5	333.4	280.2
Disbursements	240.3	137.3	349.5	559.8	549.3	451.6	381.8
Amortization	-101.6	-69.9	-70.1	-85.5	-94.8	-118.2	-101.6
Other financial flows	42.6	39.0	-475.1	-159.9	-43.9	-13.5	5.4
Of which: Change in deposits held abroad by the state-owned mining company	25.8	-138.7	-517.9	17.5	-66.5	-21.0	-205.2
Errors and omissions	168.0	125.4	-27.5	0.0	-211.9	0.0	0.0
Overall balance	-8.5	235.3	243.0	1,109.2	409.8	55.4	778.3
Financing	8.5	-235.3	-243.0	-1,109.2	-409.8	-55.4	-778.3
Net foreign assets	-24.0	-45.4	-213.2	-252.1	-350.5	-68.4	80.2
Central bank (net)	32.2	-40.3	-186.1	-232.1	-436.3	-53.4	95.2
Commercial banks (net)	-56.2	-5.1	-27.2	-20.0	85.8	-15.0	-15.0
Oil account flow	12.8	-1.7	-44.4	0.0	-14.2	0.0	0.0
Exceptional financing 1/	19.7	-188.2	14.6	-857.1	-45.1	13.0	-858.5
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:							
Nominal GDP (in millions U.S. dollars)	3,025.7	3,665.3	4,272.3	4,193.7	4,072.0	4,427.6	4,435.9
Trade balance (in percent of GDP)	-2.5	3.8	6.6	-13.7	-13.1	-13.5	-10.2
Current account balance (in percent of GDP)	-11.7	-9.1	-7.3	-27.6	-31.6	-25.1	-28.1
Current account balance excluding FDI-financed imports of extractive industries (in percent of GDP)	-12.2	-6.8	7.2	…	-2.7	…	-10.5
Gross official reserves							
In millions of U.S. dollars	238.5	287.8	501.6	756.2	961.9	817.3	876.6
In months of imports excluding extractive industries	2.4	2.4	3.7	5.3	6.2	6.6	7.4
UM/USD exchange rate (period average)	262.5	276.5	280.4	…	296.2		…
Oil account	33.6	35.4	79.8	82.9	94.0	82.9	94.0

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

1/ MDRI debt relief, and passive debt owed to Kuwait are treated as a one-time stock operation.

Table 3. Mauritania: External Financing Requirements, 2009–13

(In millions of U.S. dollars)

	2009	2010	2011 Est.	2012 Proj.	2013 Proj.
Total Requirements	-437	-383	-364	-1352	-1319
Current account deficit	-355	-332	-310	-1285	-1245
Scheduled public debt amortization	-82	-51	-54	-67	-75
Total Sources	437	383	364	1296	1319
Capital inflows	427	349	505	1517	1188
FDI, net	-3	126	776	1410	868
Disbursements from official creditors (WB, AfDB, FADES)	192	133	115	231	163
Other flows 1/	238	89	-386	-123	157
Of which: SNIM disbursements	27	0	168	284	200
Financing Items	41	85	116	254	46
IMF	0	35	35	34	17
France	0	4	46	34	19
Arab Monetary Fund	22	0	22	0	0
Libya	0	25	0	200	0
Exceptional financing 1/	20	21	15	-15	11
Change in oil account (- increase)	13	-2	-44	-14	0
Change in reserves (- increase)	-44	-49	-214	-460	85
Residual financing gap	0	0	0	-56	0
Memorandum item:					
Overall balance 1/	-9	26	243	379	-91

Source: Mauritanian authorities, and IMF staff estimates and projections.
1/ The flows are net of the debt relief from Kuwait under the MDRI.

Table 4a. Mauritania: Central Government Operations, 2009–13
(In billions of UM, unless otherwise indicated)

	2009	2010	2011	2012 CR/12/323	2012 Est.	2013 CR/12/323	2013 Proj.
Non-oil revenue and grants	188.5	250.3	301.2	412.8	441.4	393.2	419.4
Non-oil revenue	182.4	238.7	293.5	338.3	373.6	367.0	385.6
Tax revenue	106.6	145.6	183.7	227.0	250.5	228.5	256.6
Nontax revenue	75.8	83.1	109.8	109.3	123.1	138.4	129.0
Exceptional revenue 1/	0.0	10.0	0.0	2.1	0.0	0.0	0.0
Total grants	6.1	11.6	7.7	74.6	67.8	26.3	33.8
Of which : Projects	3.7	0.6	6.7	10.0	2.9	9.8	13.0
Expenditure and net lending	242.9	283.0	341.4	427.0	430.0	436.8	460.9
Current expenditure	186.7	204.5	247.4	294.1	293.0	268.1	278.3
Compensation of employees	77.0	83.6	90.1	95.0	94.7	101.8	103.8
Goods and services	51.6	47.2	51.6	55.4	54.6	61.5	61.4
Subsidies and transfers 2/	20.3	27.0	65.4	105.8	105.7	70.3	75.3
Of which : Emergency program	0.0	0.0	8.4	33.3	33.3	0.0	0.0
Energy subsidies	6.4	0.0	19.1	30.7	30.7	15.0	15.0
Arrears repayments	0.0	0.0	9.8	13.6	13.6	10.8	10.8
Interest	16.2	19.4	18.4	22.1	12.6	16.7	20.9
External	5.1	7.6	8.4	9.9	9.9	9.7	14.3
Domestic	11.1	11.9	10.0	12.2	2.7	6.9	6.6
Special accounts and others 3/	4.9	12.6	11.0	5.0	10.0	6.0	5.0
Capital expenditure	51.8	65.1	91.8	130.5	136.9	168.6	182.5
Foreign-financed investment	14.9	13.7	37.1	55.5	50.8	58.0	62.1
Domestically financed investment	36.9	51.5	54.7	75.0	86.1	110.6	120.4
Restructuring and net lending	4.4	13.4	2.2	2.4	0.0	0.1	0.1
Common reserves	16.6	13.2	10.9	10.8	10.8	11.8	11.8
Basic non-oil balance; program definition 4/	-40.5	-23.0	-2.4	-23.3	4.4	-2.1	1.1
Non-oil balance excluding grants (deficit -)	-60.5	-44.2	-47.9	-88.7	-56.4	-69.8	-75.3
Non-oil balance including grants (deficit -)	-54.4	-32.7	-40.2	-14.1	11.4	-43.5	-41.5
Net revenue from oil	13.7	13.5	22.9	19.0	21.5	19.5	12.9
Overall balance including grants (deficit -)	-40.7	-19.2	-17.3	4.9	32.9	-24.0	-28.6
Financing	45.2	20.6	20.6	-6.8	-38.0	24.1	28.6
Domestic financing	27.7	12.2	-0.6	-56.9	-88.4	-18.3	-0.7
Banking system	31.3	14.8	-12.4	-59.5	-54.7	-15.5	8.1
CBM	23.1	-1.0	8.5	-62.0	-89.3	-15.5	5.3
Commercial banks	3.0	15.8	-20.9	2.5	9.8	0.0	2.8
Nonbanks	-5.9	-2.5	9.8	5.4	-1.3	0.0	-6.0
Privatization and other	-2.8	-2.8	-2.8	-2.8	-2.2	-2.8	-2.8
Domestic arrears	0.3	2.7	3.0	0.0	-5.4	0.0	0.0
External financing	17.5	8.4	21.2	50.1	50.4	42.4	29.3
Oil account (net)	3.4	-0.5	-13.3	0.0	-4.2	0.0	0.0
Net revenue from oil (net)	-13.7	-13.5	-22.9	-19.0	-21.5	-19.5	-12.9
Oil account contribution to the budget	17.1	13.0	9.6	19.0	17.3	19.5	12.9
Other (net)	14.2	8.9	34.5	50.1	54.6	42.4	29.3
Net borrowing (net)	9.0	3.1	30.4	46.5	53.0	38.4	26.1
Exceptional financing	5.2	5.8	4.1	3.6	3.3	4.0	3.3
Errors and omissions	4.5	1.4	3.3	0.0	-5.1	0.0	0.0

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

1/ Tax arrears from the public electricity company.

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

3/ These include the development fund (FAID).

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

Table 4b. Mauritania: Central Government Operations, 2009–13

(In percent of non-oil GDP, unless otherwise indicated)

	2009	2010	2011	2012 CR/12/323	2012 Est.	2013 CR/12/323	2013 Proj.
Non-oil revenue and grants	24.9	25.8	26.3	34.7	38.1	30.1	31.9
Non-oil revenue	24.1	24.6	25.6	28.4	32.2	28.1	29.3
Tax revenue	14.1	15.0	16.0	19.1	21.6	17.5	19.5
Nontax revenue	10.0	8.6	9.6	9.2	10.6	10.6	9.8
Exceptional revenue 1/	0.0	1.0	0.0	0.2	0.0	0.0	0.0
Total grants	0.8	1.2	0.7	6.3	5.8	2.0	2.6
Of which: Projects	0.5	0.1	0.6	0.8	0.3	0.7	1.0
Expenditure and net lending	32.1	29.1	29.8	35.9	37.1	33.4	35.0
Current expenditure	24.6	21.1	21.6	24.7	25.3	20.5	21.1
Compensation of employees	10.2	8.6	7.9	8.0	8.2	7.8	7.9
Goods and services	6.8	4.9	4.5	4.7	4.7	4.7	4.7
Subsidies and transfers 2/	2.7	2.8	5.7	8.9	9.1	5.4	5.7
Of which: Emergency program	0.0	0.0	0.7	2.8	2.9	0.0	0.0
Energy subsidies	0.8	0.0	1.7	2.6	2.6	1.1	1.1
Arrears repayments	0.0	0.0	0.9	1.1	1.2	0.8	0.8
Interest	2.1	2.0	1.6	1.9	1.1	1.3	1.6
External	0.7	0.8	0.7	0.8	0.9	0.7	1.1
Domestic	1.5	1.2	0.9	1.0	0.2	0.5	0.5
Special accounts and others 3/	0.7	1.3	1.0	0.4	0.9	0.5	0.4
Capital expenditure	6.8	6.7	8.0	11.0	11.8	12.9	13.9
Foreign-financed investment	2.0	1.4	3.2	4.7	4.4	4.4	4.7
Domestically financed investment	4.9	5.3	4.8	6.3	7.4	8.5	9.1
Restructuring and net lending	0.6	1.4	0.2	0.2	0.0	0.0	0.0
Common reserves	2.2	1.4	1.0	0.9	0.9	0.9	0.9
Basic non-oil balance; program definition 4/	-5.3	-2.4	-0.2	-2.0	0.4	-0.2	0.1
Non-oil balance excluding grants (deficit -)	-8.0	-4.6	-4.2	-7.5	-4.9	-5.3	-5.7
Non-oil balance including grants (deficit -)	-7.2	-3.4	-3.5	-1.2	1.0	-3.3	-3.2
Net revenue from oil	1.8	1.4	2.0	1.6	1.9	1.5	1.0
Overall balance including grants (deficit -)	-5.4	-2.0	-1.5	0.4	2.8	-1.8	-2.2
Financing	6.0	2.1	1.8	-0.6	-3.3	1.8	2.2
Domestic financing	3.7	1.3	0.0	-4.8	-7.6	-1.4	-0.1
Banking system	4.1	1.5	-1.1	-5.0	-4.7	-1.2	0.6
BCM	3.1	-0.1	0.7	-5.2	-7.7	-1.2	0.4
Commercial banks	0.4	1.6	-1.8	0.2	0.8	0.0	0.2
Nonbanks	-0.8	-0.3	0.9	0.5	-0.1	0.0	-0.5
Privatization and other	-0.4	-0.3	-0.2	-0.2	-0.2	-0.2	-0.2
Domestic arrears	0.0	0.3	0.3	0.0	-0.5	0.0	0.0
External financing	2.3	0.9	1.9	4.2	4.4	3.2	2.2
Oil account (net)	0.4	0.0	-1.2	0.0	-0.4	0.0	0.0
Net revenue from oil (net)	-1.8	-1.4	-2.0	-1.6	-1.9	-1.5	-1.0
Oil account contribution to the budget	2.3	1.3	0.8	1.6	1.5	1.5	1.0
Other (net)	1.9	0.9	3.0	4.2	4.7	3.2	2.2
Net borrowing (net)	1.2	0.3	2.7	3.9	4.6	2.9	2.0
Exceptional financing	0.7	0.6	0.4	0.3	0.3	0.3	0.2
Errors and omissions	0.6	0.1	0.3	0.0	-0.4	0.0	0.0
Memorandum items:							
Non-oil GDP (in billion of ouguiya)	757.6	971.0	1,145.0	1,190.2	1,158.8	1,306.8	1,316.0
Total revenue	25.9	26.0	27.6	30.0	34.1	29.6	30.3
Revenue excluding extractive industries 5/	24.6	26.8	27.5	27.2	32.0	30.9	31.2
Tax Revenue excluding extractive industries 5/	15.3	17.2	18.1	22.4	25.7	20.1	22.7
Overall balance excluding revenues from extractive industries and foreign-financed investment 5/	-12.0	-11.4	-13.3	-15.3	-11.0	-8.0	-9.6
Oil fund balance (in billion of ouguiya)	8.8	9.8	22.4	24.6	27.8	25.5	28.9

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

1/ Tax arrears from national electricity company.

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

3/ These include the development fund (FAID).

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

5/ In percent of GDP excluding extractive industries.

Table 5. Mauritania: Monetary Situation, 2009–13
(In billions of ouguiyas at end-of-period exchange rates, unless otherwise indicated)

	2009	2010	2011 Est.	2012 CR/12/323	2012 Est.	2013 CR/12/323	2013 Proj.
Monetary survey							
Net foreign assets	-3.3	9.4	70.8	170.0	192.2	191.7	192.3
Net domestic assets	279.9	302.7	303.3	267.6	221.2	306.9	291.2
Net domestic credit	424.2	470.9	502.2	484.8	458.9	524.1	528.8
Net credit to the government	175.5	186.8	189.4	139.9	100.3	128.4	115.4
Credit to the economy	248.7	284.1	312.9	344.9	358.5	395.7	413.4
Other items net	-144.4	-168.2	-198.9	-217.2	-237.6	-217.2	-237.6
Broad money	276.5	312.1	374.2	432.8	413.4	491.6	476.5
Monetary authorities							
Net foreign assets	1.6	13.3	67.1	161.3	214.1	178.3	210.3
Net domestic assets	124.3	113.6	110.8	34.9	-1.8	15.4	-3.5
Net domestic credit	146.2	141.1	163.9	93.3	66.4	73.8	64.7
Net credit to the government	127.1	122.3	144.9	86.9	50.9	67.4	49.2
Other items net	-21.9	-27.5	-53.1	-58.4	-68.3	-58.4	-68.3
Reserve money	125.9	126.9	178.0	196.2	212.3	193.7	206.8
Currency in circulation	81.6	91.3	100.9	110.3	115.3	128.7	130.8
Reserves of banks	44.3	35.6	77.1	85.9	97.0	65.0	75.9
Of which: Banks deposits in FX	14.0	8.1	8.6	13.6	21.9	11.5	15.0
Commercial banks							
Net foreign assets	-5.0	-3.9	3.7	8.7	-21.9	13.4	-17.9
Net domestic credit	280.7	334.0	342.6	391.3	392.4	446.1	457.1
Net credit to the government	48.5	64.5	44.5	50.0	49.4	54.0	59.2
Credit to the private sector	232.3	269.5	298.1	341.3	343.0	392.2	397.9
Other items net	-122.5	-140.7	-145.8	-158.8	-169.4	-158.8	-169.4
Memorandum items:							
Velocity of broad money	2.7	3.1	3.1	2.8	2.8	2.7	2.8
Velocity of broad money (GDP excluding extractive	2.2	2.2	2.0	2.0	2.0	1.9	2.0
Credit to the private sector (percent of non-oil GDP)	30.7	27.8	26.0	28.7	29.6	30.0	30.2
Net foreign assets of banks (in millions of U.S. dollars)	-18.9	-13.8	13.4	28.4	-72.4	43.4	-57.4

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

Table 6. Mauritania: Banking System at a Glance, 2009–11

(Percent, unless otherwise indicated)

	2009	2010	2011 Est.
Balance sheet			
Assets / GDP	42.7	36.7	37.5
Net private-sector credit / total assets	51.1	53.2	48.2
Public enterprise credit / total assets	13.1	13.0	-
Government securities / total assets	16.0	18.8	11.1
Private-sector credit growth (y-o-y)	4.0	16.0	10.6
Gross NPLs / gross loans	-	45.3	39.2
of which: accrued interest on NPLs / gross loans	-	11.6	11.5
of which: legacy NPLs (pre-2010) / gross loans	-	16.7	13.7
of which: new NPLs / gross loans	-	17.0	14.1
Provisions / (gross NPLs - accrued interest)	-	30.0	28.5
of which: provisions / legacy NPLs (pre-2010)	-	45.2	47.8
of which: provisions / new NPLs	-	15.0	11.6
Deposits / total assets	57.4	59.3	60.9
Private-sector gross loans / private-sector deposits	115.3	118.4	105.9
Capital ratios			
Capital / total assets	16.7	16.7	18.5
Capital adequacy ratio	38.2	34.0	35.2
Foreign exchange exposure			
Fx assets / total assets	13.9	10.5	10.5
Fx assets / fx liabilities (on balance sheet)	123.7	112.1	135.2
Profitability and liquidity			
Return on assets	1.4	0.4	1.2
Return on equity	8.5	2.7	6.0
Liquid assets / total assets 1/	29.8	29.5	29.7
Memorandum items:			
Share of assets held by three largest banks	53.6	53.7	50.7
Number of banks	10	10	12
Bank private-sector credit / GDP	29.2	26.6	24.9

Sources: Mauritanian authorities; and IMF staff.

1/ Liquid assets: cash, reserves, and treasury bills.

Table 7. Mauritania: Indicators of Capacity to Repay the Fund, 2013–20

	2013	2014	2015	2016	2017	2018	2019	2020
				Projections				
Payments to the Fund based on existing credit				(In millions of SDRs)				
Principal	1.9	2.1	3.2	7.6	10.2	13.4	13.2	12.1
Charges and interest	0.0	0.0	0.2	0.2	0.2	0.2	0.1	0.1
Payments to the Fund based on existing and prospective credit				(In millions of SDRs)				
Principal	1.9	2.1	3.2	7.6	10.2	14.5	15.5	14.4
Charges and interest	0.1	0.0	0.2	0.2	0.2	0.2	0.1	0.1
Total payments to the Fund based on existing and prospective credit								
In millions of SDRs	3.1	2.1	3.4	7.8	10.4	14.7	15.6	14.4
In millions of US$	4.7	3.1	5.0	11.6	15.6	21.9	23.2	21.6
In percent of exports of goods and services	0.1	0.1	0.1	0.3	0.3	0.4	0.4	0.3
In percent of debt service	1.9	1.0	1.4	2.5	3.2	4.1	4.1	4.1
In percent of GDP	0.1	0.0	0.1	0.2	0.2	0.2	0.2	0.2
In percent of Gross International Reserves	0.4	0.3	0.5	1.2	1.5	2.1	2.1	1.9
In percent of quota	4.8	3.3	5.3	12.1	16.2	22.8	24.2	22.4
Outstanding Fund credit								
In millions of SDRs	85.1	83.0	79.9	72.3	62.0	47.5	32.0	17.7
In millions of US$	126.9	123.9	119.1	107.8	92.5	70.8	47.8	26.3
In percent of exports of goods and services	2.9	2.9	2.6	2.3	1.5	1.1	0.8	0.4
In percent of debt service	51.9	41.1	32.3	23.5	18.8	13.2	8.5	5.0
In percent of GDP	1.9	1.8	1.6	1.4	1.0	0.7	0.4	0.2
In percent of Gross International Reserves	9.7	10.4	11.7	11.2	9.2	6.7	4.3	2.3
In percent of quota	132.1	128.9	124.0	112.2	96.3	73.7	49.7	27.4
Net use of Fund credit (in millions of SDRs)	8.0	-2.1	-3.2	-7.6	-10.2	-14.5	-15.5	-14.4
Disbursements	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	3.0	2.1	3.2	7.6	10.2	14.5	15.5	14.4
Memorandum items:								
Exports of goods and services (in millions of US$)	2,962.9	2,867.2	3,106.3	3,103.6	4,007.4	4,171.9	4,205.2	4,271.3
Debt service (in millions of US$)	164.0	202.0	247.5	308.1	329.3	360.7	377.2	350.9
Nominal GDP (in millions of US$)	4,435.9	4,563.3	4,907.4	5,143.3	6,417.8	6,916.2	7,450.5	8,015.2
Gross international reserves (in millions of US$)	876.6	798.7	682.9	642.5	676.9	711.2	745.5	779.8
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4	64.4	64.4

Source: IMF staff estimates and projections.

Table 8. Mauritania: Selected Economic and Financial Indicators, 2009–18

	2009	2010	2011	2012 CR/12/323	2012 Est.	2013 CR/12/323	2013	2014	2015	2016	2017	2018
							Projections					
					(Percent; unless otherwise indicated)							
National income and prices (y-o-y growth)												
GDP at constant prices	-1.2	4.7	3.6	5.7	6.9	6.3	6.2	6.6	8.4	4.6	21.4	5.9
Non-oil GDP at constant prices	-1.1	5.2	3.7	5.7	7.1	6.4	6.2	6.7	8.7	4.7	22.0	6.1
GDP excl. extractive industries at constant prices	-1.1	5.1	4.4	6.1	8.0	5.9	6.5	6.6	7.2	6.4	6.5	6.5
Oil production (1000 barrels per day)	10.7	8.3	7.7	7.7	6.5	7.7	6.5	6.5	6.5	6.5	6.5	6.5
GDP deflator	-5.9	21.9	14.1	-0.9	-5.8	2.8	6.5	-1.5	2.3	3.7	4.8	3.9
Non-oil GDP deflator	-3.9	21.8	13.7	-1.2	-5.5	3.2	6.9	-1.3	2.4	3.8	4.9	3.9
Consumer price index (period average)	2.1	6.3	5.7	5.9	4.9	6.1	4.7	5.2	5.4	5.5	5.5	5.5
Consumer price index (end of period)	4.9	6.1	5.5	6.0	3.4	6.3	5.1	5.3	5.5	5.5	5.5	5.5
External sector												
Value growth of exports of goods, f.o.b.	-23.7	52.0	35.7	0.8	-6.1	2.9	5.1	-3.6	8.8	-0.2	30.9	5.3
Value growth of imports of goods, f.o.b.	-24.6	34.4	30.9	16.6	25.4	3.0	1.7	-20.0	-0.1	0.1	5.8	3.1
Current account balance (in percent of GDP)	-11.7	-9.1	-7.3	-19.5	-31.6	-25.1	-28.1	-12.3	-9.6	-9.0	-2.5	0.3
Gross official reserves 1/												
In millions of U.S. dollars, end of period	238.5	287.8	501.6	523.5	961.9	817.3	876.6	798.7	682.9	642.5	676.9	711.2
In months of following year's imports excluding extractive industries	2.4	2.4	3.7	3.8	6.2	6.6	7.4	6.4	5.4	5.8	5.8	6.1
PPG external debt (percent of GDP) 2/	96.3	86.1	79.4	62.4	87.2	61.4	62.6	64.7	63.7	60.9	49.5	46.7
Money												
Money and quasi-money (percentage change)	14.9	12.9	19.9	13.0	10.5	13.6	15.3	12.4	12.7	13.3	14.2	12.7
Credit to the private sector (percentage change)	3.7	14.2	10.1	14.4	14.6	14.7	15.3	14.4	13.5	12.6	12.7	12.7
Investment and savings												
Gross investment (percentage of GDP)	24.6	24.1	32.2	37.1	45.5	38.8	40.4	33.8	31.1	30.2	26.5	24.9
Gross savings (percentage of GDP)	12.3	15.0	25.0	17.7	13.9	13.8	12.4	21.5	21.5	21.2	24.0	25.2
					(Percent of non-oil GDP; unless otherwise indicated)							
Consolidated government operations												
Basic non-oil balance; program definition 3/	-5.3	-2.4	-0.2	-0.9	0.4	-0.2	0.1	1.1	1.0	3.3	4.1	3.6
Overall balance including grants	-5.4	-2.0	-1.5	-3.5	2.8	-1.8	-2.2	-4.8	-3.2	-0.6	1.1	1.2
Public sector debt (percent of GDP) 2/	105.9	94.9	86.0	70.0	94.2	69.2	70.2	72.6	72.4	69.2	56.2	52.8
Memorandum items:												
Nominal GDP (in billions of UM)	794.2	1,013.5	1,197.9	1,239.9	1,206.0	1,361.1	1,363.7	1,432.9	1,590.0	1,724.1	2,194.4	2,414.3
GDP per capita (in U.S. dollars)	897.6	1,059.3	1,205.8	1,206.7	1,122.4	1,191.8	1,194.0	1,199.5	1,259.7	1,289.3	1,571.1	1,653.4
Price of iron ore (US$/Ton)	80.0	146.7	167.8	136.4	128.5	120.3	147.8	127.6	124.4	123.1	123.0	123.0
Price of gold (US$/Ounce)	973.0	1,224.7	1,568.6	1,650.1	1,668.8	1,678.5	1,593.5	1,588.5	1,604.7	1,624.1	1,653.7	1,695.8
Price of copper (US$/Ton)	5,165.3	7,538.4	8,823.5	7,854.7	7,958.9	7,648.5	7,810.1	7,838.3	7,902.6	7,956.3	8,005.3	8,000.0

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

1/ Excluding the oil account.

2/ Debt restructuring from Kuwait was initially programmed in 2011, then shifted to 2012, and is now expected to take place at end-2013.

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

Table 9. Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	2008	2011	PRSP 2015	MDGs 2015
(In percent of total population)									
1. Eradicate extreme poverty and hunger									
Overall poverty incidence	56.6	50.0	46.3	...	46.7	42.0	...	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	...	25.9	15.6	...	...	...
Prevalence of child malnutrition	43.3	20.3	32.0	...	30.2	15.9	...	21.0	23.5
(In percent of primary school age group)									
2. Achieve universal primary education									
Net enrollment ratio in primary education	49.2	58.5	61.1	65.7	74.3	76.0	72.7	100.0	100.0
(In percent of total enrollment in first grade)									
Proportion of pupils starting grade one who reach last grade of primary	63.8	42.6	54.7	...	52.8	81.8	65.2	100.0	100.0
(In percent)									
3. Promote gender equality									
Ratio of girls to boys in primary enrollment	75.37	89.50	97.15	98.60	101.24	104.90	102.00	100.0	100.0
(Per 1,000 live births)									
4. Reduce child mortality									
Child mortality (under five years)	124.1	118.2	115.2	114.2	113.8	112.4	77.0	55.0	45.0
(Per 100,000 live births)									
5. Improve maternal health									
Maternal mortality	...	...	930.0	...	747.0	686.0	626.0	300.0	232.0
(In percent of ages 15-24)									
6. Combat HIV/AIDS, malaria, and other diseases									
Incidence of HIV/AIDS among 15–49-year olds	...	...	0.5	0.6	0.5	0.6	0.7	< 1	1.0
(In percent of population)									
7. Ensure environmental sustainability									
Proportion of population using an improved drinking water source	30.0	...	40.0	...	...	...	63.3	75.0	82.0
Proportion of population using an improved sanitation facility	16.0	...	21.0	...	24.0	...	32.4	...	70.0
Memorandum items:									
Population (in millions) 1/	1.95	2.29	2.64	2.80	2.96	3.30	3.54	...	...
UNDP Human Development Index	0.35	...	0.41	...	...	0.45	0.45	...	...
Gini index of inequality	...	0.34	0.39	...	0.41	0.40	...	0.41	...
Child vaccination rate (in percent)	...	30.00	40.00	70.00	79.00	68.80	...	...	...

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

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

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

Timing	Available		Conditions
	Millions of SDR	Percent of Quota	
March 15, 2010	11.04	17.14	Approval of the arrangement.
September 30, 2010	11.04	17.14	Completion of the first review (relevant PCs for end-June 2010).
March 31, 2011	11.04	17.14	Completion of the second review (relevant PCs for end-December 2010).
September 30, 2011	11.04	17.14	Completion of the third review (relevant PCs for end-June 2011).
June 1, 2012	11.04	17.14	Completion of the fourth review (relevant PCs for end-December 2011).
November 26, 2012	11.04	17.14	Completion of the fifth review (relevant PCs for end-June 2012).
May 31, 2013	11.04	17.14	Completion of the sixth (final) review (relevant PCs for end-December 2012).
Total	77.28	120.00	

1/ Mauritania's quota is SDR 64.4 million.

Table 11: External Debt Sustainability Framework, Baseline Scenario, 2010–2033 1/

(In percent of GDP, unless otherwise indicated)

	Actual						Historical Average 6/	0 0	Standard Deviation 6/	Projections										
	2007	2008	2009	2010	2011	2012				2013	2014	2015	2016	2017	2018	2019	2014-2018 Average	2023	2033	2019-2033 Average
External debt (nominal) 1/	**89.4**	**88.5**	**105.7**	**95.3**	**89.9**	**105.5**			**-21.5**	**84.0**	**86.3**	**84.6**	**81.7**	**67.4**	**63.7**	**57.9**	76.7	**44.5**	**23.6**	38.5
o/w public and publicly guaranteed (PPG)	82.9	80.8	96.3	86.1	79.4	87.2			**-24.5**	62.6	64.7	63.7	60.9	49.5	46.7	41.9	57.1	31.9	16.8	27.7
Change in external debt	0.1	-0.9	17.2	-10.4	-5.4	15.6				-21.5	2.3	-1.7	-3.0	-14.3	-3.7	-5.8	-4.1	-3.7	-1.9	-2.7
Identified net debt-creating flows	0.5	-5.1	26.1	-13.8	-12.2	2.9				-0.2	2.2	-3.1	-3.3	-17.4	-7.8	-10.4	-5.9	-11.4	-10.7	-11.0
Non-interest current account deficit	**16.4**	**14.6**	**10.8**	**7.6**	**5.9**	**29.9**	**18.5**		**15.2**	**25.8**	**10.1**	**7.3**	**6.9**	**0.9**	**-1.7**	**-1.6**	4.7	**-7.1**	**-4.6**	-4.8
Deficit in balance of goods and services	22.4	22.2	16.7	11.2	5.9	34.6				28.3	10.4	4.6	4.5	-7.9	-9.1	-8.8	0.5	-7.8	-4.4	-6.7
Exports	51.1	54.5	50.3	59.8	71.7	68.8				66.8	62.8	63.3	60.3	62.4	60.2	55.9	61.8	42.5	22.6	36.3
Imports	73.4	76.6	67.1	71.0	77.6	103.4				95.1	73.2	67.9	64.8	54.5	51.1	47.1	62.3	34.7	18.2	29.6
Net current transfers (negative = inflow)	-5.0	-5.6	-4.3	-4.4	-2.7	-8.0	-6.2		2.3	-4.3	-2.7	-2.4	-2.3	-1.9	-1.9	-1.6	-2.2	-1.3	-0.8	-1.1
o/w official	-2.5	-3.5	-2.1	-2.8	-2.0	-7.0				-3.3	-1.7	-1.4	-1.4	-1.1	-0.8	-0.6	-1.3	-0.4	-0.2	-0.3
Other current account flows (negative = net inflow)	-1.0	-2.0	-1.6	0.8	2.8	3.3				1.8	2.3	5.1	4.7	10.7	9.2	8.7	6.4	2.0	0.7	3.0
Net FDI (negative = inflow)	**-10.8**	**-5.0**	**-1.3**	**-4.5**	**-6.0**	**-33.2**	**-14.4**		**14.6**	**-19.7**	**-7.9**	**-6.7**	**-8.5**	**-3.7**	**-2.6**	**-5.0**	-5.9	**-2.8**	**-5.2**	-4.8
Endogenous debt dynamics 2/	**-5.1**	**-14.7**	**16.6**	**-16.9**	**-12.1**	**6.2**				**-6.3**	**0.1**	**-3.7**	**-1.7**	**-14.5**	**-3.5**	**-3.8**	-4.7	**-1.6**	**-0.9**	-1.3
Contribution from nominal interest rate	1.3	1.2	1.7	1.5	1.4	1.8				2.4	2.4	2.3	2.2	1.7	1.4	1.3	2.0	0.8	0.4	0.7
Contribution from real GDP growth	-0.8	-2.6	1.3	-4.1	-2.9	-6.5				-6.0	-5.4	-6.8	-3.7	-14.0	-3.7	-2.8	-6.7	-2.3	-1.3	-2.0
Contribution from price and exchange rate changes	-5.6	-13.3	13.7	-14.4	-10.6	10.9				-2.7	3.1	0.7	-0.2	-2.2	-1.3	-2.3	0.0	-0.8	...	-0.5
Residual (3-4) 3/	**-0.4**	**4.2**	**-8.9**	**3.4**	**6.8**	**12.7**				**-21.4**	**0.1**	**1.4**	**0.3**	**3.1**	**4.2**	**4.7**	1.8	**7.7**	**8.8**	8.3
o/w exceptional financing	1.2	1.2	0.7	-5.1	0.3	-1.1				-19.4	0.2	0.2	0.2	0.2	-2.4	-0.3	-0.3	-0.6	-0.2	-0.3
PV of external debt 4/	...	...	...	...	...	84.9				68.2	70.4	68.7	66.2	54.5	51.3	46.6	62.2	35.9	20.0	31.4
In percent of exports	...	...	...	...	...	123.4				102.1	112.0	108.6	109.6	87.3	85.2	83.5	100.5	84.6	88.2	87.1
PV of PPG external debt	**...**	**...**	**...**	**...**	**...**	**66.5**				**46.8**	**48.7**	**47.8**	**45.4**	**36.7**	**34.4**	**30.6**	42.6	**23.4**	**13.1**	20.6
In percent of exports	**...**	**...**	**...**	**...**	**...**	**96.7**				**70.1**	**77.5**	**75.5**	**75.2**	**58.7**	**57.1**	**54.8**	68.8	**55.0**	**57.8**	57.1
In percent of government revenues	**...**	**...**	**...**	**...**	**...**	**203.0**				**160.3**	**166.1**	**176.1**	**161.6**	**150.5**	**134.2**	**119.4**	157.7	**90.8**	**50.3**	79.9
Debt service-to-exports ratio (in percent)	**2.6**	**5.8**	**6.1**	**5.6**	**4.1**	**5.9**				**6.8**	**10.7**	**10.6**	**11.6**	**9.4**	**8.4**	**8.5**	10.2	**5.7**	**7.0**	6.6
PPG debt service-to-exports ratio (in percent)	**1.8**	**4.2**	**3.8**	**3.8**	**2.8**	**3.7**				**4.1**	**4.7**	**5.1**	**6.4**	**5.4**	**5.4**	**5.6**	5.4	**4.6**	**6.5**	5.3
PPG debt service-to-revenue ratio (in percent)	**3.8**	**9.7**	**9.2**	**9.5**	**7.7**	**7.8**				**9.4**	**10.1**	**12.0**	**13.7**	**13.9**	**12.8**	**12.2**	12.5	**7.5**	**5.6**	7.4
Total gross financing need (Billions of U.S. dollars)	0.3	0.5	0.5	0.4	0.2	0.1				0.6	0.7	0.6	0.5	0.4	0.3	0.1	0.5	-0.5	-1.7	-0.9
Non-interest current account deficit that stabilizes debt ratio	16.3	15.5	-6.4	18.0	11.3	14.2				47.3	7.7	9.0	9.8	15.2	2.0	4.2	8.8	-3.4	-2.7	-2.2
Key macroeconomic assumptions																#				
Real GDP growth (in percent)	1.0	3.5	-1.2	4.7	3.6	6.9	4.6		3.4	6.2	6.6	8.4	4.6	21.4	5.9	4.8	9.4	5.2	5.5	5.3
GDP deflator in US dollar terms (change in percent)	6.7	17.4	-13.4	15.7	12.5	-10.8	9.3		13.2	2.6	-3.5	-0.8	0.2	2.8	1.9	3.7	0.1	3.4	1.2	3.1
Effective interest rate (percent) 5/	1.6	1.6	1.6	1.7	1.7	1.9	1.2		0.7	2.5	3.0	2.9	2.7	2.6	2.3	2.2	2.7	1.7	1.9	1.8
Growth of exports of G&S (US dollar terms, in percent)	2.8	29.6	-20.9	44.0	39.7	-8.6	26.0		37.2	5.8	-3.2	8.3	-0.1	29.1	4.1	0.8	7.6	1.8	2.3	1.7
Growth of imports of G&S (US dollar terms, in percent)	35.8	26.9	-25.1	28.3	27.3	27.0	24.7		26.4	0.2	-20.7	-0.2	0.0	5.0	1.2	0.1	-3.0	1.1	2.1	1.4
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	...		...	20.8	22.2	34.5	34.3	34.2	32.3	32.1	31.5	26.2	12.5	22.2
Government revenues (excluding grants, in percent of GDP)	25.0	23.4	20.6	23.9	26.4	32.8				29.2	29.3	27.1	28.1	24.4	25.6	25.7	26.9	25.7	26.1	25.8
Aid flows (in Billions of US dollars) 7/	0.1	0.0	0.0	0.0	0.0	0.2				0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
o/w Grants	0.1	0.0	0.0	0.0	0.0	0.2				0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
o/w Concessional loans	0.0	0.0	0.0	0.0	0.0	0.0				0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.0
Grant-equivalent financing (in percent of GDP) 8/	...	...	...	...	...	...				3.4	2.3	2.2	2.0	1.5	1.3	1.2	1.9	0.9	0.3	0.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...	...	...	...				49.1	31.5	43.3	43.0	42.9	41.8	42.0	40.5	36.3	21.1	32.3
Memorandum items:																				
Nominal GDP (Billions of US dollars)	2.9	3.5	3.0	3.7	4.3	4.1				4.4	4.6	4.9	5.1	6.4	6.9	7.5		10.6	23.9	
Nominal dollar GDP growth	7.8	21.5	-14.4	21.1	16.6	-4.7				8.9	2.9	7.5	4.8	24.8	8.0	8.7	9.6	8.8	6.8	8.7
PV of PPG external debt (in Billions of US dollars)						2.7				2.0	2.2	2.3	2.3	2.3	2.3	2.3		2.5	3.2	
(PVt-PVt-1)/GDPt-1 (in percent)										-15.0	3.8	1.6	0.7	0.2	0.0	-0.1	1.2	0.7	0.3	0.5

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

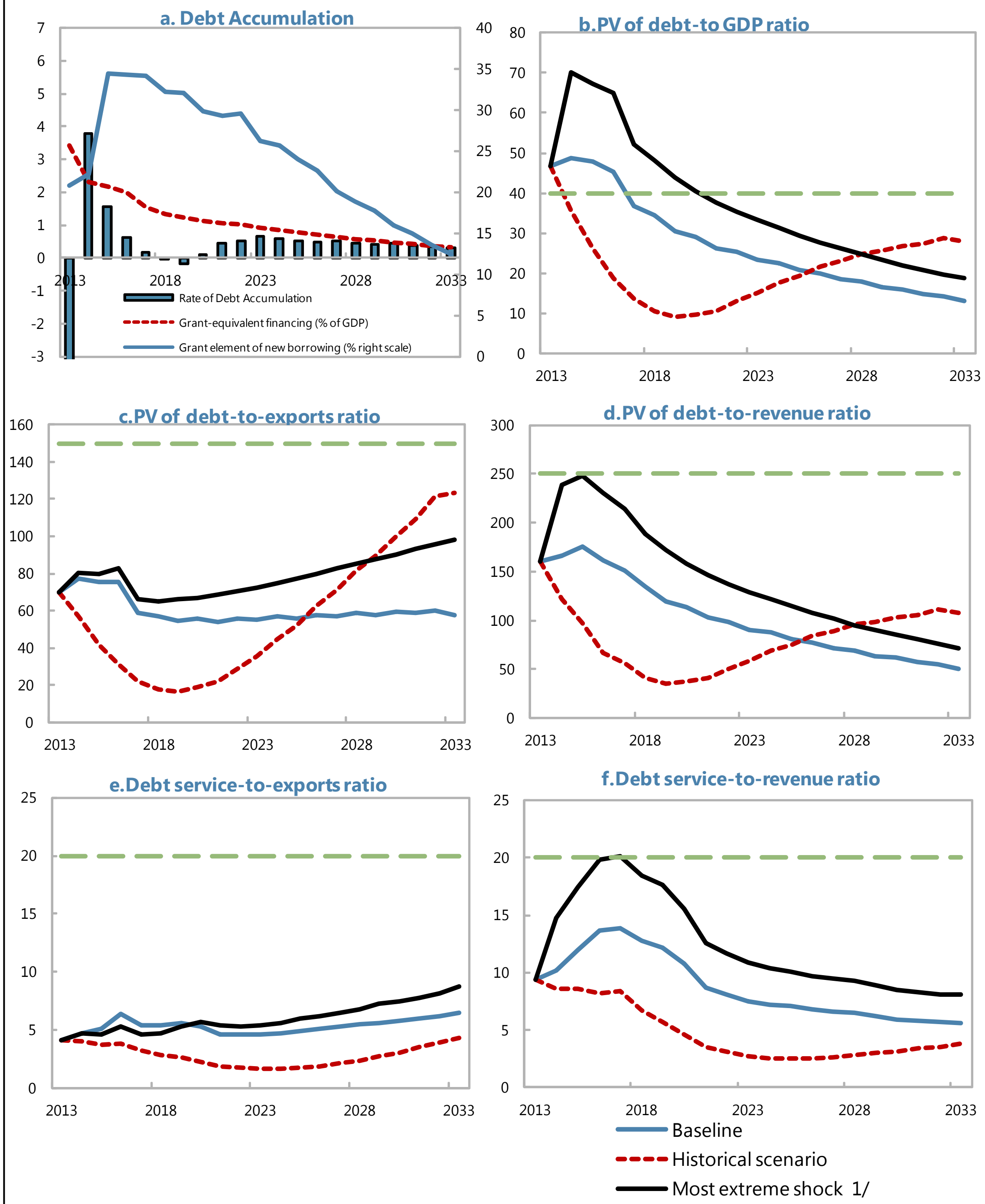
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 12.Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–2033
(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2010	2011	2012	Average 5/	Standard Deviation 5/	2013	2014	2015	2016	2017	2018	2013-18 Average	2023	2033	2019-33 Average
Public sector debt 1/	94.9	86.0	94.2			70.2	72.6	72.4	69.2	56.2	52.8	65.6	32.5	17.0	27.9
o/w foreign-currency denominated	86.1	79.4	87.2 7.0			62.6	64.7	63.7	60.9	49.5	46.7	58.0	31.9	16.8	27.7
Change in public sector debt	-11.0	-8.9	8.2			-24.0	2.4	-0.2	-3.2	-13.0	-3.4	-6.9	-3.0	-1.6	-2.4
Identified debt-creating flows	-19.7	-11.1	-0.6			-25.8	2.2	-0.6	-3.8	-14.6	-8.2	-8.5	-5.9	-2.6	-4.0
Primary deficit	0.8	-0.2	-3.9	-0.9	13.5	0.5	3.2	1.5	-1.0	-2.3	-3.3	-0.2	-2.2	-0.8	-1.8
Revenue and grants	25.0	27.1	38.4			31.7	30.2	27.8	28.7	24.8	26.1	28.2	26.1	26.2	26.1
of which: grants	1.1	0.6	5.6			2.5	0.9	0.7	0.6	0.5	0.5	0.9	0.4	0.2	0.3
Primary (noninterest) expenditure	25.9	26.9	34.5			32.2	33.4	29.3	27.7	22.5	22.8	28.0	23.8	25.4	24.3
Automatic debt dynamics	-15.3	-11.3	4.4			-6.7	-1.3	-2.3	-3.0	-12.4	-2.5	-4.7	-3.0	-1.6	-1.8
Contribution from interest rate/growth differential	-5.4	-4.4	-5.4			-5.4	-3.7	-5.2	-2.9	-12.1	-3.2	-5.4	-1.9	-1.0	-1.6
of which: contribution from average real interest rate	-0.7	-1.1	0.1			0.1	0.7	0.4	0.3	0.1	0.0	0.2	-0.2	0.0	-0.1
of which: contribution from real GDP growth	-4.7	-3.3	-5.5			-5.5	-4.4	-5.6	-3.2	-12.2	-3.1	-5.7	-1.8	-1.0	-1.5
Contribution from real exchange rate depreciation	-9.9	-7.0	9.8			-1.3	2.4	2.9	-0.1	-0.2	0.7	0.7	...	...	-0.3
Other identified debt-creating flows	-5.2	0.4	-1.1			-19.7	0.2	0.2	0.2	0.2	-2.4	-3.5	-0.6	-0.2	-0.4
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)	-5.2	0.4	-1.1			-19.7	0.2	0.2	0.2	0.2	-2.4	-3.5	-0.6	-0.2	-0.4
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	8.7	2.2	8.8			1.8	0.2	0.3	0.7	1.5	4.8	1.6	2.9	1.0	1.6
Other Sustainability Indicators															
PV of public sector debt	8.9	6.6	73.5			54.4	56.7	56.5	53.7	43.3	40.5	50.9	23.9	13.3	20.8
o/w foreign-currency denominated	0.0	0.0	66.5			46.8	48.7	47.8	45.4	36.7	34.4	43.3	23.4	13.1	20.6
o/w external	...	...	66.5			46.8	48.7	47.8	45.4	36.7	34.4	43.3	23.4	13.1	20.6
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...	...	...	...	
Gross financing need 2/	16.2	13.5	5.7			10.2	14.1	12.6	11.6	8.1	6.5	10.5	0.3	1.0	0.7
PV of public sector debt-to-revenue and grants ratio (in percent)	35.4	24.5	191.6			171.7	187.6	203.2	187.2	174.5	155.3	179.9	91.7	50.9	79.8
PV of public sector debt-to-revenue ratio (in percent)	37.0	25.1	224.5			186.3	193.2	208.3	191.3	177.8	158.0	185.8	93.0	51.2	80.7
o/w external 3/	…	…	203.0			160.3	166.1	176.1	161.6	150.5	134.2	158.1	90.8	50.3	79.9
Debt service-to-revenue and grants ratio (in percent) 4/	31.4	22.9	7.8			10.9	11.9	14.1	15.7	15.8	14.4	13.8	7.7	5.7	7.5
Debt service-to-revenue ratio (in percent) 4/	32.9	23.4	9.2			11.8	12.3	14.4	16.0	16.1	14.6	14.2	7.8	5.7	7.6
Primary deficit that stabilizes the debt-to-GDP ratio	11.8	8.7	-12.0			24.5	0.8	1.8	2.2	10.7	0.1	6.7	0.7	0.8	0.6
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	4.7	3.6	6.9	4.6	3.4	6.2	6.6	8.4	4.6	21.4	5.9	8.9	5.2	5.5	5.3
Average nominal interest rate on forex debt (in percent)	1.1	1.1	1.1	0.7	0.4	1.4	1.7	1.8	1.8	1.8	1.7	1.7	1.5	1.9	1.6
Average real interest rate on domestic debt (in percent)	-5.2	-2.6	9.8	6.2	10.7	1.2	9.2	5.4	3.4	2.2	3.0	4.1	...	...	-1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-10.7	-8.5	13.2	-5.5	10.9	-1.6	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	21.9	14.1	-5.8	10.2	12.2	6.5	-1.5	2.3	3.7	4.8	3.9	3.3	5.2	5.2	5.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-4.6	7.6	37.2	3.9	15.4	-0.9	10.6	-5.0	-1.2	-1.4	7.4	1.6	6.0	6.9	6.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	20.8	22.2	34.5	34.3	34.2	32.3	29.7	26.2	12.5	...

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.

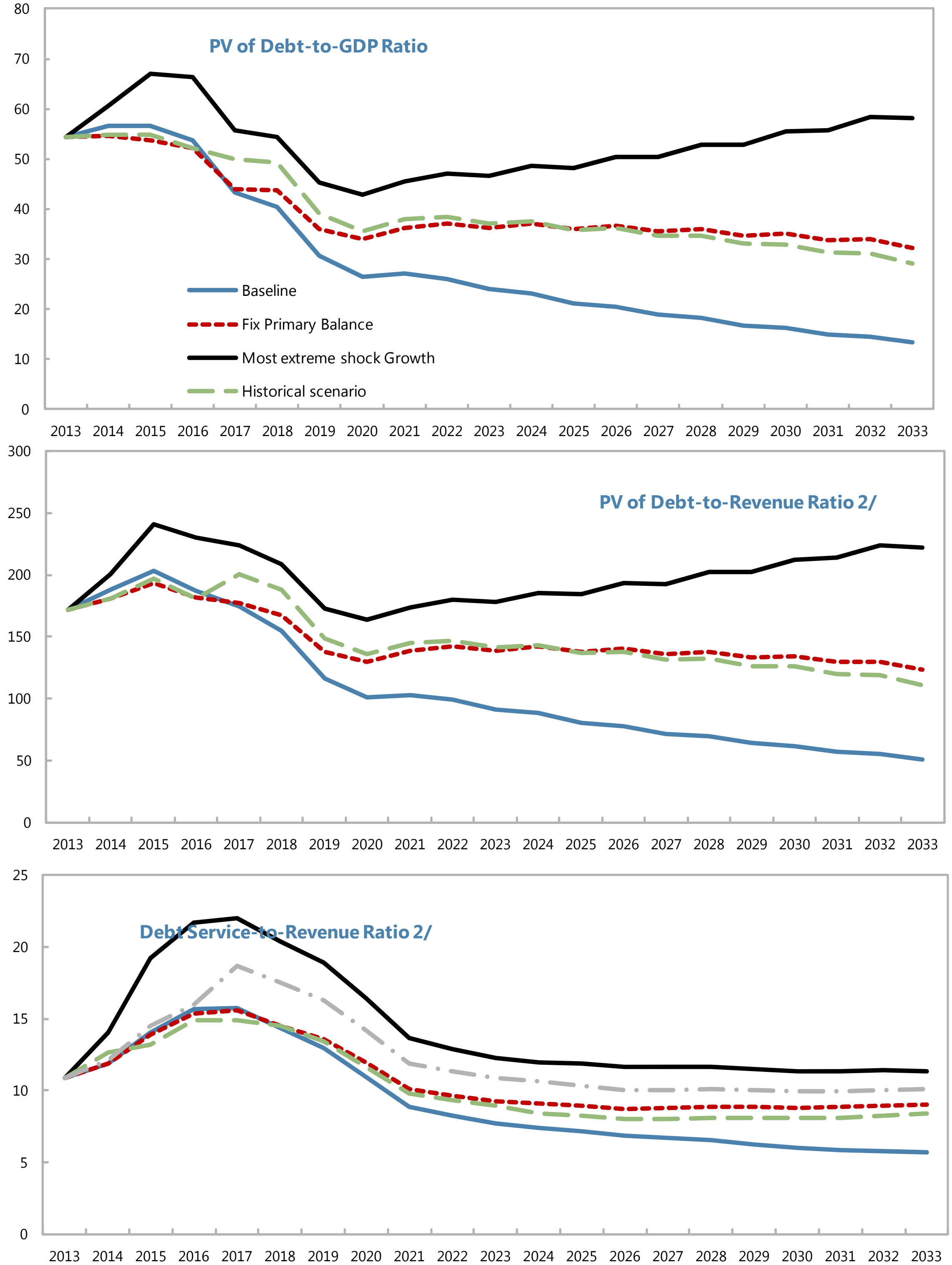
Figure 6. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012–2033 1/



Sources: Country authorities; and staff estimates and projections.

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

Figure 7. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2013–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

Appendix I. Letter of Intent

Nouakchott, May 30, 2013

Madame Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, DC 20433
USA

Madame Managing Director,

1. Over the past three years, the government has successfully met the challenges of strengthening macroeconomic stability and returning to economic growth in a difficult environment at both the national and international levels. By implementing appropriate economic policies consistent with the priorities established in our Poverty Reduction Strategy Paper (PRSP), we have been able to restore macroeconomic resilience and maintain price stability, while putting in place a series of emergency programs to aid our most vulnerable communities. Despite our considerable efforts, the economy still faces high unemployment and poverty rates and our development indicators continue to fall short of the Millennium Development Goals (MDGs)—which we have adopted as our official development objectives.

2. We have achieved the quantitative targets laid out for end-2012 under the program supported by the three-year Extended Credit Facility (ECF) arrangement, (Table 1). However, because of slippage in compliance with the quantitative target on contracting or guaranteeing medium and long-term nonconcessional external debt that occurred after January, we request a waiver on the basis of the corrective measures. Moreover, the structural benchmark for March 2013 (Table 2) was met, but the structural benchmarks for end-December are still pending due to delays. For the structural benchmark related to public enterprises, the final report for Mauripost was completed, and we expect the reports for SNDE, SONIMEX and SOMAGAZ to be completed by mid-June. The increase in electricity prices for large consumers was postponed owing to delays with the tariff study, which has now been completed. The indicative target on priority social spending was achieved for the year after the lag was made up following the adoption of the supplemental appropriation decree (*décret d'avance*).

3. Our economic policy program for 2013 will continue to focus on economic stabilization while stepping up efforts to fight unemployment and poverty. To that end, in consultation with Fund staff, we have set quarterly indicative targets for 2013.

Recent Economic Developments and the Program for 2012

4. Buoyant conditions in the construction and fisheries sectors and the recovery of agricultural production were the main engines of the economic recovery in 2012. In real terms, GDP growth amounted to 6.9 percent in 2012 (8 percent excluding extractive industries), despite the ongoing economic crisis in Europe, one of our main trading partners. Inflation fell to 3.4 percent in December 2012, significantly lower than projected, as the regular increases in retail fuel prices were more than offset by the decline in food prices (which make up 49 percent of the consumption basket). Nevertheless, this favorable economic performance and the social programs implemented unfortunately proved insufficient to reduce the unemployment and poverty rates that remain too high to achieve our development objectives.

5. The marked deterioration of the current account deficit was accompanied by a significant increase in foreign direct investment. Lower iron ore exports, a surge in imports due to the EMEL 2012 emergency program, and new investment projects account for the worsening of the current account deficit, which exceeded 30 percent of GDP at end-2012 (up from 7 percent of GDP in 2011). Still, the current account deficit would be 2.8 percent of GDP if imports associated with foreign direct investment were excluded. Improved management of foreign exchange reserves, a significant repatriation of mining revenues, advance payment of the European Union fishing license, and the exceptional grant in the context of the Brussels Donor Round Table enabled us to increase our stock of foreign exchange reserves to US$962 million at end-2012. This level of reserves, equivalent to 6.2 months of imports, already far exceeds both the optimal level and the level forecasted for 2017 as necessary to absorb exogenous shocks.

6. In the area of public finances, budget execution performance at end-2012 showed improvement as a result of significant tax collection efforts (a 43 percent increase year-on-year in tax revenue (excluding mining), an increase in mining revenues (of 23 percent year-on-year), an earlier-than-expected disbursement of the financial contribution under the fishing agreement with the EU, and exceptional external support (5 percent of GDP). Thus, the basic fiscal balance recorded a non-oil surplus of 0.4 percent of GDP at end-2012, instead of the 2 percent deficit projected during the Fifth Review. The overall balance, including grants, reached a surplus of 2.8 percent of GDP for the first time in our recent history despite the new emergency programs (food and drought relief) and a significant increase in domestically financed investments.

7. At end-2012, money creation was better than anticipated, owing to the stronger fiscal performance and implicit sterilization by the state-owned mining company (SNIM). Given moderate inflationary pressures coupled with declining headline inflation and the implicit sterilization by SNIM, the Central Bank of Mauritania (CBM) made use of its new monetary policy instrument (seven-day Treasury bills for an amount of UM1 billion) only once, on a trial basis, to absorb excess liquidity. The exchange rate depreciated 5 percent against the dollar and 3 per cent in real effective terms. As a result of this depreciation, the premium against the dollar and the euro on the parallel market remains small, indicating that there is no fundamental imbalance on the official market.

Economic Outlook for 2013

8. The strong economic recovery that started in 2012 is expected to continue in 2013, with real GDP growth at around 6 percent. On the demand side, growth is supported by strong private and public spending, along with improved external sector performance buoyed by firmer commodity export prices. On the supply side, construction and public works, agriculture, and services sectors are poised to be the main drivers of growth. Inflation will be contained at 5.1 percent (year-on-year) thanks to the moderation of food prices and the attenuating effects of administered prices. The current account deficit will remain high at 28 percent of GDP, driven mainly by imports in connection with mining investments and infrastructure projects, and be financed by foreign direct investment and external borrowing. The capacity of the Mauritanian economy to withstand exogenous shocks will continue to be strengthened by a high level of foreign exchange reserves (US$869 million, equivalent to 7.3 months of imports at end-2013).

A. The Macroeconomic Program

Fiscal policy

9. Fiscal policy will continue to be anchored in the performance of non-extractive industries to ensure that the fiscal position remains sustainable over the medium term. The overall fiscal deficit (excluding revenue from the extractive industries and externally funded investment) is projected at 9.4 percent of GDP, which corresponds to an improvement of 1 percent of GDP, and a marginal deterioration of the basic balance of close to 0.3 percent of non-oil GDP. This worsening of the basic balance, compared to budget estimates, is mainly attributable to payment of the first tranche of the fishing license in 2012 and an increase in investment spending, notwithstanding the improvement in tax revenues. Financing needs remain largely covered by nonbank financing and external support.

10. An increase in tax revenue, resulting in part from the enhanced tax base in 2012, helped offset the shortfall from the fisheries partnership agreement, thus making it possible to meet the government's revenue target of 30 percent of GDP considered in the budget. Tax revenue outturn in the first quarter of 2013 was 10 percent higher than expected, a trend reflecting both an improvement in the tax base and the sustained pace of economic growth. Mining revenues were also revised upwards from the government's 2013 budget projections, on the basis of a higher turnover propelled by the recent spike in the price of iron ore. The review designed to make the wages and salaries tax (ITS) more progressive, and the new excise exemptions for agricultural machinery, will only have a minimal impact on the 2013 budget (a loss of less than UM2 billion).

11. Domestically funded investment—the largest expenditure item in the budget—is set to grow further in response to pressing infrastructure needs. This growth, of around 10 percent of the level budgeted, reflects projects that are already under way and in conformity with the priorities established in the PRSP. These projects—consistent with available capacity and principally related to the agricultural sector, energy networks, and road infrastructure—will continue to be subject to the new procurement procedures and to current regulation. We are also committed to ensuring that assessment and feasibility studies are carried out for all new projects.

12. As regards current expenditure, we have completely eliminated fuel subsidies and continue to contain the wage bill. Medium-voltage electricity rates for large consumers (structural benchmark) could not be raised as planned because of delays in completing the rates study. We have, however, raised additional temporary revenue from petroleum product distributors as average sale prices remain above international prices. The emergency program, in turn, has been considerably scaled down by reducing the number of subsidized products available through the dedicated shops used in the solidarity program and by falling international prices. In the event of a shortfall, we are committed to making cuts in nonessential spending, including spending on investment projects that are not urgent.

Monetary, financial, and foreign exchange policies

13. For 2013, the monetary policy stance will be cautious, and we will remain vigilant to the re-emergence of any inflationary pressures. We have reduced excess liquidity over the past three months through our considerable interventions in the foreign exchange market. However, the level of bank liquidity remains high and credit to the private sector, a corollary of growth in the Mauritanian economy, has risen markedly. In line with our objectives, we intend to manage liquidity principally by using indirect monetary policy instruments and by strengthening our forecasts:

- *Monetary policy tools*. We have successfully equipped the CBM with a short-term liquidity management instrument. Therefore, for liquidity management purposes, we plan to issue seven-day Treasury bills every week starting in June, with amounts based on weekly evaluations of liquidity and taking into account private sector credit conditions and inflationary pressures. We will give consideration to increasing reserve requirements if excess liquidity produces a destabilizing effect on the banking system.

- *Liquidity forecasts*. A new decree, adopted in May, officially instituted the establishment of the monetary and fiscal policy coordinating committee. This committee, which will meet on a weekly basis, will be responsible for determining the trend of factors affecting bank liquidity and informing the monetary policy directorate of the amounts to be absorbed using monetary policy instruments. This will facilitate the separation between the issuance of Treasury bills for fiscal purposes and the issuance of CBM instruments to meet monetary policy needs.

- *Monetary policy costs*. We have drawn up an agreement between the Ministry of Finance and the CBM establishing the mechanisms for the repayment of government claims on the CBM, which has been approved by the Council of Ministers on May 2 (prior action). Consequently, interest payments will begin following parliamentary approval at end-June. We intend to pursue our efforts to have the debt securitized so as to provide the CBM with the necessary financial resources for effective implementation of its monetary policy.

14. The CBM will continue to redouble its efforts to further strengthen the functioning of the foreign exchange market and the transparency of transactions. In this regard, in the first four months of 2013, we have resumed regular foreign currency sales (US$160 million in the past two months), which made it possible at end-April to eliminate all outstanding requests for foreign exchange. To maintain confidence in the foreign exchange market, the CBM undertakes to make available a share of mining revenues to the foreign exchange market on a regular basis (in the amount of at least US$40 million dollars a month). To further enhance the transparency of these operations, in May 2013 the CBM published all direct foreign exchange transfers made to public and private operators (in cases of emergency) over the course of 2012–13. The CBM undertakes to ensure that such transfers—carried out at the official price—are limited to government transactions. The exchange rate will continue to be aligned with fundamentals dictated by market supply and demand. Depending on market trends, we will examine the possibility of carrying out an in-depth reform, possibly including reforming the fixing price and repatriating a share of mining revenues through the banking system.

15. The central bank—which is independent by virtue of its charter—remains the guarantor of the stability of the financial system. In that capacity, it is committed to monitoring the impact of the entry of four new banks on the stability of the banking system. A competitive environment could intensify competition among banks in a shallow market with a limited customer base. Therefore, the CBM will continue to apply the prevailing regulations of the banking law in a neutral and uniform manner: any bank that fails to comply with the regulatory provisions will be sanctioned as provided for in the relevant regulations. The CBM will assess the repercussions for the banking system in the event of judicial liquidation, particularly as regards the confidence of depositors in the Mauritanian banking system.

16. The financial system strategy, prepared in collaboration with the World Bank, has been adopted and is being used to set the priorities and the timetable for implementation of the reforms aimed at deepening financial intermediation and remedying the weaknesses identified through technical assistance. Our actions will continue to focus on the following:

- *Continuous monitoring of risks*. Work will continue on computerization of the credit bureau and a database on default payments will be finalized by June 2013. International audits of commercial banks have shown that the level of outstanding nonperforming loans—classified by international standards—is high (39 percent of gross loans) and have identified shortcomings in the governance of certain banks as well as provisioning shortfalls. The situation was resolved for all banks in 2012, except for one (scheduled for 2013). Following this exercise, at end-2012, we drew up performance contracts to address banks' vulnerabilities. The contracts require banks to put in place rigorous internal audit procedures (such as a credit committee) and submit detailed, quarterly progress reports to the bank supervision authority on the implementation of their performance contracts. An agreement was also reached with banks on the need to remove long-standing, 100 percent provisioned overdue loans from their balance sheets by September 2013, thereby reducing the rate of nonperforming loans to less than 20 percent. In that context, we will request IMF technical assistance to examine the feasibility of establishing a private collection agency to recover nonperforming loans.

- *Consumer credit*. The recent high growth of consumer credit—driven by intense competition among banks in an environment of low Treasury bill rates—requires close monitoring to preempt the excessive buildup of household debt. To that end, we intend to bring prudential banking standards for consumer loans in line with existing related employment legislation that caps capacity to repay at 30 percent of monthly salary. We will also look into the possibility, with the help of West AFRITAC, of introducing other prudential measures that could help keep households from becoming overly indebted.

- *Strengthening of banking regulations and supervision*. In collaboration with technical assistance from West AFRITAC, we are continuing to implement the regulatory provisions that have recently been revised, in particular new regulation on affiliates, net capital, risk allocation, and internal audit. We have stepped up our ex post controls of foreign exchange positions: the proposed penalties for noncompliance with requirements concerning foreign exchange positions are currently being applied to all transactions not properly justified. In the short run, the CBM will strengthen its bank supervision capacity by recruiting new inspectors, who will be trained by a visiting international expert.

- *Introduction of IFRS accounting and enhancement of transparency*. A timetable is currently being developed to implement the new IFRS standards for the CBM's financial statements, now that a bridge table has been prepared by an international firm. The CBM will continue to have its accounts, including its reserves, regularly published and audited by an international audit firm selected through a bidding process.

External debt and debt management

17. We are firmly committed to safeguarding external debt sustainability. Therefore, as a first resort, we will seek to mobilize concessional and domestic financing. However, given the limited scope of concessional resources, we have had to contract three nonconcessional loans (grant element less than 35 percent) for an electricity line (US$75 million) and a hydraulic project (US$118.3 million). To ensure better coordination of these loans and reduce the risk of contracting nonconcessional debt without adequate prior assessment, we will sign a Memorandum of Understanding for institutional coordination between the economy and finance ministries and the CBM in early June. The resulting commission is entrusted with analyzing the need for, and the fiscal impact of, all loans as well as for submitting plans for new loan commitments to Fund staff for prior consultation. This institutional coordination will strengthen the medium-term debt strategy adopted in September 2012.

18. We will actively continue our efforts to complete debt relief agreements with bilateral creditors. In this regard, we will continue our discussions with the Kuwaiti authorities to achieve bilateral debt treatment that is consistent with the terms of the HIPC Initiative so as to cancel the passive debt. In the meantime, the Kuwaiti portion of the CBM's debt has been removed from its balance sheet as a counterpart for government claims on the CBM.

B. Structural Reforms

19. We attach great importance to structural reforms because of their positive effect on the business climate, growth, job creation, and poverty reduction.

Strengthening the social protection system and gradually eliminating subsidies

20. The new fuel price structure allowed us to bring domestic fuel prices in line with international prices in 2012. To ensure the credibility of adjustment under the new price mechanism and avoid politicizing its implementation, we intend to apply the formula systematically and automatically, both upward and downward. However, so as to avoid sharp adjustments, our intention is to prepare a new instruction establishing a cap of 3 percent in the smoothing formula to provide for particularly steep international price increases.

21. We have evaluated the EMEL program and have maintained the number of dedicated shops used in the solidarity program while simultaneously reducing the quantity and the number of products subsidized. We are mindful that the EMEL program is an emergency program and, as such, it would need to be replaced by a better-targeted social transfer program. In that context, this year, we plan to broaden the cash transfer and food programs by mobilizing the savings from the EMEL program. This strategy will also benefit from the vulnerability and poverty survey (domestically funded) conducted in Nouakchott, the World Food Program (WFP) surveys on food insecurity areas, and finalization of the population census. A more detailed vulnerability survey will shortly be rolled out to the rest of the country.

22. The social protection strategy developed with UNICEF was adopted by the Council of Ministers in early June 2013. This strategy will make it possible to further strengthen the coverage of the social protection system and better coordinate the actions necessary to protect the poor, vulnerable segments of society with the assistance of our technical and financial partners (TFPs). Moreover, recognizing the adverse effects of the drought on food security, we have started to implement a national food security strategy for 2015–30 and an associated national investment program.

Reform of government finances

Management of natural resources and mining taxation

23. The government has been discussing ways to further optimize its mining resources. We have, therefore, aligned the tax and customs regime established in agreements with new foreign investors with the new mining code currently in force, and have filled existing gaps in our tax code in order to tax capital gains resulting from transfers of ownership of assets in Mauritania. To avoid the accumulation of tax credits owed to mine operators, we have, in line with Fund staff recommendations, introduced a VAT self-assessment mechanism for services performed by foreign companies. We have identified two or three inputs used by mining companies for which VAT credit reimbursement requests are almost always filed. We are still exploring the best solutions for the effective management of VAT credit reimbursements without resorting to shortcut solutions such as exempting mining companies or giving them the possibility of offsetting their VAT credits against their mining royalties payable. We will also continue to review and assess the prospects for renegotiating the tax incentives in the mining sector with investors who so wish, while at the same time seeking to ensure Mauritania's attractiveness for foreign investment.

24. The government seeks to ensure full transparency in the development and use of financial resources originating from the mining industry. We are, therefore, planning to establish a mechanism to improve the management of revenue from the extractive industries, so as to strengthen the protection of the Mauritanian economy against exogenous shocks. A technical assistance mission by Fund staff will help us set up this mechanism. On another note, we are engaging in our best efforts to restore our compliant status with the Extractive Industries Transparency Initiative (EITI), suspended because of procurement delays. We have also posted the tax and nontax revenue from the mining sector (SNIM, TASIAST, MCM) on the Ministry of Finance website, as is the practice in the oil and gas sectors.

Maintaining the upward trend in revenue collection

25. We are committed to continuing the significant improvement in tax collection. A Large Taxpayer Unit (LTU) with national jurisdiction, improved tax control, and widespread use of taxpayer identification numbers has enabled us to broaden the tax base and combat tax evasion. We intend to further improve our performance by adopting a genuine tax control strategy based on better programming, realistic objectives, improved procedures for dealing with outstanding tax liabilities, and strengthened oversight of the audit function. We also plan to increase the DGI's resources by increasing its operating budget and strengthening staff training. At the same time, we will continue to assess the DGI's performance indicators, including those established for each directorate based on their various functions (arrears, new taxpayers). To ensure a stable business environment and that taxpayers understand our collection procedures, we will conduct a communication campaign to explain the procedures, which will be applied to taxpayers across the board, while bringing on stream the appeal procedures, including formal creation of the joint committees.

26. We will accelerate the reform of customs to strengthen its role in revenue collection, trade facilitation, and combating fraud. In this regard, we have installed a system of selective inspection parameters with the new scanner and the new ASYCUDA system. Moreover, we intend to extend the contract with the inspection company (SGS) to end-2013, by which time we expect to be able to make both the valuation office and customs intelligence office operational. To strengthen performance-based management, we intend in the next few months to introduce performance indicators for customs staff. Synergies with the DGI have been reinforced through a memorandum of understanding, signed by the Directorate General of Customs (DGD), the DGI, the Directorate General of the Budget (DGB), and the Directorate General of Public Works (DGTP) to formalize exchanges of information on taxpayers, which became operational as of June 2013. A new draft customs code will be submitted to the Council of Ministers in June 2013. Strengthening human resources capacity in the DGD remains a priority.

Managing public expenditure

27. The work recently launched to prepare—with technical assistance from the Fund—a new organic law by 2014 will make it possible to update the regulatory framework for public expenditure management. The new law provides an opportunity to strengthen the normative framework for certain government operations, including the use of immediate settlement requests, earmarked accounts, and emergency spending authorizations. In this regard, we intend to simplify the stages of the expenditure process using computerized controls, which should reduce recourse to exceptional procedures as use of the latter will be subject to clear and stricter conditions.

28. To solidify the government's financial situation, we have produced, as planned, a report on the government's pending claims at end-March 2012. The claims recognized by the government total nearly UM6 billion and have been publicly released. At the same time, joint government-supplier committees and a dedicated dispute resolution office have been established. We continue to adhere scrupulously to the plan to settle the recognized arrears during 2012–14. We have also established an inventory of government guarantees that have been called (UM6 billion), but not paid, and a repayment timetable will be developed by end-July 2013.

29. Further, the new public procurement code came into force in 2012. The relevant enabling decrees have all been adopted and implemented. The new code will be applied without exception to all contracts awarded by the public sector. Awarding contracts by private negotiation has been eliminated, only to be used under exceptional circumstances, which will continue to be overseen by the monitoring committee set up under the new code and will be made public.

Containing the wage bill and improving the quality of public services

30. We continue our efforts to control the wage bill and reform payroll management. To that effect, we continue to ban any recruitment that is not governed by the civil service regulations. We have harmonized the civil service database with the payroll database, thus creating a unified payroll management system using a single database. To take this work further and ensure tighter control on wage bill and family allowances, we have launched a project to bring all files for civil servants and their families fully up to date as well as to improve the monitoring of wage expenditures and our forecasting system (with assistance from West AFRITAC). In the short term, we are working to put in place an effective and permanent mechanism to check whether civil servants and other government employees actually do report to work, including onsite inspections and censuses of the largest ministries.

Improving the performance of public enterprises

31. To strengthen and improve the management of public enterprises, technical and financial audits of public enterprises have been undertaken, with support from the World Bank.

Unfortunately, they have not been completed as planned under the program owing to delays in procurement procedures. As regards *Mauripost*, the final report has been submitted by the firm, including the organizational study. Regarding SNDE, SONIMEX, SOMAGAZ, contracts have been signed, and interim reports will be prepared by mid-June. We are aware that rebalancing the financial situation of these enterprises is essential, and we want to ensure that they are more effectively managed. We also intend to monitor more closely the wage bill of the public enterprises and institutions by carrying out a personnel census and producing a centralized database of staff in the Directorate General of Government Assets.

Reforming the electricity sector

32. The electricity sector is one of the government's major concerns. After recapitalizing SOMELEC and normalizing its financial relations with the government, and securing the new credit line from the Islamic Development Bank, the company significantly reduced its bank borrowing costs. A tariff study, which was completed in April 2013, will serve to design an action plan to revise electricity rates as needed. In the near term, we plan to increase the rates for large consumers whose rates have not yet been aligned with the low voltage rates. Furthermore, we will continue to support SOMELEC's efforts to recover arrears from other public entities. We will also engage a consulting firm to establish a performance contract between SOMELEC and the government.

Promoting the private sector and employment

33. We are determined to improve the business climate significantly and identify the obstacles to private-sector development so as to meet the challenge of creating jobs. With this in mind, we also intent on removing constraints on business, as identified in the World Bank's Doing Business survey, particularly with respect to streamlining tax procedures, business registration procedures, and the granting of construction permits. Notwithstanding some delays, we intend to make the one-stop shop operational by June 2013 with a view to simplifying procedures and shortening administrative timeframes. We will also ensure that the legal framework is applied in a uniform and consistent manner.

34. We continue to rely on a multipronged strategy to promote employment. Thus, we plan to introduce by September 2013 a national strategy for developing skills tailored to the needs of the private sector, which will strengthen our vocational training programs and help young graduates join the labor market. The new strategy for rural development (notably the development of new irrigation areas) will enhance investment in the agricultural sector. A new strategic study of the telecommunications sector will help identify and create new jobs in this industry. To gain a fuller understanding of the labor market situation, we have completed the nationwide survey on employment and we expect to have results by June 2013 that we will then process with the assistance of other technical and financial partners (ILO and UNDP).

Strengthening governance and combating poverty

35. Fighting corruption remains an absolute government priority. The national anticorruption strategy (SNLCC), adopted in 2010, is to be implemented through an action plan outlining the authorities' major actions to combat corruption. The strategy was presented to the National Assembly in the form of draft legislation at end-2012. Further, during the course of 2013, we intend to establish a technical commission to make recommendations to the government on streamlining its oversight structures.

36. The eradication of poverty is a strategic objective that we have prioritized in all our national policies. To ensure that the macroeconomic objectives are consistent with the poverty reduction strategy, we have revised our Poverty Reduction Strategy Paper (PRSP) and finalized the second evaluation report for 2011 and, in June 2013, we plan to hold national consultations to discuss the 2012 report. The creation of the new agency responsible for addressing poverty-related issues and the legacy of slavery will help coordinate monitoring of the implementation of the PRSP and social programs for the most vulnerable.

Improving economic statistics

37. We are mindful of the crucial role of reliable statistical information in the preparation, monitoring, and assessment of macroeconomic policies, PRSP implementation, and progress toward the MDGs. Accordingly, a number of surveys, such as the population and employment census, are in the final phase, while others, such as the comprehensive review of the consumer price index (CPI), the updating of the national directory of industrial firms, and the survey on household living conditions, have not yet started (the latter will draw on the results of the general population census). We have requested World Bank assistance to strengthen statistical capacity by pressing ahead with the organizational and institutional reform of the National Bureau of Statistics (ONS). Further, we also intend to embed statistical functions as part of the ministries' operations and set up ongoing training and development in this area.

C. Risks

38. In spite of the positive developments seen at the start of 2013, several risk factors weigh on our ability to achieve our objectives: (i) a downturn in external demand and export prices (iron ore, copper, and gold) and the volatility of import prices for wheat, rice, and oil; (ii) the low availability of concessional external financing; (iii) the impasse with respect to the fisheries partnership agreement with the European Union; and (iv) bottlenecks that could delay the implementation of our investment program. Nevertheless, the government stands ready to take appropriate measures to mitigate the effects of such risks, if they should materialize, in consultation with Fund staff.

CONCLUSIONS

39. As the principal objectives of the program set for December 2012 have been achieved (Tables 1 and 2), the government requests the completion of the Sixth Review of the program supported by an arrangement under the ECF as well as the disbursement of SDR 11.04 million. The government is also requesting a waiver for nonobservance of the criterion on nonconcessional borrowing on the basis of the corrective measures taken (paragraph 17). The sixth program review should be completed by June 17, 2013.

40. For the remainder of 2013, we will remain committed to pursuing prudent policies conducive to preserving hard-won macroeconomic stability and maintaining our reform efforts to generate more inclusive growth. Given our interest in continued close collaboration with Fund staff, we have agreed with Fund staff on indicative targets for 2013, and stand ready to take any further measures that may become necessary to that end.

Sincerely yours,

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

/s/
Thiam Diombar
Minister of Finance

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

Attachment I. Technical Memorandum of Understanding

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Letter of Intent (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.

DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

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

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

5. Government balance is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to non-oil government revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest due on external debt and seven-day Treasury Bills issued for liquidity management). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics Manual* (GFSM 2001), excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (revenue recorded by Treasury). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the CBM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the CBM).

6. The new medium- and long-term nonconcessional external debt contracted or guaranteed by the government, the CBM, and State-Owned Enterprises (excluding SNIM) is defined as debt to nonresidents, with maturities of one year or longer, contracted or guaranteed by the government or the CBM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, 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 OECD. For debt with a maturity of at least 15 years, the 10-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 10-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

8. The short-term nonconcessional debt is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the CBM 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 External Debt in Fund Arrangements, attached to IMF Executive Board Decision No. 6230-(79/140), adopted August 3, 1979, as amended, but also to commitments contracted or guaranteed for which value has not been received. This definition excludes foreign currency deposits with the CBM. It also excludes normal import-related credits.

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

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

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

B. Structural Benchmarks

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

- Complete by end-December 2011 the issuance of new taxpayer identification numbers. This benchmark aims at building a centralized taxpayers database and providing each taxpayer with a single identification number.
- Fully implementation and use 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 **(deferred to end-September 2012)**.
- Increase by end-December 2011 bank minimum capital to UM5 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 **(deferred to end-December 2012)**.
- Complete by end-December 2011 a government arrears repayment plan for SOMELEC.
- Assess effectiveness of the dedicated shops used in the solidarity program by end-December 2011.

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

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

- Audit the CBM's NIR and NDA data as of end-December 2011, end-June 2012, and end-December 2012 by end-March 2012, end-September 2012, and end-March 2013, respectively.
- Complete by end-September 2012 (original test date was March 2012), the report quantifying the differences between the CBM's 2010 financial statements under national accounting principles with those under IFRS, prepared with the assistance of an international audit firm.
- Review the rules on connected lending practices and calculate the impact on banks of tightening the definition of connected parties by end-March 2012.
- Sign by end-June 2012 a memorandum of understanding between the Ministry of Finance and the CBM, which puts in place a new liquidity management framework.
- Conduct by end-April 2012, with assistance from the World Food Program, a poverty and vulnerability survey.
- Publish on the CBM's website the audited financial statements together with audit opinion for the year ended on December 31, 2011, by end-June 2012.
- Fix the modalities for the repayment of government claims to the CBM through a convention that will be presented for adoption to the Council of Ministers (originally structural benchmark for end-December 2012, set as a prior action for completion of the sixth review).
- Update the payroll file with actual results from the census of employees by end-June 2012.
- Review electricity tariffs, including an increase for large consumers, based on the results of the tariff study by end-July 2012 (deferred to end-December 2012).

PROGRAM ADJUSTORS

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

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

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

REPORTING REQUIREMENTS

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

A. 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 bill 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 after he 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.

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

B. Ministry of Finance

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

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

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

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

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

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

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

C. 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.

D. Technical Monitoring Committee

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

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

CENTRAL GOVERNMENT OPERATIONS TABLE

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

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

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

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

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

- **External financing** is defined as the sum of the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears and passive debts as defined in Paragraph 9; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

Table 1. Mauritania: Quantitative Benchmarks, Performance Criteria, and Indicative Targets for 2010–13

(Cumulative year-to-date changes) 1/

	End-Dec. 2010			End-Dec. 2011			End-Dec. 2012			End-Mar. 2013	End-Jun. 2013	End-Sep. 2013	End-Dec. 2013
	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Actual	Indicative target	Indicative target	Indicative target
Quantitative targets													
Net international reserves of the BCM (floor); in million of U.S. dollars 2/	34.4	53.2	68.6	82.9	47.9	201.4	292.3	292.3	435.0	-66.1	-95.6	-46.6	-60.1
Net domestic assets of the BCM (ceiling); in billions of UM 3/	20.4	15.5	-11.4	-7.5	1.7	-1.9	-62.4	-62.4	-91.2	8.7	36.9	23.1	16.7
Basic non-oil balance; in billions of UM	-28.5	-28.5	-23.0	-17.0	-17.0	-2.4	-23.3	-22.1	4.4	10.4	15.0	11.2	1.1
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling) 4/	0		0	105.0		0.0	0.0		105.0	193.3	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0
New external arrears on non reschedulable debt (continuous	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0
Poverty-related expenditures; in billions of UM (indicative target)	106.7		89.9	106.5		107.9	135.6		139.5	22.3	66.8	116.3	161.2
Adjustors (in millions of U.S. dollars)													
Net international assistance	35.4		34.0	32.8		-6.0	202.4		216.6	10.6	-8.4	3.0	-24.5
Cumulative disbursements of official loans and grants in foreign	76.6		34.0	92.6		58.6	279.5		298.0	23.8	38.8	58.5	67.3
Impact of any additional debt relief	0		0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	-41.2		0.0	-59.8		-64.6	-77.1		-81.4	-13.3	-47.2	-55.6	-91.8
FNRH contribution to the budget	47.2		110.1	34.8		34.7	64.4		58.3	33.7	33.7	42.9	42.9
Cumulative disbursements of official grants in foreign currency	46.9		33.8	24.6		3.6	219.9		215.4	23.8	38.8	58.5	67.3
Memorandum item:													
UM/US$ exchange rate (program)	262.0			262.0			262.0		262.0	262.0	262.0	262.0	262.0

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year.

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

3/ Adjusted upward by net international assistance and FNRH (see TMU) contribution to the budget.

4/ The increase in the ceiling in 2011 accommodates the financing of a hybrid power plant. Due to a delayed parliamentary approval, this performance criterion was technically missed in 2012. Three additional nonconcessional loans were contracted in the beginning of 2013 (text table).

Press Release No. 13/216
FOR IMMEDIATE RELEASE
June 17, 2013

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Sixth Review Under the ECF Arrangement for Mauritania and Approves US$16.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed today its sixth and final review of Mauritania's economic performance under the program supported by an Extended Credit Facility arrangement (ECF).[6] The decision enables Mauritania to draw a final amount equivalent to SDR 11.04 million (US$16.9 million).

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

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

"Mauritania's performance under the ECF-supported program during 2012-13 has remained strong, built on vigorous economic activity, contained inflation and further fiscal consolidation. Sound macroeconomic policies allowed for a further buildup of fiscal and external buffers in

[6] 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.

2012. While the outlook is favorable, the economy remains vulnerable to terms-of-trade shocks and high levels of poverty and unemployment persist.

“Continued fiscal consolidation is crucial to preserve sustainability. Efforts to contain the wage bill, progress on removing fuel subsidies, and improvements in targeted food subsidies are welcome. Higher revenue mobilization, including from the mining sector, provides additional room for maneuver. Efforts to further boost capital expenditure primarily through domestic or external concessional resources will also help preserve fiscal sustainability.

“The authorities’ commitment to use short-term T-bills for liquidity management will help guard against inflationary risk and promote monetary policy effectiveness. Enhanced supervision and regulation will help to address financial sector risks, and removing legacy NPLs from banks’ balance sheet will help the banking system serve as an engine of growth. Greater transparency and flexibility in the foreign exchange market will facilitate the role of the exchange rate as a shock absorber.

“Looking ahead, sustaining high growth rates and promoting more inclusive growth are Mauritania’s main challenges. Efforts are needed to better diversify the sources of growth by improving the business climate to allow for private sector development. The new procurement and investment codes will help promote private sector investment. Ensuring an adequate treatment of nonrenewable resources will enhance fiscal policy formulation while safeguarding fiscal buffers. Reforming the electricity sector and public sector enterprises will also help limit fiscal risks.

“The authorities are commended for their successful completion of the three-year ECF-supported program and their commitment to preserving macroeconomic stability and maintaining efforts to implement their comprehensive structural reform agenda.”

Statement by Kossi Assimaidou Executive Director for Islamic Republic of Mauritania
June 17, 2013

1. Introduction

Over the past 3 years, Mauritania has made continuous progress under the ECF-supported program in spite of a difficult global environment, heightened regional instability, and the effects of a severe drought. The staff's advice and guidance in formulating sound policies to address the risks and challenges Mauritania faced has been instrumental in achieving an overall satisfactory performance under the ECF. With the ECF coming to an end, my authorities would like to thank the Board, Management and Staff for their continued support.

Mauritania's overall economic performance has strengthened steadily since 2009. Growth has averaged 5 percent during the 2010-2012 period, and has also been broad-based, extending beyond the mining sector, despite the essential role extractive industries continue to play in the economy. Inflation remained moderate, in the mid-single digits, and buffers, both fiscal and external, reached unprecedented levels in 2012. Progress has also been made in better targeting social policies and the overhaul of the energy and food subsidy schemes. My authorities believe that the ongoing efforts to reform the energy sector and boost capacity in electricity generation, including through investment in renewable energies, will ultimately contribute to improving the business climate and raising the country's long-term growth prospects.

Under the current sixth and final review, all quantitative targets have been met, except for the performance criterion on the contraction of new non-concessional borrowing. The prior action —agreeing on the modalities of repayment of the loans to the government that the central bank carries on its balance sheet—has also been met. My authorities request the support of the Board for the completion of the sixth and final review under the ECF and for the waiver of nonobservance of performance criterion on non concessional borrowing.

As indicated by staff in the report, the non concessional loans for which my authorities are requesting a waiver are intended for projects in the essential sectors of water and energy. They would like to reiterate their firm commitment to preserving the country's debt sustainability. Furthermore, in their efforts to accelerate the development of the country they will continue to seek financing primarily on concessional terms. In exceptional circumstances, however, should non concessional borrowing be the only available option for the financing of urgent development needs, they have agreed with staff that they will consult with the IMF prior to the approval of any such loans.

Despite a strong economic performance over the past three years, my authorities are aware that progress to improve employment prospects and reducing poverty further has been slow. They are confident, however, that the social policies recently put in place to more effectively target safety nets for the poor, close the wide infrastructure gap by bringing water and electricity closer to the neediest all over Mauritania's vast territory, and designing training and employment programs specifically adapted to the needs of the local economy, will ultimately pay off and reduce poverty more rapidly while raising the population's living standards.

2. Economic performance under the ECF

Following the 2009 recession, economic growth resumed strongly, reaching 6.9 percent in 2012, driven mainly by agriculture, fishing, construction and public works. Year-end inflation dropped to 3.4 percent in 2012, from 6.1 percent in 2010, as declining food prices brought headline inflation below core inflation.

Fiscal policy. A major achievement under the ECF-supported program has been the strengthening of the fiscal position. The authorities took a series of important measures to broaden the tax base, improve tax collection, and overhaul tax administration. Thus, tax revenues as a share of non-oil GDP (excluding mining revenues) rose from 15 percent in 2010 to almost 22 percent in 2012. Important measures were also introduced to optimize mining receipts, including taxation of transfer of mining assets, in line with the recommendations of recent IMF TA missions contributing to high overall fiscal revenues. Although the wage bill remained within program limits, current expenditures rose slightly, due in part to additional spending needed for the emergency program to address the effects of the drought. Capital expenditures in essential infrastructure projects, including electricity and water, also increased. However, given that fiscal revenues grew faster than expenditures, the basic non-oil balance and the overall balance improved steadily during the program, turning both into surplus in 2012.

Monetary policy. Liquidity has recently built up in the financial system and credit to the private sector has also increased, fueled by strong economic growth. Consistent with the authorities' prudent monetary policy stance, the central bank will continue to monitor closely liquidity and credit growth and take the necessary steps to alleviate any potential adverse impact these increases may have on price stability.

The authorities' efforts to better control liquidity will be facilitated by the central bank's recently enhanced capacity in this regard. In addition to the steps taken to improve coordination between the central bank and the ministry of finance on liquidity management through the establishment of a joint committee, the central bank has also introduced a new short-term liquidity instrument (a seven-day treasury bill) which they intend to use whenever liquidity reaches levels that would threaten price stability.

Financial sector. Despite the banking system's improved profitability, international audits recently conducted have revealed high levels of NPLs (39 percent) in commercial banks, along with insufficient provisioning. The audits have also highlighted deficiencies in the governance of certain banks, and a lack of rigorous internal control procedures.

While all banks have resolved the issue of insufficient provisioning in 2012 (except one bank, which is expected to do so in 2013), the central bank has established performance contracts with commercial banks under which they are required to put in place more rigorous internal audit procedures. Detailed quarterly reports on the implementation of these programs will be communicated to the central bank. In addition, the central bank and commercial banks have agreed to take out of their balance sheets long standing NPLs which have been provisioned at 100 percent. This should help bring NPLs down to 20 percent. The authorities also envisage the creation of a private asset management firm that would take charge of the NPLs that will be removed from commercial banks' balance sheets.

My authorities are aware of the risks that the recent surge in household credit poses on household debt. They intend to address it through the reinforcement of banking prudential norms on credit to households with the assistance of AFRITAC West.

More generally, addressing all the identified risks will require reinforcing overall banking supervision. The authorities have also requested the assistance of AFRITAC West to notably train the recently hired experts in banking supervision at the central bank.

External sector. Between 2009 and 2011, Mauritania's current account deficit steadily narrowed from almost 12 percent of GDP to 7 percent, as Mauritania continued to benefit from favorable external conditions. The country's exports grew faster than imports thanks to high international prices of the commodities exported, notably iron ore.

However, in 2012, FDI-related imports rose abruptly with the growing role of the mining sector in the economy. As FDIs doubled between 2011 and 2012, from 18 percent of GDP to 35 percent of GDP, related imports contributed to the rapid widening of the current account deficit to 31.6 percent of GDP in 2012. Other factors also played a role in the widening of the deficit, including the decline in iron ore prices, from $168/ton in 2011 to $134 in 2012, and the increase in imports associated with the emergency program.

As rightly pointed out by staff, it is my authorities' conviction that Mauritania's current account remains sustainable given that the increase in FDI-related imports observed last year was in large part financed by stable FDIs. Excluding mining-related FDIs, the current account deficit stood at a moderate 2.7 percent of GDP in 2012.

Structural reforms. Mauritania made important progress under the ECF in reforming **fuel subsidies** and aligning domestic fuel prices with international prices. While my authorities remain fully committed to implementing the pricing mechanism under the new formula introduced in early 2012, they have agreed with staff to set up a cap of 3 percent in the adjustment of domestic fuel prices. This will help mitigate the potential impact of a steep rise in international fuel prices on domestic fuel prices and on inflation more generally, at a time when targeted safety nets to shield the poor from the volatility of fuel and food prices are not yet fully in place.

As regards food subsidies, the temporary emergency program put in place to address the 2011 drought has started to be scaled back, notably by reducing the number of subsidized products. This emergency program is being gradually replaced with well-targeted social transfer schemes with the assistance of the World Food Program and UNICEF.

On **public enterprises,** some progress has been achieved in the overhaul of the electricity parastatal to ensure its viability and mitigate fiscal contingent liabilities. However, while the company was recapitalized and its borrowing costs brought down, the increase in the tariffs for large consumers had to be delayed due to the fact that the electricity tariff study had not been finalized on time. With regard to the study on the financial situation of the other main public enterprises, progress has been slower than initially anticipated but work is ongoing and it is my authorities' intention to finalize these studies soon in order to initiate these companies' required restructuring with the assistance of international partners.

3. Economic outlook

Mauritania is projected to experience high growth rates in the medium-term thanks in part to high prices of the commodities exported. For 2013, growth is expected to reach 6.2 percent with the main engines of growth remaining agriculture, construction and public works, and the mining sector, especially iron ore (international prices are projected to increase in 2013 compared to 2012). Inflation is expected to rise somewhat to the mid-single digits reflecting slightly higher prices for basic goods. The current account deficit will remain elevated due to still high FDI-related imports, and foreign exchange reserves will continue to build up and reach 7.4 months of imports in 2013 after having attained 6.2 months of imports in 2012. The overall fiscal balance will revert to a slight deficit, as the authorities continue to respond to country's pressing infrastructure needs through domestically financed investments projects.

Moving ahead, the issue of pro-cyclicality of fiscal revenues, raised by staff, in the wake of large mining inflows is an important one. My authorities agree that, in general, the adoption of an institutionalized fiscal rule that determines the optimal balance between spending, saving, and debt reduction, helps mitigate pro-cyclicality. However, they would like to point out that the adoption of such a rule for a low-income country like Mauritania with pressing development needs would inevitably delay the implementation of their development agenda as envisioned in the PRSP, including by reining in essential infrastructure in areas such as water, electricity and roads and ultimately slow down their efforts to reduce poverty. However, they fully agree with staff that capital spending plans need to be consistent with absorption capacity, the new procurement process, and the objectives of the PRSP.

4. Conclusion

Despite Mauritania's favorable economic prospects, the economy faces important risks and challenges in the period ahead. Mauritania remains vulnerable to the volatility of international prices of the commodities it exports and also the basic needs it imports which could jeopardize the country's recently hard-won macroeconomic stability.

To address these risks, my authorities intend to pursue a close relationship with the Fund which they believe has served their country well, and they are considering requesting a new program when the current one ends.