INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/115

ISLAMIC REPUBLIC OF MAURITANIA

May 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE ISLAMIC REPUBLIC OF MAURITANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2016 Article IV consultation with the Islamic Republic of Mauritania, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 25, 2016 consideration of the staff report that concluded the Article IV consultation with the Islamic Republic of Mauritania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on April 25, 2016, following discussions that ended on February 22, 2016, 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 April 11, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Islamic Republic of Mauritania.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

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Press Release No. 16/213
FOR IMMEDIATE RELEASE
May 11, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Islamic Republic of Mauritania

On April 25, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Islamic Republic of Mauritania.[1]

The global economic landscape has deteriorated since the 2014 Article IV Consultation and Mauritania continues to face a negative terms-of-trade shock as a result of the fall of international metal prices. The authorities' initial response was geared to supporting economic activity with countercyclical policies using fiscal and external buffers built during the boom years for metal prices. As the terms-of-trade shock became increasingly perceived as long-lasting, the authorities have started adjusting their fiscal and exchange rate policies, including measures to strengthen revenues and contain current expenditures, and allowing for nominal depreciation. Growth slowed to about 2 percent in 2015 due to lower mining activity and slower construction and fishing activity because of base effects, and is expected to rebound to 4.1 percent in 2016.

The slowdown in 2015 economic growth was accompanied by inflation easing to 0.5 percent on account of lower international prices and real exchange rate appreciation. Lower domestic demand and import prices led to an improvement in the current account deficit, though it remained elevated at 19 percent of GDP. Reserves coverage increased to 7.7 months of non-extractive imports supported by external financing. The fiscal deficit (excluding grants) deteriorated despite higher revenues generated mainly from a lack of adjustment in domestic energy prices in the face of falling international oil prices and some restrain in current spending. Public debt reached 93 percent of GDP by end-2015 (including a passive bilateral debt estimated at 20.9 percent of GDP at end-2015) as the authorities borrowed for priority investment projects and for external support. The debt service-to-revenue ratio remained at

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

10.3 percent, as public debt is mostly contracted on concessional terms. With the economic slowdown, liquidity ratios declined but the banking system remained broadly liquid.

While real GDP growth is projected to rebound to 4.1 percent in 2016 because of higher iron ore production from a new mine, non-extractive GDP growth is projected to remain subdued and will recover to 4 percent by 2018. Subdued economic activity, compounded with limited interbank market and high concentration in credit or deposit portfolios, could hinder the capacity of the financial sector to channel credit toward private sector activity, hampering efforts to achieve more diversified and robust economic growth. Over the medium term, staff projects the current account deficit to remain above 10 percent of GDP despite improving non-extractive exports associated with economic diversification efforts, which will also result in some pick-up in FDI. Assuming the cancellation of the passive bilateral debt at end-2016, external debt is projected to peak at 79 percent of GDP by 2018 as the authorities sustain investment spending. Public debt is projected at 81 percent by 2021 and the debt service-to-revenue ratio is expected to rise to 22 percent in the medium-term. Under current policies, gross international reserves are projected to fall below the authorities' target of three months of imports (excluding extractive) by 2020.

Risks to the outlook are tilted mainly to the downside and the economy remains vulnerable to external shocks. Mauritania is vulnerable to higher-than-envisaged oil prices and/or lower iron ore prices, deterioration in regional security, and domestic policy implementation risks. These could lower growth potential over the medium term. On the upside to economic activity, a rebound in iron ore prices, an expansion in gold mining capacity and accelerated exploration associated with *Kosmos*' gas discovery would boost economic prospects.

Executive Board Assessment[2]

Executive Directors commended the policies undertaken by the authorities to support macroeconomic stability in the face of a large and persistent negative terms-of-trade shock. In view of heightened global economic uncertainty, they encouraged the authorities to remain vigilant and to step up policy efforts to put public debt on a downward trend, support external stability, and reinvigorate structural reforms to promote economic diversification and inclusive growth.

Directors welcomed the gradual nominal exchange rate adjustment since September 2014. They noted that the current account deficit remains elevated and agreed that continued exchange rate flexibility, together with fiscal consolidation and structural reforms, would allow for smoother adjustment to fundamentals and improve external stability by making the economy more resilient to shocks. A strengthened monetary policy framework and exchange market reforms will be

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.imf.org/external/np/sec/m/qualifiers.htm.

important in supporting greater exchange rate flexibility. Directors encouraged the authorities to eliminate the exchange restriction subject to Fund jurisdiction under Article VIII as soon as possible.

Directors welcomed the authorities' determination to advance fiscal consolidation by increasing non-extractive revenues and restraining current spending while safeguarding infrastructure investment. They saw a need for additional adjustment to put debt on a downward trend over the medium term while safeguarding growth. In this regard, they supported a continued broadening of the tax base; streamlining tax exemptions and subsidies while protecting social spending; and implementing public service reform. They also stressed the need to enhance public financial and debt management, and ensure careful selection and monitoring of public investment. They looked forward to the organic budget law and the program to restructure public institutions and state-owned enterprises. They recommended strengthening the fiscal framework over time, including with regard to managing mining wealth.

Directors underscored the need to maintain financial stability. They looked forward to the new banking and central bank laws to strengthen the prudential and bank resolution frameworks and the operational independence of the central bank, in line with the FSAP recommendations. They encouraged the authorities to enhance regulatory compliance and supervision, especially with regard to liquidity, foreign exchange, concentration, and related-party risks.

Directors noted that the terms-of-trade shock has increased the urgency for economic diversification, higher productivity, and more inclusive growth. They welcomed the authorities' advances in enhancing the business environment and promoting private sector investment and FDI, and highlighted the importance of continued efforts to improve governance, raise the quality of education and training, and enhance access to finance.

Mauritania: Selected Economic Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
		Est.	Est.	Est.	Proj.	
	(percent; unless otherwise indicated)					
National income and prices						
GDP at constant prices	5.8	6.4	6.6	1.9	4.1	3.9
GDP excluding extractive industries at constant prices	7.3	8.0	6.6	3.1	2.9	3.3
GDP deflator	1.0	0.3	-9.4	-5.5	-1.6	0.6
Consumer price index (period average)	4.9	4.1	3.8	0.5	3.8	4.9
External sector						
Terms of trade	-14.6	34.2	-23.4	-16.4	-6.1	-6.1
Current account balance (in percent of GDP)	-24.2	-22.6	-27.7	-19.3	-13.6	-15.8
Gross official reserves 1/						
In millions of U.S. dollars, end of period	961.9	996.4	639.1	821.3	659.5	563.6
In months of prospective non-extractive imports	6.8	5.9	5.3	7.7	5.9	5.1
PPG external debt (percent of GDP) 2/	68.1	63.5	74.0	87.6	70.2	76.3
Money						
Money and quasi-money (percentage change)	10.5	13.6	8.6	0.4	3.5	6.0
Credit to the private sector (percentage change)	14.6	11.1	11.2	9.7	1.4	4.4
Investment and savings						
Gross investment (percentage of GDP)	58.8	52.4	49.6	35.6	30.9	30.6
Gross savings (percentage of GDP)	35.1	29.8	21.9	16.2	17.3	14.8
	(percent of nonextractive GDP; unless otherwise indicated)					
Central government operations						
Total revenues and grants	26.9	33.6	30.2	31.7	31.8	31.1
Nonextractive revenue	21.0	22.4	21.8	26.9	29.4	28.8
Expenditure and net lending	37.6	34.7	34.2	35.4	33.9	33.9
Overall balance excluding grants	-2.8	-2.0	-4.1	-5.6	-3.2	-3.5
Overall balance excluding grants (in percent of GDP)	-2.1	-1.5	-3.6	-5.3	-3.1	-3.4
Public sector debt (percent of GDP) 2/	73.5	67.8	80.4	93.3	75.7	82.4
Memorandum items:						
Nominal GDP (in billions of UM)	1,551.7	1,655.6	1,599.0	1,539.2	1,577.5	1,648.6
Nominal GDP (in millions of U.S. dollars)	5,225.5	5,588.5	5,300.4	4,752.2	4,541.3	4,520.1
Price of oil (US$/barrel)	105.0	104.1	96.2	50.8	34.8	41.0
Price of iron ore (US$/Ton)	128.5	135.4	96.8	55.2	42.4	35.5

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

1/ Excluding the oil account.
2/ Debt relief from Kuwait under the HIPC-MDRI is assumed at end-2016.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

April 11, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

KEY ISSUES

Context. The Mauritanian economy is facing a significant negative terms-of-trade shock that is more persistent than initially envisaged. Low iron ore prices have reduced economic growth, export receipts, and net international reserves; widened the fiscal deficit; and increased risks to financial stability. Lower oil prices have, on the contrary, provided some support to the external and fiscal positions. The exchange rate continued appreciating in real term in 2015, moving counter to the terms-of-trade shock. The impact of the shock is compounded by a narrow production base, structural weaknesses and limited policy space in the context of elevated public debt and pressures on external buffers.

Outlook and Risks. The economic outlook envisages a recovery in economic activity to 4.1 percent in 2016, but risks to the outlook are tilted to the downside and the economy remains vulnerable to external shocks. Over the medium term, current policies will result in sustained pressures on reserves and elevated debt driven by public investment plans. Subdued economic activity could hinder the capacity of the financial sector to channel credit toward private sector activity hampering efforts to achieve more diversified and robust economic growth. In the short term, the economy is most vulnerable to higher oil prices, lower-than-envisaged iron ore prices, and a stronger US dollar under the current exchange rate policy.

Key Policy Recommendations: The deteriorated outlook and heightened global uncertainty call for an ambitious policy adjustment, while the urgent need to diversify the economy and promote inclusive growth calls for a determined reform agenda. Achieving these objectives will require advancing on three pillars: policies to support external stability through greater exchange rate flexibility, supported by foreign exchange market reform; policies to support medium-term debt sustainability through fiscal adjustment and fiscal reforms; and a renewed structural reform effort to support private sector development and job creation. Policies to strengthen financial stability are needed to complement these efforts.

Approved By
Daniela Gressani and Peter Allum

Discussions were held in Nouakchott during February 8–22 with the Prime Minister, Mr. Yahya Ould Hademine; the Central Bank Governor, Mr. Abdel Aziz Ould Dahi; the Minister of Economy and Finance Mr. El Moctar Ould Djay; the Minister of Petroleum, Energy and Mining, Mr. Mohamed Salem Ould Bechir; the Minister of Fisheries and Maritime Economy, Mr. Nani Ould Chrougha; and other senior officials. The team also held discussions with representatives of the civil society and the private sector, and development partners.

The staff team comprised M. Vera Martin (head), M. Garad, T. Jardak, A. Toure (all MCD) and R. Moussa (SPR). The resident representative N. Rebei and M. Maaloum (local economist) participated in the mission. D. Gressani (Deputy Director, MCD) also participated during February 18–22. Mr. Selim and Mr. Auclair provided research assistance and Ms. Cruz and Ms. Kebet (all MCD) helped prepare the report.

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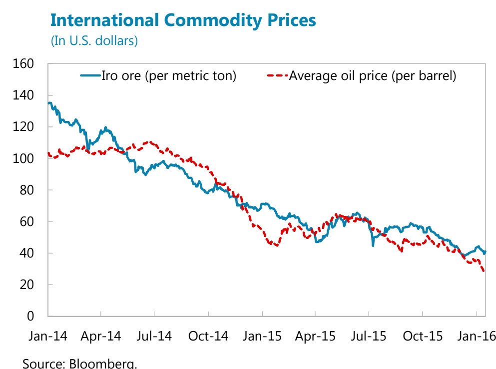
CONTEXT

1. **The global economic landscape has deteriorated since the 2014 Article IV Consultation**. Global demand remains subdued because of a modest recovery in advanced economies and a protracted decline in growth in emerging and developing economies. Iron ore prices declined further, by 70 percent to end-2015, eroding FDI and putting Mauritania's mining expansion on hold. As an oil importer, Mauritania has benefited from lower oil prices but this has not prevented a decline in the terms of trade, which is expected to be long-lasting. More recently, heightened uncertainty about the global outlook has resulted in higher volatility in commodity prices. Since end-2015, iron ore prices have recovered by 30 percent, to about $60 in early March, while oil prices have recovered by 6 percent.



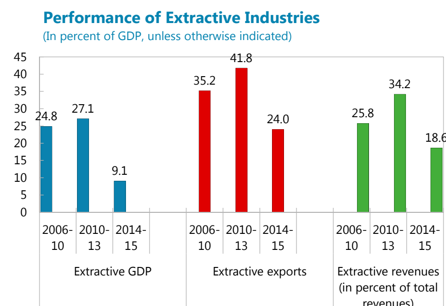
2. **The authorities have started adjusting to the external shock, after an initial response geared to supporting economic activity.** In 2014, the authorities responded with countercyclical policies using fiscal and external buffers built during the boom years for metal prices. As the terms-of-trade shock became increasingly perceived as long-lasting, the authorities have relied more heavily on debt financing and allowed for a nominal depreciation of the ouguiya vis-à-vis the US dollar since September-2014. The authorities also adopted fiscal consolidation measures in the revised 2015 budget law and in the initial 2016 budget law.

3. **Implementation of past Fund policy advice has been mixed**. Several of the 2014 Article IV consultation recommendations were implemented (Annex I), with significant policy traction in banking supervision. The authorities are also advancing with key recommendations from the 2014 FSAP, which are crucial given heightened risks to the financial sector resulting from weaker economic prospects. However, recommendations to address debt sustainability concerns through fiscal consolidation and to strengthen the monetary policy framework have yet to be implemented. Since the 2014 Article IV Consultation, Fund's advice has focused on addressing the impact of the terms-of-trade shock in the economy.

RECENT MACRO-FINANCIAL DEVELOPMENTS

Mining, financial, and real cycles in Mauritania

4. **The economic and financial effects of the terms-of-trade shock have become significant**. Since 2014, Mauritania has faced a continued decline in the terms of trade, although less pronounced in 2015 due to lower prices of oil and food. The contribution of the extractive sector to the economy, exports and fiscal revenues has markedly



declined during 2014–15. Lower mining activity and receipts led to lower fiscal revenues, slower non-extractive economic activity and domestic demand, and reduced banking sector liquidity.

- **Real GDP growth slowed in 2015, and inflation eased.** Real GDP growth weakened to about 2 percent, from 6.6 percent in 2014, due to lower iron ore production and slower activity in construction and fishing—both sectors depicting some slowdown due to base effects. Prices declined by 2.8 percent year-on-year at end-2015 due to lower food prices and real exchange rate appreciation.

- **The external deficit remained elevated, FX repatriation eroded and net international reserves declined.** Lower oil and capital imports and higher transfers from abroad helped compensate for lower mining exports, narrowing the current deficit to 19 percent of GDP.[1] The financial account deteriorated on lower FX repatriation from SNIM (the main state-owned mining company) and subdued FDI, to 11 percent of GDP (from 20 percent in 2013). Gross reserves, however, increased from 5.3 to 7.7 months of non-extractive imports by end-2015, because the Central Bank of Mauritania (BCM) contracted a bilateral loan to support the external position. Net international reserves covered 5 months of non-extractive imports at end-2015.

- **The average REER appreciated 5 percent in 2015, moving counter to the terms-of-trade shock.** Since September 2014, the central bank moved toward a *de facto* "crawl-like" exchange rate arrangement and the ouguiya depreciated nominally by 9 percent year-on-year vis-à-vis the US dollar as of January 2016. The nominal depreciation did not prevent an average appreciation in real effective terms of 5 percent during 2015 due to the strengthening of the US dollar, hampering external competitiveness and maintaining pressures on reserves.

5. The 2015 fiscal deficit (excluding grants) deteriorated despite higher revenues generated mainly from a lack of adjustment in domestic energy prices in the face of falling international oil prices and some restrain in current spending. The fiscal deficit (excluding grants), at 5.6 percent of non-extractive GDP (NEGDP), increased by 1.5 percent of NEGDP in 2015, while revenues associated with the extractive sector declined to 2.9 percent from 8.3 percent of NEGDP in 2014. To offset these revenue losses, the authorities took a number of measures:

- On the revenue side, the 2015 Revised Budget Law incorporated a 2-percentage point increase in VAT and changes in domestic gasoline taxes to lock-in part of the domestic oil revenues.[2] In addition, the gain in non-tax revenues related to a lack of adjustment in domestic petroleum products accounted for 3 percent of NEGDP. To promote the consumption of local rice, the

[1] EU fishing license, budget support grants and transfers related to the telecom license renewal amounted to 3.4 percent of GDP in 2015.

[2] The differential between domestic and international oil prices generates additional oil revenues to the central government recorded as non-tax revenues, which are traditionally deposited at the *Fonds d'Assistance et d'Intervention pour le Développement* (FAID). In August 2015, the revised budget law introduced three major changes in the customs tax structure of petroleum products: (i) increase in VAT to 20 percent (against 18 percent); (ii) increase the rates of consumption tax to UM35.5 from UM5.5 per unit; and (iii) raised import duties from UM7 per unit to 20 percent of the imported value; locking into permanent revenue about 70 percent of the revenues.

import tax on rice was raised to 35 percent. In addition to these measures, increased tax controls enabled to achieve higher revenues.

- On spending, while current expenditures were reduced by 0.4 percentage points of NEGDP through savings on subsidies, goods and services and transfers, there was an overrun on foreign-financed investment, which increased by 1.3 percent of NEGDP.

- Regarding financing, the authorities mobilized budget-support grants and external borrowing. Public debt increased to 93 percent of GDP at end-2015 (Annex II), and the risk of debt distress remains high.[3]

6. The cyclical downturn, compounded with structural weaknesses, has increased risks to financial stability (Annex III).

- Structural weaknesses include fragmentation and low profitability, weak asset quality and high concentration of deposits and loans portfolios.[4] The establishment of new banks has increased competition, but the narrow formal sector, limited financial services and similar business models among banks have resulted in a fragmented banking system. Despite this fragmentation, the credit and deposit portfolios remain highly concentrated in a number of banks. Five banks represent nearly 60 percent of credit and 70 percent of deposits, and banks have highly concentrated deposits and loans portfolios, including vis-à-vis related entities. Asset quality has deteriorated, banks' risk management practices are weak and profitability is low.

- With the economic slowdown, deposit stagnated and net domestic credit growth decelerated in 2015. [5] The banking system remains broadly liquid, but liquidity ratios and buffers have declined. Liquidity ratios in two banks, representing 14 percent of total banking assets, reached levels below the prudential 20-percent norm. Asset quality deteriorated, as NPL ratios reached 27.6 percent in December 2015 (from 20 percent at end-2013) in part because of stricter risk classification introduced in mid-2014.[6] Based on reported CAR, banks appear to be well-capitalized, but data are biased by non-compliance with regulation pertaining to related-party exposures.[7]

- Banks' operational costs are reportedly increasing due to higher information compliance requirements on foreign exchange (FX) transactions with international banks. While Mauritanian

[3] See accompanying Debt Sustainability Analysis for details. The debt level includes passive debt with KIA, estimated at 21.5 percent of GDP.

[4] Fragmentation in the banking system refers to the large number of small banks, hampering the efficiency of the system as a whole. Some large banks dominate the system, while the rest are relatively small in size and have limited capacity to grow.

[5] Net domestic credit includes credit to private sector and net credit to central government.

[6] The NPL ratio is expected to decline to 20.3 percent when accounting for the transfer of NPLs out of banks' balance sheets.

[7] In addition, in the reported RWA, loans to the public sector, including public enterprises, are considered with zero risk and the part of exposures to related parties above the regulatory limit of 25 percent is not deduced.

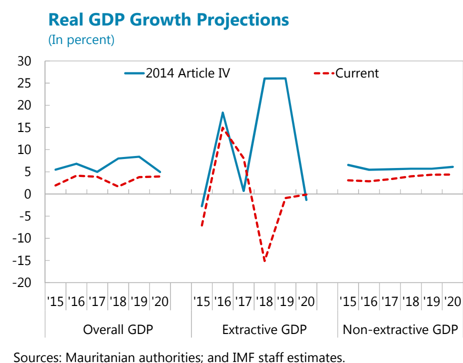
banks have not been affected directly by de-risking and have maintained their correspondent banks, they have created compliance units to fulfill higher demand for information.

- The microfinance sector remains highly fragmented, its viability is weak and capital adequacy ratios remain below regulatory standards. The authorities are developing a strategy to strengthen the sector and decrease its reliance on public sector support.

OUTLOOK AND RISKS

7. The economic outlook has become more uncertain and volatile on account of trends in international commodity prices and financial sector developments. Under persistent subdued iron ore prices, the authorities' current policies are projected to result in continued reserve pressures and elevated debt over the medium term. The economy will remain vulnerable to external shocks.

- In 2016, growth is projected to rebound to 4.1 percent on increased iron ore production from the Guelb II mine.[8] NEGDP is projected to remain subdued as a result of lower activity in manufacturing and services. Inflation is projected at 3.8 percent by end-2016 due to planned tax increases and base effects.



Sources: Mauritanian authorities; and IMF staff estimates.

- The current account deficit is estimated to improve to 13.6 percent of GDP due to lower oil prices and capital imports. The financial account is expected to continue to deteriorate as a result of low FDI, putting pressures on reserves. Gross (net) international reserves are projected to decline to 5.9 (3.5) months of non-extractive imports.

- Over the medium term, staff projects the current account deficit to remain above 10 percent of GDP despite improved non-extractive exports associated with economic diversification efforts, which will also result in higher FDI. External debt is projected to peak at 82 percent of GDP by 2018 as the authorities sustain investment spending; public debt is projected at nearly 77 percent by 2021 (assuming debt relief for KIA's passive debt, which is estimated at 21.5 percent of GDP, at end-2016). Under current policies, pressures on reserves will remain and gross international reserves are projected to fall below the authorities' target of three months of non-extractive imports in 2020–21.

- Credit to the private sector is projected to slow in 2016–17 as reduced liquidity and a deteriorated economic outlook for the non-extractive sector increase risk aversion and result in some credit retrenchment.

[8] The new mine was inaugurated in November 2015 with production potential of 4 million tons per year by 2018.

8. The outlook for the financial sector is expected to remain challenging over the medium term due to reduced liquidity position and subdued economic growth. Reduced liquidity could potentially constrain access to the FX market for some banks and affect their client base. Subdued growth could further deteriorate asset quality, hindering profitability and the capacity of the financial sector to support the private sector and economic growth through credit. Although network risk is limited due to underdeveloped interbank markets, systemic risk could increase as a result of high concentration in credit and deposit portfolios and banks' linkages to economic groups. A weaker financial sector will be less able to support economic diversification.

9. Risks to the outlook are predominantly on the downside (Annex IV). In the short term, the economy is most vulnerable to an increase in oil prices and further strength of the US dollar. Higher oil prices will put further pressure on external stability and reduce non-tax revenues, as will lower-than-envisaged iron ore prices. Delays in policy implementation could stall economic diversification, widen imbalances and set back progress, hindering private sector growth and job creation, and increasing inequality. In the absence of sustained policy adjustment, macro stability risks would rise over the medium term, with negative implications for longer-term growth. Lastly, Mauritania remains vulnerable to a deterioration of the security situation in the region. On the upside, a rebound in iron ore prices, an expansion in gold mining capacity and accelerated exploration associated with *Kosmos*' gas discovery would boost economic prospects. The authorities considered the risks to be somewhat overstated, pointing to the progress already made in implementing adjustment measures and relatively stable economic conditions. They were also confident that their policies would reduce vulnerabilities and the impact of shocks.

POLICY DISCUSSIONS

10. The deteriorated outlook and heightened global uncertainty call for a determined and sustained macroeconomic policy adjustment, while the need for economic diversification and inclusive growth calls for an ambitious structural reform agenda. The authorities' steps in 2015 to boost non-mining revenues, achieve savings in spending, and foster exchange rate adjustment were in the right direction, and the monetary stance reduced liquidity in the banking system but remained broadly adequate. Projections for a sustained terms-of-trade shock will require the policy response to be strengthened to support macroeconomic stability over the medium term. Achieving this objective will require advancing on three pillars: policies to support external sustainability; policies to support debt sustainability; and renewed structural reforms to support private sector development and job creation (to be incorporated in the post-2015 development strategy). These would include greater exchange rate flexibility supported by FX market reforms, renewed fiscal consolidation efforts to place the public debt on a firm downward trend, and reforms to promote private sector development and improve competitiveness, trade, and access to credit and FX. Formulating and implementing such policy agenda will require close coordination to define the appropriate composition of the policy adjustment and to support policy consistency across the three pillars—including policies to enhance the resilience of the financial sector by monitoring and managing financial stability risks. Greater policy flexibility will also be required in light of a more

volatile global environment. Hence, strengthening policy formulation and transparency will further reduce uncertainty, anchor expectations and improve credibility of macro policies.

A. Addressing Risks to External Stability

11. Mauritania's external position has weakened, exposing risks to external stability under current policies. Despite structural reforms envisaged to promote FDI and economic diversification, the trade balance deficit is expected to remain above 10 percent of GDP and future capital inflows remain highly uncertain. Reserves will remain under pressure over the medium term and fall below the authorities' target level of three-month import coverage (excluding extractive imports) in 2020–21. High external financing requirements and external debt compound risks to external stability. Staff and the authorities agreed on the need to accelerate export growth—especially in non-extractive sectors—to sustain external stability.

12. Exchange rate policy needs to address the significant overvaluation of the ouguiya. Tackling the current overvaluation will be critical to support external sustainability and a prerequisite for economic diversification. The real appreciation of the past two years, the negative terms-of-trade shock to economic fundamentals and the weak investment climate have led to an overvaluation of the ouguiya. According to the EBA-lite methodology, the current account deficit is larger than the norm, the level considered sustainable given economic fundamentals, estimated at a deficit between 3½ and 7 percent of GDP (Annex V). While estimates of exchange rate overvaluation are subject to significant uncertainty, they are consistent with a persistently elevated non-extractive current account deficit and limited non-extractive exports.[9] The overvaluation of the REER limits the scope for domestic demand adjustment to support external stability. Staff called for a combination of measures to bring the exchange rate in line with its medium-term equilibrium value including continuing exchange rate adjustment and FX market reforms to increase exchange rate flexibility, fiscal consolidation efforts to reduce aggregate demand and structural reforms to promote economic diversification.[10] The authorities felt that staff's estimates overstated the degree of overvaluation and believed that the medium-term current account deficits would be appropriate on account of stronger export and FDI prospects.

13. More exchange rate flexibility would be desirable, though views differed on the pace and the timing of reforms in the foreign exchange market. The BCM and staff agreed that greater exchange rate flexibility is desirable to enhance the role of the exchange rate as a shock absorber, allowing the economy to adjust more smoothly to changes in fundamentals and to reduce reliance on reserves to buffer external shocks. While the authorities viewed their current exchange rate policy as adequate in allowing them to adapt to varying conditions, staff favored greater exchange rate flexibility to reflect economic fundamentals, supported by rapid implementation of

[9] The degree of overvaluation of the ouguiya in real effective terms for 2015 is estimated between 16 and 78 percent (Annex V). This range is subject to significant uncertainty associated with the poor fit of the estimates underpinned by the methodological approaches, assumed trade elasticities and the future path of commodity prices.

[10] Estimates of real exchange rate overvaluation should not be interpreted as the needed nominal exchange rate adjustment.

reforms in the foreign currency market to support current account sustainability in the context of a persistent terms-of-trade shock. FX market reforms would change the auction mechanism, allow for all bids to sell into the market and eliminate direct sales to the private sector, allowing for an exchange rate that reflects market forces more closely and for a more predictable private sector access to FX (Box 1). The authorities were receptive to the reform proposals and would like to define an action plan that also addresses advancing on strengthening the monetary framework.[11] Staff recognizes the importance of a well-functioning foreign exchange market and the need for a steady adjustment that allows economic agents to adjust smoothly their balance sheets. Given the moderate exchange rate pass-through and the benign price environment, staff considers that these reforms can be implemented now, coupled with a prudent monetary stance so as to limit adverse effects on inflation expectations. Staff supports the authorities' approach to enhance oversight of banks' FX transactions and compliance of daily limits on banks' FX position and suggested to manage liquidity proactively to limit risks to exchange rate overshooting and excessive volatility while preserving reserves.

14. While the authorities prepare for reforms in the foreign exchange market, greater exchange rate flexibility could be introduced. As a first step, greater flexibility could be gained by widening the bands in the current regime. The central bank could also assess whether consideration should be given to adopting a currency basket as an intermediate anchor toward a more flexible exchange rate arrangement. A basket reflecting trade composition could reinforce the exchange rate as a nominal anchor and help prevent further appreciation in real effective terms if the US dollar strengthens further. In this regard, the authorities remain open to revisiting the adequacy of the exchange rate regime to facilitate the role of the exchange rate as a shock absorber over the medium term.

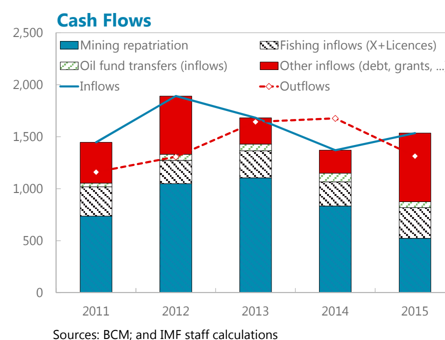
15. Adopting a more flexible exchange rate regime requires strengthening the monetary policy framework. The BCM and staff agreed that the current environment of subdued inflation facilitated formalizing a monetary policy framework by defining quantitative targets and developing forecasting methods and instruments to manage liquidity more actively. While the current liquidity level is seen as broadly adequate, staff discussed plans to adapt liquidity management to an environment of reduced liquidity in the banking system, including by introducing new instruments such as standing deposit and lending facilities and using proactively reserve requirements. A prudent monetary policy will be needed to accompany FX market reforms. In parallel, staff agreed with the BCM on the need to develop tools for assessing and forecasting short-term liquidity, which may require reorganizing the BCM and closely coordinating with the Treasury. In addition, staff recommended the recapitalization of the central bank to provide greater operational autonomy. Ultimately, the BCM will need to define a new monetary policy anchor.

[11] The central bank requested a technical assistance mission, which is scheduled at end-May 2016.

Box 1. Mauritania's Foreign Exchange Market and Proposals for Reform

Recent Developments

Foreign exchange flows in Mauritania have markedly changed in composition since end-2013. Mining receipts have declined by 53 percent in 2013–15, putting pressures on reserves and on the authorities' efforts to broaden FX sources. The decline from mining has been only partially offset by grants and higher fishing proceeds from stricter enforcement of repatriation requirements and the renewed EU agreement. In 2015, in light of reducing external buffers, the BCM reduced FX supply via direct sales.



Sources: BCM; and IMF staff calculations

Auction Framework

Auctions take place during fixing sessions from Monday to Thursday. The auction is a retail auction—banks introduce individual customers' orders—and it is a single-price auction—all successful bidders pay/receive the same price. All FX operations above US$100,000 must be submitted to the auction.

The exchange rate is determined from the supply side. Determination of the final fixing rate follows a multiple-stage process, as follows:

- The BCM has the discretionary power to reject offers to sell considered abusive.
- The BCM determines a provisional fixing rate—the most depreciated exchange rate in the supply for which demand exists.
- Then, the BCM decides whether to intervene or not and at which exchange rate—either at the provisional rate or at a different rate. The final fixing is then determined.
- All offers to purchase above UM6 from the final fixing are excluded. Qualified or effective demand is then sorted from the most to the least depreciated.
- Offers to sell are excluded if banks do not comply with the requirement to hold 100 percent of their bids in ouguiya as excess reserves in their BCM account.
- The BCM allocates FX to banks' clients first, in the order in which they were submitted, and then to banks on their own account. Unsatisfied or partially-fulfilled orders are cancelled by the end of the session. FX applies asymmetric commissions of 0.25 percent for purchases and 0.75 percent for sales.

The auction allows the central bank to control prices and quantities but gives rise to an exchange rate restriction, as demand (associated with current account operations) is not fully satisfied. There is no FX interbank market and the central bank operates as the main FX supplier. All fishing receipts from the public-owned fishing company transit by the central bank and SNIM repatriates through its account at the BCM.

Box 1. Mauritania's Foreign Exchange Market and Proposals for Reform (concluded)

Unmet demand is a permanent feature in the market, which leads to resubmission of purchases. Therefore, demand in the market reflects not only the need for foreign exchange, but the duration required to get it. Unsatisfied demand (considering demand within the 6-ouguiya limit) increased to 84 percent at end-2015 from 65 percent in 2014; doubling the time needed to acquire foreign exchange (from 3 days in 2013 to 6 days in 2015). This exerted pressures on the exchange rate and the parallel market premium tripled—though still moderate (at around 5 percent). The high share of unsatisfied demand may not be fully reflected in the parallel market premium due to the fact that many purchase orders are resubmitted until they get satisfied. Recently, the BCM resisted depreciation pressures by rejecting more frequently depreciated offers (considered abusive) and intervening at a different (more appreciated) rate than the fixing.

The imbalances tend to increase when the central bank reduces its intervention while allowing little adjustment in the exchange rate to equilibrate the market. In addition, the BCM provides FX through direct sales to the public sector and to the private sector. The final fixing is the exchange rate applied in these sales.

Proposed FX Market Reform

Based on FSAP recommendations, staff recommends reforms to enhance price discovery, increase transparency and competition, and improve governance. They will help transitioning to greater exchange rate flexibility, reducing imbalances in the market and developing an FX interbank market.

The proposed measures are interdependent and complimentary.

Mauritania: Foreign Exchange Market Indicators

	2012	2013	2014	2015
A- Demand	**11964**	**5495**	**4626**	**5759**
Of which effective demand 1/	10424	4395	3333	4818
(in percent)	*87*	*80*	*72*	*84*
B- Total sales	**1095**	**1246**	**1170**	**783**
Fixing session	473	655	563	599
Of which BCM intervention	278	474	428	388
(in percent)	*59*	*72*	*76*	*65*
Direct Sales	622	590	607	184
C- Satisfied demand				
In percent of total demand				
Fixing only	*4*	*12*	*12*	*10*
Fixing and direct sales	*9*	*23*	*25*	*14*
In percent of effective demand				
Fixing only	*5*	*15*	*17*	*12*
Fixing and direct sales	*11*	*28*	*35*	*16*

Sources: BCM; and IMF staff calculations.
1/ Purchase bids lower than provisional fixing plus 6 MRO

- *Introducing a multiple price auction (MPA).*[1] The MPA is a more competitive allocation system that allows prices to be determined by both supply and demand and imposes some discipline on demand, as participants will pay the offered price, limiting speculative bids. Still, the central bank could influence the exchange rate both through FX intervention and liquidity management.
- *Eliminating the direct sales to the private sector*. To support the deepening of the FX market and a level playing field for the private sector to access FX, all central bank intervention should be channeled through the market. Such approach is likely to enhance competition especially among importers.
- *Increasing non-*BCM *supply*. In addition to measures already taken by the BCM to enforce FX repatriation rules, the central bank should accept all offers to sell and ensure strict compliance with FX position limits, including by strengthening sanctions.

[1] In establishing a multiple price auction, a mechanism to prevent giving rise to multiple currency practices will need to be in place to prevent the deviation between the winning bids from exceeding 2 percent.

B. Fiscal Consolidation Needed, with Stronger Fiscal Framework and Governance

16. The 2016 initial budget law aims at a strong fiscal consolidation, which may prove challenging. The overall deficit excluding grants is projected at 2.5 percent of NEGDP in 2016, with public spending contracting by 4 percentage points of NEGDP—equivalent to a 10-percent decline in real terms—making economic growth vulnerable to lower aggregate demand. The authorities are committed to the ambitious target envisaged in the initial budget law, with any additional revenues devoted to building buffers. Staff believes, however, that tax revenue mobilization, beyond those related to petroleum products, would be limited by subdued non-extractive growth and low mining revenues. Staff also believes that the envisaged reduction in current spending (1.7 percent of NEGDP) would prove challenging as fiscal outcomes have fallen short of initially-envisaged consolidation efforts since 2013, largely as a result of higher foreign-financed investment and lower revenues.[12] Given past budget performance, staff projects less fiscal adjustment, with the overall deficit (excluding grants) at 3.2 percent of NEGDP and some reduction in current spending (0.7 percent of GDP).

17. Medium-term fiscal projections under the baseline envisage a gradual fiscal adjustment that will lower public debt only marginally. Staff envisages the overall balance (excluding grants) to hover around an average deficit of 3.8 percent of NEGDP in 2017–21, consistent with authorities' investment plans under current policies. This baseline takes into account:

- *Additional tax revenues* are expected to result from measures introduced in 2015 on petroleum products and on VAT, as well as from the new measures introduced by the 2016 initial budget law reinforcing custom revenues and introducing new exports duties on fish products. The authorities also reiterated their engagement in increasing non-extractive revenues by expanding the tax base; reinforcing fiscal controls (better risk management practices and improved coverage rates); limiting the erosion of the tax base by eliminating revenue losses related to transfer pricing of foreign mining companies; and improving fiscal information and tax and custom administration. Staff welcomes these efforts; highlights the difficulty in evaluating the impact of tax administration measures, and calls for implementing them in a way that promotes a more equitable taxation.

- *Non-tax revenues from the lack of adjustment in domestic energy prices in the face of falling international oil prices* will remain substantial during the projection period (averaging 2½ percent of NEGDP per year). Given the uncertainty regarding global oil prices, staff recommended that any larger-than-envisaged revenues would be used to eliminate domestic public arrears and accumulating fiscal buffers.

[12] According to recent TA, the 2016 tax revenue targets are ambitious and will require renewed efforts on broadening the tax base and a more equitable distribution of fiscal pressures.

18. Additional fiscal adjustment is needed to support debt sustainability over the medium term. While the authorities recognized the importance of decreasing public debt levels, their current plans to streamline spending and raise revenues to create fiscal space for social spending and investment are not sufficient to prevent further increases in public debt. Given the high risk of debt distress, staff argued for re-orienting fiscal policy toward a medium-term public debt target of 70 percent of GDP as a fiscal anchor and a gradual fiscal consolidation that supports growth dynamics (Box 2). Achieving primary balances consistent with this debt reduction path will require higher non-extractive revenue mobilization, rationalization of current spending and a realistic investment program that goes beyond current plans under the baseline. Such efforts assume additional fiscal consolidation amounting to 2.2 and 2.5 percent of NEGDP in 2016 and 2017, respectively. To achieve this adjustment, staff recommended the following:

- *Additional revenue mobilization should result from broadening the tax base and renewed tax administration efforts* to promote fair taxation and, ultimately, economic activity. Staff also called for a gradual elimination of tax exemptions (estimated at about 3 percent of GDP) and emphasized that, ultimately, a durable and sustainable expansion of the tax base also depends on advancing economic diversification and reducing economic informality.

- *Control on current spending* needs to focus on streamlining the wage bill, subsidies, and transfers to public institutions. The authorities' strategy aims at maintaining social spending to protect the most vulnerable with better targeted transfers. A comprehensive public service reform, including implementing the integrated management of state personnel (EPMIS), and further rationalizing spending on goods and services could yield savings of 2.6 percent of NEGDP over 2016–18.

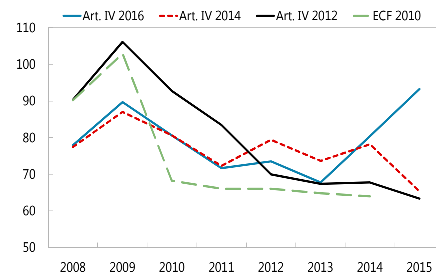
- *Public investment spending* needs to be streamlined and prioritized to ensure consistency with fiscal targets and fiscal adjustment efforts. In this context, the authorities are committed to review the effectiveness of public investment to maximize potential growth effects, while ensuring consistency with poverty-reduction priorities and absorption capacity. However, reaching fiscal and debt targets will require reducing external debt disbursements by 30 percent. Preliminary estimates suggest that, other things equal, such adjustment scenario would reduce the foreign-financed public investment envelope by 2.2 percent of NEGDP per year over 2016–21. The impact on public investment could be dampened with additional fiscal consolidations efforts. Financing of public investment should be limited to concessional borrowing.

Box 2. Anchoring Mauritania's Fiscal Policies to Reduce Public Debt over the Medium Term

With a high public debt level, a high risk of debt distress driven by lack of diversification and weak capacity, and an outlook clouded by the global uncertainty, fiscal policies should aim at bringing the public debt on a firm downward trend toward a medium-term debt target of 70 percent of GDP.

Public debt trends. Mauritania's public debt level has steadily increased in recent years, in particular in 2014–15 when the public debt increased by 25 percentage points to 93 percent of GDP, driven by central government's infrastructure financing and central bank's borrowing to support reserves under longer-than-envisaged ToT shock. While Mauritania's debt ranks high compared to other HIPC countries, this also reflects the limited debt relief granted by non-Paris club creditors at the time of the HIPC debt relief initiative. The DSA points to high debt vulnerabilities, with debt indicators breaching all but one threshold. The recent pace of debt accumulation risks weighing down on economic growth as higher taxation may ultimately be needed to service debt in the future and distort economic activity. In addition, an analysis of the debt structure shows significant exposure to exchange rate risks, a bunching of upcoming maturities, and a concentration of oil exporters in the creditor base. A more rapid depreciation of the ouguiya than the one envisaged under current policies will impact external debt levels and call for additional fiscal adjustment.

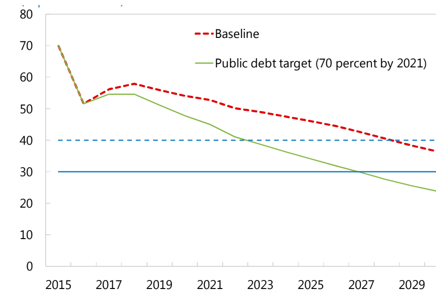
Public Debt Trajectories, 2008–15 1/
(In percent of GDP)



Sources: Mauritanian authorities; and IMF staff estimates.
1/ Differences in historical debt figures are driven by national accounts revisions,(2008 and 2011).

Anchoring fiscal sustainability. Anchoring fiscal sustainability will require targeting both the public external debt over the medium term and associated primary balances; this follows from the fact that part of public investment is being executed outside of the central government. Fiscal consolidation efforts will be supported by anchoring public external debt toward a medium-term target of 70 percent of GDP. If such target were reached by 2021, external PPG debt would be at 45 percent of GDP in NPV terms by 2021 and below 30 percent by 2027. Other things equal, staff estimates that such effort represents a 31 percent reduction of the cumulative external disbursements envisaged over 2016–21 (equivalent to 14.5 percent of GDP).[1] This public debt path will require that priority investment for development be maintained within a realistic envelope and through additional fiscal consolidation. The authorities could also seek opportunities to involve the private sector in infrastructure investment.

PV of External PPG Debt
(In percent of GDP)



Sources: Mauritanian authorities; and IMF staff estimates.

Control of operations executed outside the central government. Given that the current coverage of fiscal statistics is limited to the central government, controls of debt-financed public investment executed outside the central government will be needed to reach the debt target objective. Going forward, broadening the coverage of fiscal statistics towards the general government in line with GFSM 2001 and passing the organic budget law will help anchor fiscal policy to support debt sustainability.

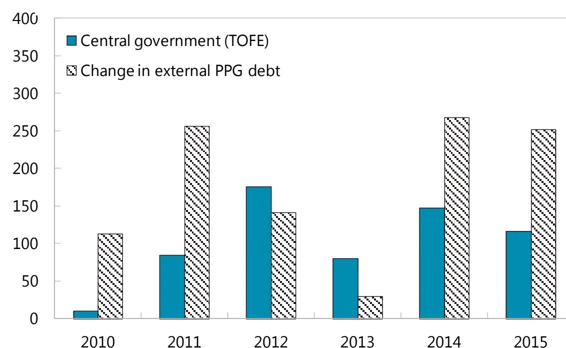
Policy recommendations. Bringing down firmly the public debt over the medium term will help contain the risk of debt distress and lay the foundation for future growth. Given the weight of foreign debt in particular, strengthening the export base through economic diversification to help the economy cope better with external shocks and expand the base for foreign exchange resources is equally urgent. Public investment objectives should be realistic and should be tailored to provide basic infrastructure and promote private sector participation where possible.

[1] Such reduction will result, on average, in lower foreign-financed investment by 2½ percent of NEGDP per year if all the adjustment burden efforts would fall on investment and on the central government.

19. Staff welcomed the authorities' plan to advance with significant fiscal structural reforms, including of public entities. In 2016, the authorities intend to submit to Parliament a code of tax procedures, the new customs code, and the Organic Law of Finance (LOF). The adoption of the LOF will help anchor fiscal consolidation towards debt reduction. Moreover, the launch of the new public institutions restructuring program will strengthen supervision of state enterprises and other public institutions. A study funded by the World Bank, expected by end-2016, will clarify their financial situation and their relationship with the central government. Revamping financial information flows and harmonizing administrative and financial management of public institutions will start with the five most important EPAs. In terms of cash management, a second-generation single Treasury account will be effective by December 2016 and improved cash management practices will include public procurement plans and a monthly central engagement plan at the Ministry of Economy and Finance.

20. Limiting deteriorating debt dynamics will involve fiscal consolidation and close monitoring of borrowing outside the central government. Enhanced debt management practices require strong institutional coordination, better coverage of public sector activity and strengthened governance. A consolidated investment strategy under the newly created Ministry of Economy and Finance will facilitate priority setting and identification of funding sources. Staff welcomed efforts to strengthen procedures for borrowing and public guarantees, improve investment execution and monitoring, and expand public finance statistics beyond the central government in line with GFSM2001. Staff also supports the authorities' objectives to establish a centralized registry for public debt and government guarantees, including those extended to public enterprises, within the Ministry of Economy and Finance. Finally, an assessment of fiscal risks and contingent liabilities, including those that could arise from SNIM, could help identify fiscal vulnerabilities and support the restructuring of state-owned enterprises (SOEs) to address inefficiencies and financial sustainability. In this vein, priorities include improving their financial reporting; curtailing direct and indirect subsidies; enhancing governance, transparency and accountability; streamlining corporate structures to core activities; setting utility tariffs to cost-recovery levels; strengthening the legal framework for SOE operations; and developing appropriate investment plans.

Net External Disbursements
(In millions of US dollar)



Source: Mauritanian authorities.

21. Addressing fiscal dependence on extractive resources will improve fiscal policy formulation. The budgetary framework should include a fiscal rule, an explicit fiscal anchor, and a fiscal stabilization fund that take price volatility into account, while incorporating intergenerational equity considerations through a resource wealth fund. Strengthening fiscal policy formulation will help better safeguard the budget against boom-and-bust cycles in nonrenewable resources, reduce

pro-cyclicality, and provide predictability to fiscal policy. Accompanying robust institutions will enhance the management of mining wealth. The authorities agreed in principle with this approach but felt that such reforms were premature. Staff supported the authorities' intention to continue pursuing reforms in public financial management, including a multiyear fiscal framework and the approval of the LOF, considered prerequisites for introducing the fiscal rule.

C. Staying Vigilant on Risks to Financial Stability

22. The authorities agreed that rising risks to financial stability call for more vigilance and a careful calibration of the policy adjustment. Under current trends, liquidity and asset quality may reduce banks' ability to address shocks, extend credit and support economic activity. Liquidity pressures for some banks may constrain their access to FX market, leading to deposit losses. Banks may come under strain, whether because of weakening liquidity or asset quality, or because of exposure to vulnerable sectors (commerce, construction and public works); some banks might require liquidity support or recapitalization (Annex III). High NPLs could erode capital and limits banks' ability to lend. In turn, policy adjustment to the external shock could result in subdued non-extractive growth in the short term; which could weaken balance sheets and generate confidence shocks. This could place challenging trade-offs on the need for economic rebalancing and could require heightened coordination with the Ministry of Finance, especially on short-term liquidity management.

23. The central bank is stepping up financial sector supervision and efforts to strengthen prudential and crisis resolution frameworks, in line with FSAP recommendations (Table 8).

- In terms of enhancing supervision, the central bank is finalizing IT data transmission; enhancing data quality; and reinforcing the credit registry for banks' real-time access. International audits of all banks should complement those commendable efforts. In parallel, the central bank is strengthening human resources at the General Directorate for Banking Supervision. Additional important measures include bringing the CDD under financial supervision and devising a clear restructuring plan for microfinance institutions.

- Adopting a new banking law and the statute of the central bank in 2016 will represent a fundamental step in transitioning toward a risk-based supervision, including by modernizing the banking resolution framework, strengthening licensing requirements and enhancing the independence of the central bank and the protection of supervisors.

- Further progress with FSAP recommendations is also necessary to enhance financial stability including (i) implementing, without delays, the regulation in place; (ii) publishing banks' financial statements; (iii) establishing clear qualification system for auditors; and (iv) increasing banks' contribution to the deposit guarantee fund.

24. Rising risks call also for stricter enforcement of banking regulation and enhanced supervision, especially on liquidity, FX position, concentration and related-party lending risks. In particular, the central bank should consider reviewing penalties and sanctions to align incentives

to compliance. In the face of the specific risks associated to concentration and related-party exposures, staff calls for strengthening the micro- and macro-prudential frameworks, recapitalizing some banks and reducing the planned three-year timeframe to comply with related-party exposures (Annex III). The BCM should also consider activating, if needed, the emergency liquidity assistance to support illiquid but solvent banks. In the current context, staff also recommends more effective coordination with the MEF to manage short-term liquidity, a temporary freeze to licensing new banks and a review of risk classification and weights for public enterprises.

D. Accelerating Structural Reforms to Promote a More Diversified and Inclusive Growth

25. The authorities indicated that the external shock increased the urgency for economic diversification and more inclusive growth. Staff agreed that the structural reform agenda should focus on promoting a competitive private sector to generate and sustain inclusive growth (Box 3). To this end, it is necessary to continue to reduce the infrastructure gap, improve the business environment and facilitate access to finance, including FX. It is also important to reform the education system and strengthen the social protection system. These reforms will be crucial to support economic diversification and inclusive growth during the adjustment period and medium-term sustainable growth.

26. The authorities plan to continue improving the business environment, but renewed efforts are needed.

- Mauritania, ranked at 168th, was one of the top 10 reformers worldwide in the 2016 Doing Business ranking. Mauritania eliminated the minimum capital requirement for SMEs; reduced the time for documentary and border compliance for imports; and expanded borrower coverage in the credit registry. A new action plan, with the support of the World Bank and African Development Bank, will focus on simplifying administrative procedures and taxation; clarifying property rights; modernizing the judicial system and investors' protection; and re-launching public private dialogue. Robust use of AML/CFT tools can support efforts to reduce corruption; which is perceived as an important obstacle to doing business.[13] Staff welcomed the authorities' plans on these fronts, and call for enhancing implementation capacity.

- The authorities have identified comparative sectoral advantages (in agriculture, livestock, and fishing), with plans to increase value-added in production and to diversify the export base which is now narrowly concentrated in unprocessed fishing and mining. Staff emphasized the importance of private sector contribution to developing these sectors through FDI and investment. Staff also noted the risks these sectors could face from climate change shocks.

[13] The country ranks poorly in corruption indices (133th out of 140 in the Global Competitiveness Report and 112th out of 168 in the Transparency International's Corruption Perception Index). The AML/CFT regime is planned to be assessed under the revised FATF by end-2016.

- Measures to enhance financial inclusion will help mobilize domestic savings for economic growth. In this vein, staff supported authorities' plans to enhance governance of financial institutions and to diversify financial services through Islamic Finance, and called for promoting competition, reducing information asymmetry, and developing a sound private-led microfinance sector. To promote investment, a framework for PPP needs to be developed, taking into account the need for valuations of fiscal risks.

27. The authorities' post-2015 development strategy should support private sector development and competitiveness. Promoting access to finance, private sector investment and FDI is the cornerstone to development. The overvaluation of the ouguiya and high costs of banking services are not supportive of SMEs development and job creation. Access to finance requires also promoting accessibility through a modern payments system. These measures should also be accompanied by more predictable private sector's access to foreign exchange.

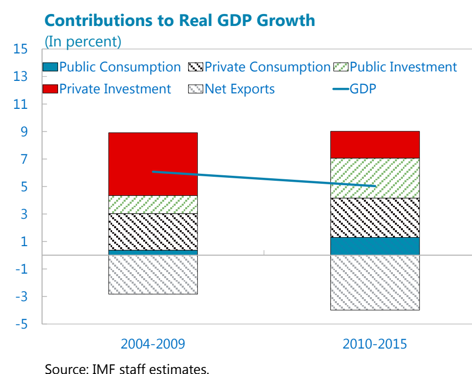
28. Protecting the most vulnerable should remain a priority under the challenging economic environment. High economic growth in the past supported poverty reduction and advances in social indicators despite remaining challenges. Access to education has improved, notably among girls who now enjoy parity in primary school enrollment. Health indicators have also improved but important geographical and gender inequalities remain. The authorities are committed to the introduction of a well-targeted cash transfer scheme, whose implementation will start this year in some regions. The authorities should be ready to increase targeted social transfers further to protect the poor from the impact of policy adjustment.

29. Efforts continue to improve statistics. Data provision is broadly adequate for surveillance and commendable progress has been made in national accounts and price statistics, but data gaps remain in balance of payments, fiscal and financial statistics. Social indicators benefited from recent surveys, but shortcomings remain.[14]

[14] See accompanying Informational Annex for details.

Box 3. Growth Diagnostic and Constraints to Growth

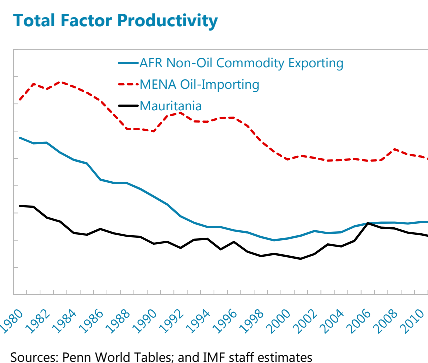
Mauritania's growth performance was strong during the last decade. Growth has been driven by services and construction, and, more recently, increased mining production. On average, real GDP grew by 6 percent during 2004–09 and by 5 percent during 2010–15. On the demand side, public investment has played an important role, and the external sector contributed negatively to growth. The deterioration of terms of trade, expected to last until 2018, will prove challenging for macroeconomic performance. Staff envisaged growth to average 3.5 percent in 2016–21, provided that the current account position becomes fully financed.



Source: IMF staff estimates.

However, growth has not been inclusive enough. The spur in growth during the commodity price boom was driven mostly by capital-intensive sectors. Staff analysis suggests that the most binding constraints to growth and job creation in Mauritania are macroeconomic risks, microeconomic risks, low productivity and access to finance, poor external competitiveness, and exposure to shocks.

- *Macroeconomic risks* are reflected in fiscal and external vulnerabilities which affect confidence and investment.
- *Microeconomic constraints* stem from high electricity tariffs, monopoly market structures, weak governance, perceived high levels of corruption, and constraints to doing business. Only 18 percent of population has access to electricity (versus 32 percent in sub-Saharan African countries); less than 2 percent in rural areas. Mauritania still lacks initiatives and policies on actively promoting competition, curbing unfair business practices and reducing the size of the informal sector. Poor enforcement of contracts and inefficient administrative and judicial system are major impediments to doing business.
- Growth remained constrained by the *insufficient quality of employed labor and lackluster gains in productivity*, with total factor productivity declining by around 2 percent per year since 2006. To increase labor productivity, Mauritania will need better-functioning labor markets, a workforce equipped with more relevant skills, and more effective active labor market programs.



Sources: Penn World Tables; and IMF staff estimates

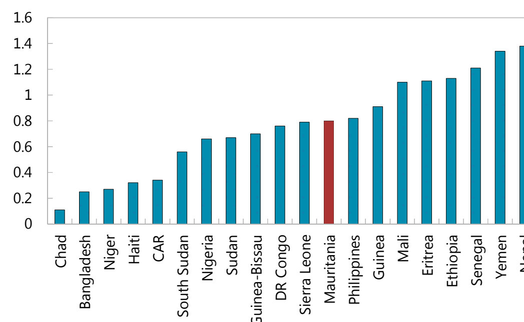
- *Low access to finance* also limits growth performance. Low bank deposit-to-GDP ratio (25 percent) and private credit-to-GDP ratio (30 percent) result in the bulk of the population and most small and medium size enterprises lacking access to banking services. Loans are mostly short-term and concentrated on a limited number of clients.
- The negative contribution of the external sector to growth reflects *poor overall competitiveness*. Non-extractive merchandise exports (including fishing) were only about 7 percent of GDP in 2010–15. Limited external linkages, real exchange rate appreciation, and the weak business environment have been obstacles.

Box 3. Growth Diagnostic and Constraints to Growth (concluded)

Notwithstanding past achievements, the overarching challenge is to foster economic diversification through sustainable private sector-led growth. Mauritania needs to reduce its dependence on the mining and public sectors for growth dynamics. Economic diversification is a priority given the downside risks relative to iron ore prices and global demand, as it will also increase the resilience to shocks. The government is aiming to establish a broad-based growth strategy, which would also help sustain the decline in poverty and inequality. The authorities' strategy to sustain economic diversification includes closing the infrastructure gap; supporting development in labor-intensive sectors such as agriculture, livestock production, and fishing; and moving toward renewable energy sources such as solar and wind.

Risks to economic diversification remain important, including from climate change. The continued large role the state plays in the economy as well as delays in reform implementation—owing partly to the limited public capacity—may jeopardize plans for to enhance diversification. In addition, climate change is expected, over time, to have significant adverse effects on Mauritania's economy. The Climate Change Exposure index, evaluating the vulnerability to extreme climate related events and changes in major climate conditions over the next 30 years, ranks Mauritania as the 12th most exposed countries to climate change. Mauritania is the 4th country most prone to drought worldwide. As a result, the authorities would need to prepare to address negative climate effects on sectors where comparative advantages have been identified, mainly agriculture and livestock production.

Exposure to Climate Change - 20 Top Exposed Countries
(Score: Extreme >[0.0-2.5], High >[2.5-5.0], Medium >[5.0-7.5], and Low >[7.5-10.0])



Source: Maplecroft (2016)

E. Article VIII and Safeguard Issues

30. The authorities are committed to meeting Mauritania's obligations under Article VIII of the Fund's Articles of Agreement. Since the last Article IV consultation, Mauritania maintains an exchange restriction arising from the insufficient FX availability at the fixing sessions organized by the BCM for those transactions that are required to be submitted to these sessions, which was approved by the Board at the time of the 2014 Article IV Consultation. The authorities request again Fund's approval to temporarily maintain the exchange restriction as it continues to be necessary for BOP reasons and does not discriminate among Fund members. The authorities commit to removing the restriction within one year following its approval, in the context of planned FX market reforms.

31. Progress in implementing 2010 safeguards recommendations has been protracted. The 2014 audited financial statements were published, albeit with delay. The central bank has taken steps to enhance its capacity in the areas of information systems and internal audit, but progress remains subdued. Legal reforms to strengthen the central bank' autonomy and governance are envisaged under the upcoming central banking law. Further, the CBM needs to develop its financial reporting, which lagged behind international standards.

STAFF APPRAISAL

32. Mauritania faces a challenging external environment that requires determined policy efforts in the short term to promote macroeconomic stability and economic diversification. A significant and durable terms-of-trade shock has reduced economic growth, export receipts, and net international reserves; widened the fiscal deficit; and increased public debt and risks to financial stability. These strains are compounded by a weaker-than-envisaged global economic recovery and heightened volatility and uncertainty about the outlook for commodity prices. The situation requires an ambitious policy package to foster sustained growth and economic diversification while protecting the most vulnerable and based on three pillars: policies to support external stability through greater exchange rate flexibility supported by foreign exchange market reform; policies to support debt sustainability through enhanced fiscal consolidation and fiscal reforms; and renewed structural reform efforts to support private sector development and job creation. Together with greater vigilance on financial stability, this approach would create jobs; reduce external and public vulnerabilities and support credit and financial stability. Enhanced policy coordination, transparency and governance would also support policy predictability and help anchor expectations.

33. Greater exchange rate flexibility, accompanied by fiscal consolidation and structural reforms, is needed to support external stability. The current account deficit is above the norm despite some adjustment envisaged over the medium term. Current policies are not sufficient to address vulnerabilities, mainly high public debt and pressures on external buffers, which would require deeper adjustment. Priority should be given to allowing greater exchange rate flexibility, supported by FX market reforms, fiscal consolidation to reduce aggregate demand, and structural reforms to promote economic diversification. FX market reforms, including those in the auction mechanism, need to focus on supporting a level-playing field to FX access. Such steps would help the exchange rate to reflect more closely market forces and adjust more smoothly to the underlying fundamentals, strengthen competitiveness and attract foreign investment.

34. Fiscal consolidation is crucial for macro stability and medium-term debt sustainability. The authorities plan to continue to increase non-extractive revenues, cut inefficient current spending and sustain infrastructure investment. These efforts are commendable and should continue to focus on broadening the tax base in an equitable manner; reducing informality to promote fair taxation; and implementing the planned public service reform to increase efficiency, reduce labor market distortions and free resources for more productive spending, such as education. However, additional fiscal consolidation efforts are needed to put the debt on a downward trend. A realistic investment envelope and measures to increase investment efficiency need to be complemented by borrowing plans that rely on concessional borrowing and are consistent with absorption capacity. The authorities should be ready to increase targeted social transfers to protect the poor from the impact of policy adjustment.

35. Sustaining financial stability is needed for economic diversification. The upcoming banking and central bank laws will enhance the prudential and banking resolution frameworks and the operational independence of the central bank and its staff in banking supervision. Efforts to

improve financial supervision will need to be accompanied by improved regulatory compliance and possibly increased sanctions and penalties. In addition, stronger regulatory requirements for liquidity and credit risks, licensing new banks, consolidated supervision and regulatory compliance on related-party exposures will strengthen financial stability. The CDD should come under the supervision of the central bank. Reforms are needed to promote access to finance and financial inclusion. The microfinance institutions need a clear restructuring plan.

36. The external shock has increased the urgency for economic diversification and more inclusive growth. Policies to promote economic diversification, create jobs, and protect the most vulnerable are needed to achieve a durable improvement of living standards. A first priority is to implement measures to unlock private sector-led growth, notably by advancing reforms to improve the business environment that improve governance and encourage FDI and domestic investment. It will be important to promote open competition and a level playing field for investors, while improving labor market outcomes through better quality of education and training.

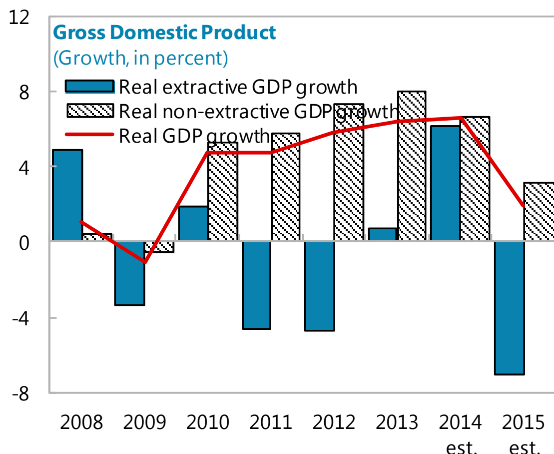
37. Mauritania remains vulnerable to domestic policy implementation risks and external shocks, including a deterioration of the security situation in the region. Reform objectives need to be translated into coherent and consistently implemented objectives, which require enhanced capacity. In addition, there are implementation risks given the magnitude of the required adjustment; close policy coordination and steadfast implementation are needed for the reform effort to become successful. Lastly, Mauritania remains vulnerable to external shocks and a deterioration of the security situation in the region. These risks to the outlook suggest a need to strengthen financial and policy buffers. Raising international reserves and preparing contingency plans in case risks materialize would be useful to boost confidence.

38. Staff supports the authorities' request for approval of the existing exchange restriction. The authorities are planning reforms in the foreign exchange market that will bring Mauritania's foreign exchange regime in compliance with the member's Article VIII obligations. Staff considers that the temporary retention of the existing exchange restriction is necessary for balance of payments reasons. In addition, the exchange restriction does not discriminate among Fund members. Hence, staff recommends the temporary approval of the retention of this restriction until April 25, 2017 or the date of the conclusion of the next Article IV consultation, whichever is earlier.

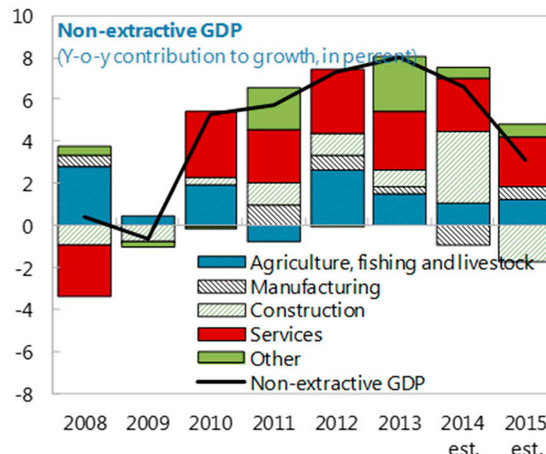
39. It is proposed that the next Article IV consultation be held on the standard 12-month cycle.

Figure 1. Mauritania: Real Sector Developments, 2008–15

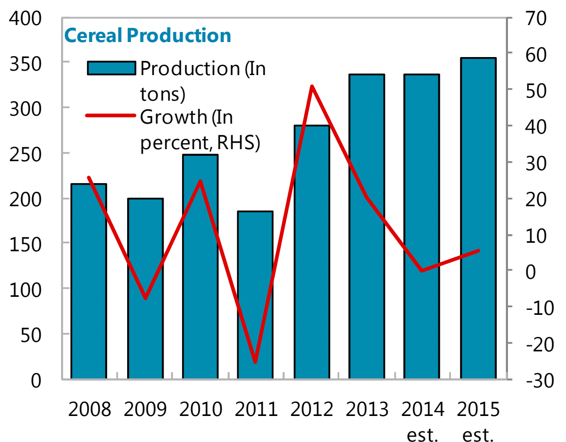
Growth prospects have deteriorated for 2015...



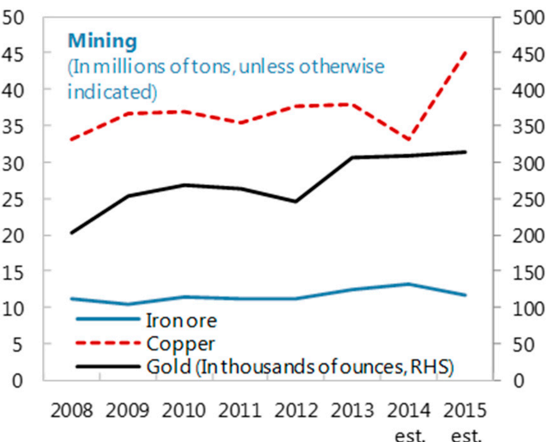
...driven by lower primary sector activity and construction.



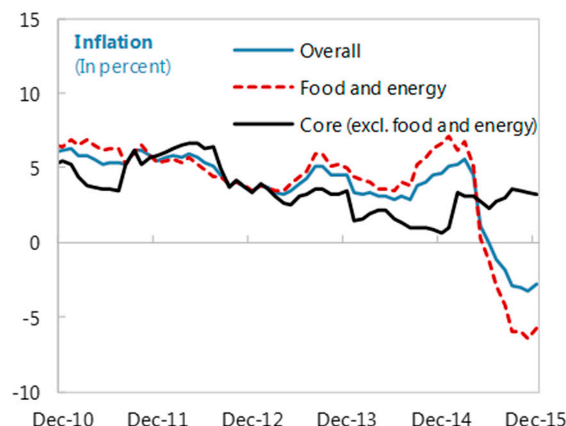
Cereal production is expected to be sustained...



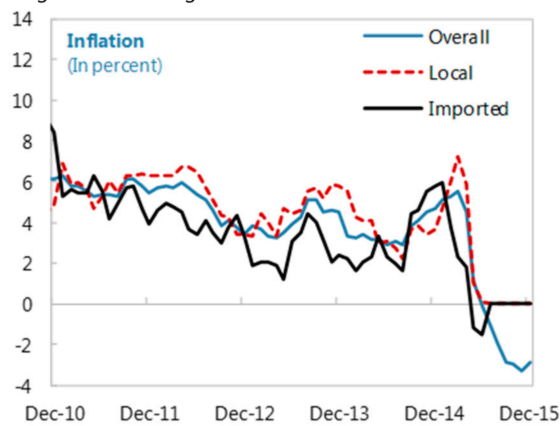
...while mining production remains stable.



Inflation remains contained...



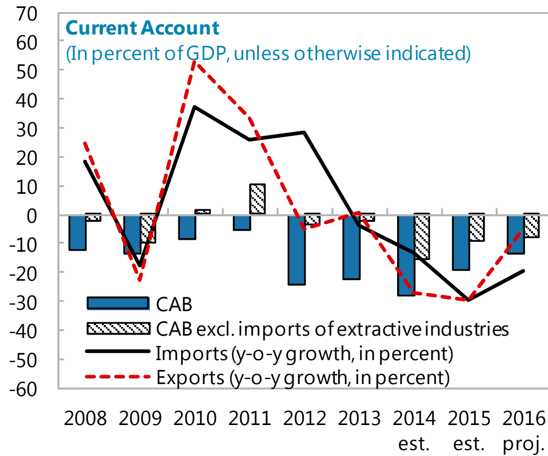
...with prices taming across imported and local product categories according to the CPI.



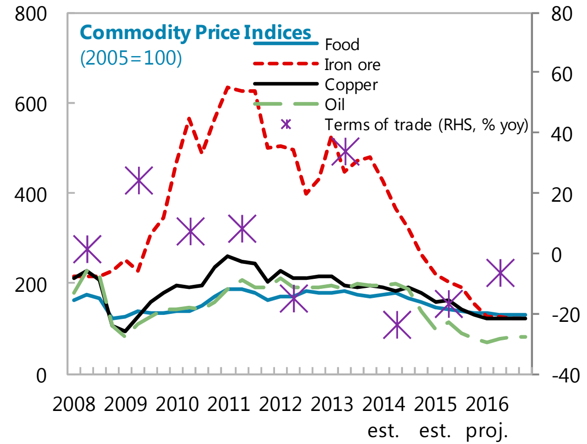
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 2. Mauritania: External Sector Developments, 2008–16

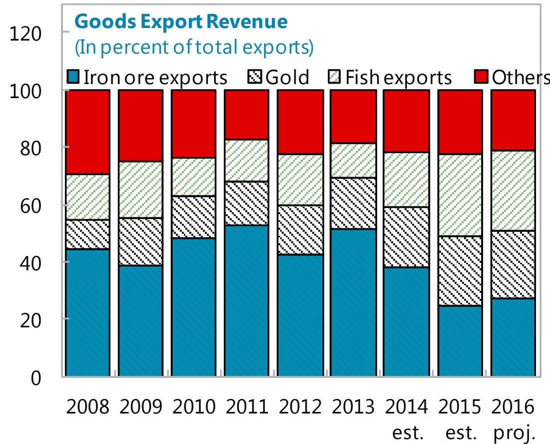
The current account deficit is expected to narrow due to lower imports.



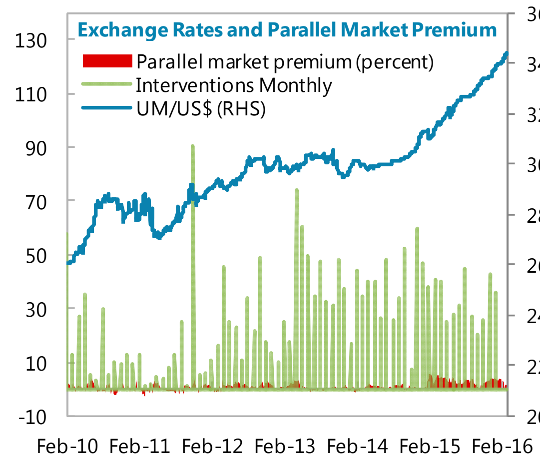
...as the economy is being hit by negative terms of trade.



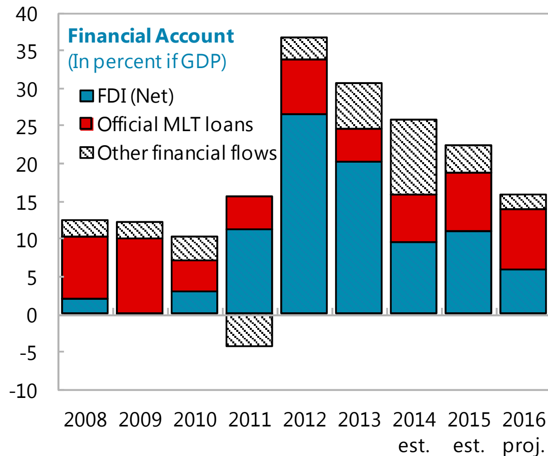
Exports remain highly concentrated in mining and fishing...



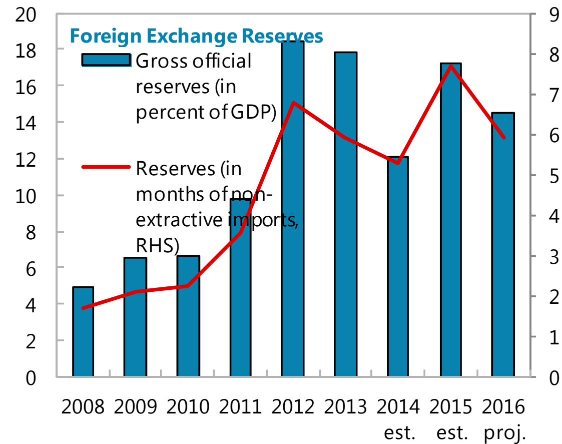
...while the exchange rate against the US dollar continues its gradual nominal depreciation.



The current account balance is mostly financed by FDI and public sector loans...



...helping to build gross international reserves.

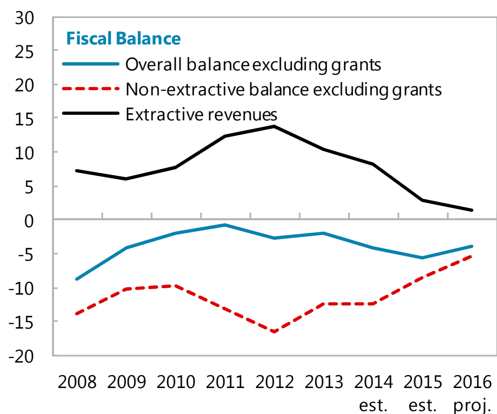


Sources: Mauritanian authorities; and IMF staff estimates.

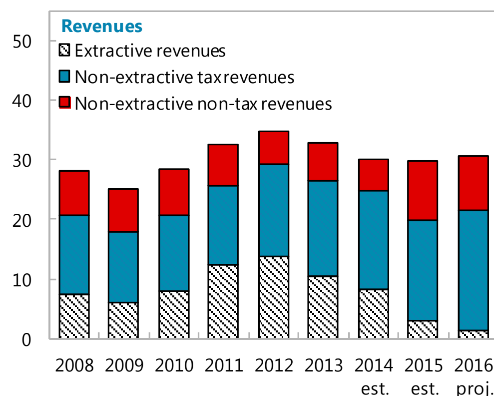
Figure 3. Mauritania: Fiscal Sector Developments, 2008–16

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

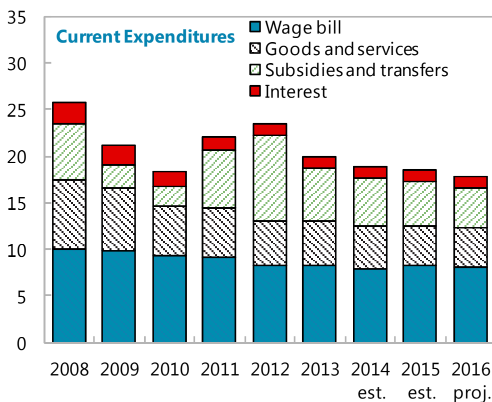
Despite the significant decline in extractive revenues, efforts for fiscal consolidation remain...



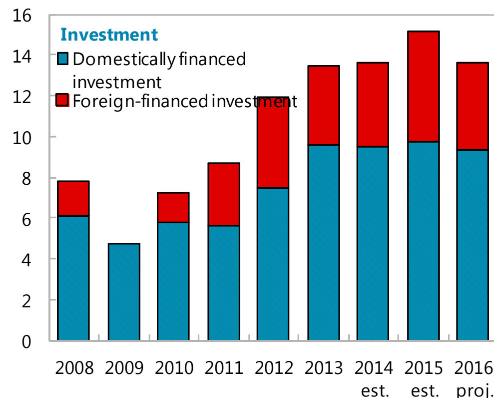
...supported by non-extractive revenues...



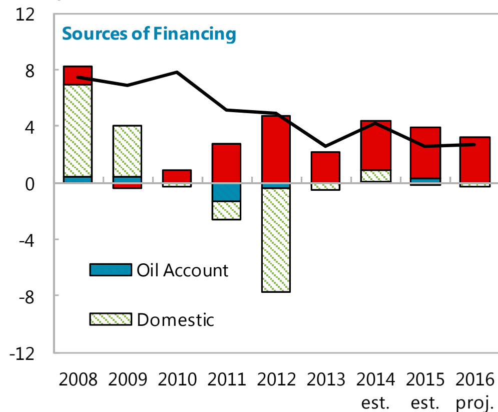
...and also because of restraint in current expenditure..



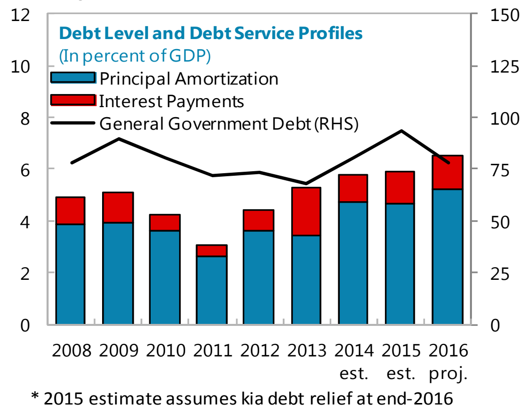
...that partially allowed for sustaining public investment, which remains monthly financed with domestic resources.



Financing of the deficit is mainly through external borrowing...



...which, in turn, resulted in higher public debt and increasing debt service.

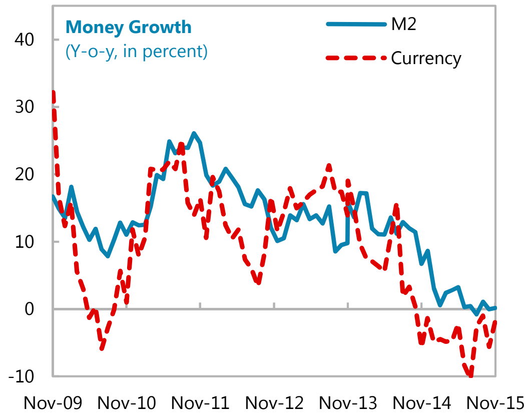


* 2015 estimate assumes kia debt relief at end-2016

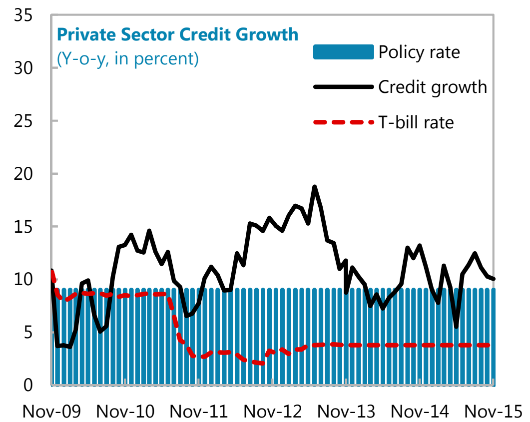
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 4. Mauritania: Monetary and Financial Sector Indicators, 2008–16

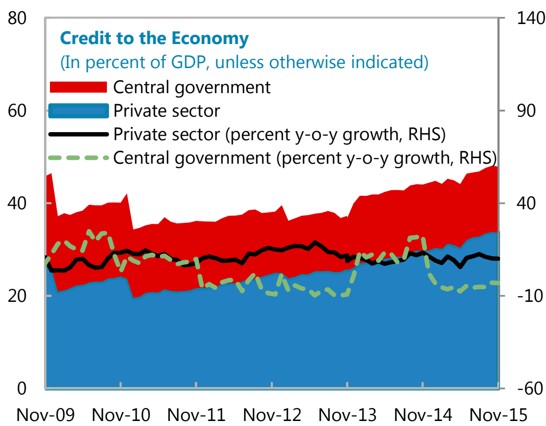
Broad money growth and currency in circulation have slowed down...



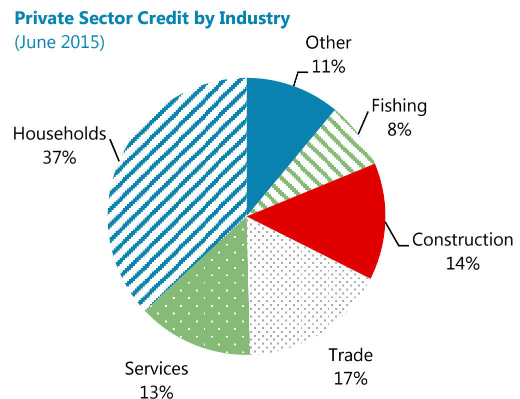
...and credit growth remained sustained...



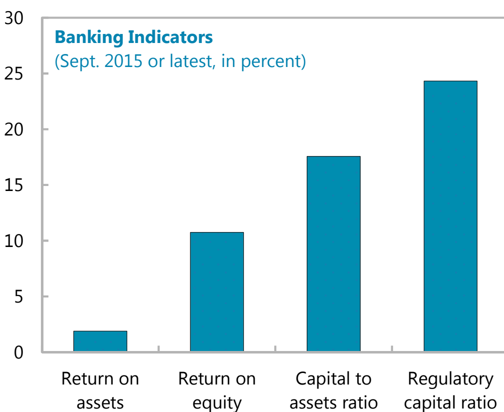
... despite lower credit to the central government



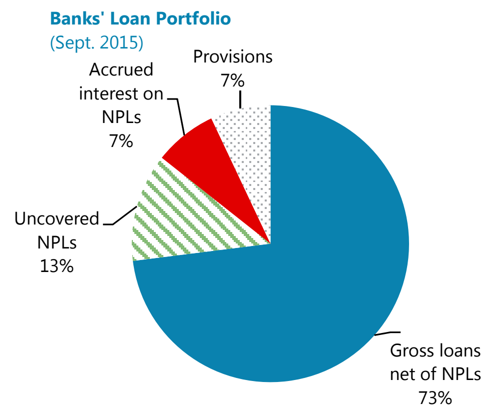
Household credit dominates credit to the private sector.



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



...despite efforts in strengthening asset quality and improving provisioning shortfalls.



Sources: Mauritanian authorities; and IMF staff estimates.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2013–21

(Quota: SDR 128.8 million)
(Population: 3.46 million; 2010)
(Per capita GDP: $1,247; 2011)
(Poverty rate: 42 percent; 2008)
(Main exports: Iron ore, gold, fish)

	2013 Est.	2014 Est.	2015 Est.	2016 Proj.	2017	2018	2019	2020	2021
	(Percent; unless otherwise indicated)								
National income and prices (y-o-y growth)									
GDP at constant prices	6.4	6.6	1.9	4.1	3.9	1.7	3.8	3.9	3.2
GDP excluding extractive industries at constant prices	8.0	6.6	3.1	2.9	3.3	4.0	4.3	4.4	4.4
Iron ore production (million tons)	12.5	13.3	11.6	15.2	17.0	17.0	17.0	17.0	17.0
GDP deflator	0.3	-9.4	-5.5	-1.6	0.6	5.1	5.3	4.6	4.5
GDP excluding extractive industries deflator	1.8	4.5	0.3	1.6	3.7	4.4	4.5	4.2	4.3
Consumer price index (period average)	4.1	3.8	0.5	3.8	4.9	5.3	5.3	5.1	5.1
Consumer price index (end of period)	4.5	5.0	-2.8	3.8	4.9	5.3	5.3	5.1	5.1
External sector									
Value growth of exports of goods, f.o.b.	0.4	-27.0	-29.5	-4.8	2.8	-3.7	0.9	-1.1	-7.3
Value growth of imports of goods, f.o.b.	-4.0	-13.1	-29.5	-19.2	5.7	-0.4	0.7	3.8	1.1
Terms of trade	34.2	-23.4	-16.4	-6.1	-6.1	-2.8	4.3	2.9	3.3
Real effective exchange rate	98.2	102.3	107.0	...	...	...	...	...	...
Current account balance (in percent of GDP)	-22.6	-27.7	-19.3	-13.6	-15.8	-13.2	-11.1	-11.3	-10.5
Gross official reserves 1/									
In millions of U.S. dollars, end of period	996.4	639.1	821.3	659.5	563.6	456.5	368.8	266.3	162.4
In months of following year's imports excluding extractive industries	5.9	5.3	7.7	5.9	5.1	4.1	3.2	2.3	1.4
PPG external debt (percent of GDP) 2/	63.5	74.0	87.6	70.2	76.3	79.3	77.5	75.6	74.6
PPG external debt (percent of GDP)	63.5	74.0	87.6	92.6	99.3	103.9	101.9	100.0	98.5
Money									
Money and quasi-money (percentage change)	13.6	8.6	0.4	3.5	6.0	7.4	8.0	7.7	7.8
Credit to the private sector (percentage change)	11.1	11.2	9.7	1.4	4.4	7.7	9.0	8.7	8.8
Investment and savings									
Gross investment (percentage of GDP)	52.4	49.6	35.6	30.9	30.6	27.9	26.2	27.0	26.5
Gross savings (percentage of GDP)	29.8	21.9	16.2	17.3	14.8	14.7	15.1	15.7	16.0
	(Percent of nonextractive GDP; unless otherwise indicated)								
Central government operations									
Nonextractive revenue and grants	23.3	22.0	28.8	30.6	29.4	28.8	28.2	27.4	27.2
Nonextractive revenue	22.4	21.8	26.9	29.4	28.8	28.2	27.6	26.8	26.7
Expenditure and net lending	34.7	34.2	35.4	33.9	33.9	33.1	32.4	31.4	31.0
Primary balance	0.1	-2.8	-2.5	-0.9	-1.4	-1.8	-1.7	-1.5	-1.4
Overall balance excluding grants	-2.0	-4.1	-5.6	-3.2	-3.5	-4.1	-3.9	-3.8	-3.6
Public sector debt (percent of GDP) 2/	67.8	80.4	93.3	75.7	82.4	85.9	84.6	83.3	81.1
Public sector debt (percent of GDP)	67.8	80.4	93.3	98.1	105.4	110.4	109.1	107.7	105.1
Memorandum items:									
Nominal GDP (in billions of UM)	1,655.6	1,599.0	1,539.2	1,577.5	1648.6	1761.1	1925.5	2093.7	2256.9
Nominal non-oil GDP (in billions of UM)	1,621.1	1,569.9	1,524.0	1,567.1	1635.2	1761.1	1925.5	2093.7	2256.9
Nominal nonextractive GDP (in billions of UM)	1259.1	1,402.6	1,449.7	1,515.7	1623.7	1761.8	1921.5	2090.7	2275.8
Nominal GDP (in millions of U.S. dollars)	5,588.5	5,300.4	4,752.2	4,541.3	4520.1	4598.6	4856.1	5169.2	5455.1
Nominal exchange rate (UM/U.S. dollars)	296.2	301.7	323.9	...	...	...	...	...	...
Price of oil (US$/barrel)	104.1	96.2	50.8	34.8	41.0	44.5	47.6	49.4	50.5
Price of iron ore (US$/Ton)	135.4	96.8	55.2	42.4	35.5	33.8	35.9	35.9	35.9
Price of gold (US$/Ounce)	1,411.1	1,266.2	1,160.1	1,218.6	1230.7	1234.0	1243.0	1254.6	1277.3
Price of copper (US$/Ton)	7,331.5	6,863.4	5,510.5	4,676.9	4693.1	4693.5	4701.5	4717.7	4724.0

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ Debt relief from Kuwait under the HIPC-MDRI is assumed in 2016.

Table 2. Mauritania: Balance of Payments, 2013–21

(in millions of US dollars, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
			Est.			Proj.			
Current account balance	-1,262.0	-1,470.7	-917.4	-618.5	-713.4	-605.7	-538.4	-582.3	-573.5
Trade balance	-392.9	-710.9	-500.6	-206.5	-255.5	-298.3	-297.1	-371.9	-483.6
Exports	2,651.4	1,935.4	1,365.0	1,300.1	1,336.8	1,287.4	1,299.2	1,285.0	1,191.8
Of which: Iron ore	1,358.1	730.7	340.0	350.2	327.9	311.9	332.0	332.0	332.0
Crude oil	216.9	194.8	73.1	80.0	84.2	0.0	0.0	0.0	0.0
Copper	216.3	165.8	195.1	144.8	145.9	146.4	117.9	97.4	0.0
Gold	471.7	407.4	325.3	307.5	328.4	342.2	320.6	298.0	271.7
Fish	329.7	377.5	388.9	368.9	393.1	419.0	444.6	469.9	496.5
Imports, fob	-3044.4	-2646.3	-1865.6	-1506.5	-1592.2	-1585.7	-1596.3	-1656.9	-1675.3
Of which: Food Products	-377.0	-370.5	-395.3	-375.8	-379.5	-387.1	-399.8	-414.7	-430.0
Petroleum products	-633.8	-595.9	-292.1	-203.4	-246.5	-267.7	-281.6	-291.7	-302.1
Capital goods	-1293.8	-954.8	-626.3	-391.8	-409.6	-367.4	-351.7	-384.1	-367.3
Services and income (net)	-1,009.8	-873.5	-563.4	-547.2	-575.6	-426.9	-341.5	-313.3	-212.0
Services (net)	-841.4	-731.0	-398.5	-488.7	-503.7	-382.5	-314.7	-301.2	-242.2
Credit	158.3	168.1	229.5	168.3	173.3	179.5	186.3	193.3	200.6
Debit	-999.8	-899.1	-628.0	-657.0	-677.0	-562.1	-501.0	-494.5	-442.8
Income (net)	-168.4	-142.5	-164.9	-58.6	-71.9	-44.4	-26.8	-12.1	30.2
Credit	147.5	128.7	85.6	164.3	164.9	166.3	164.7	165.9	161.5
Debit	-315.9	-271.1	-250.5	-222.8	-236.8	-210.7	-191.6	-177.9	-131.3
Current transfers (net)	140.8	113.7	146.6	135.2	117.7	119.5	100.2	102.9	122.0
Private unrequited transfers (net)	56.9	49.8	65.2	67.2	69.6	72.3	75.1	77.9	97.0
Official transfers	57.3	7.9	62.0	48.7	28.8	27.9	25.1	25.1	25.1
Capital and financial account	1,569.6	1,222.6	898.4	481.9	646.5	592.4	547.3	574.8	572.4
Capital account	4.8	16.0	31.1	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1,564.8	1,206.6	867.3	481.9	646.5	592.4	547.3	574.8	572.4
Direct investment (net)	1,126.0	501.9	522.5	271.8	301.2	351.5	378.2	426.7	424.9
Official medium- and long-term loans	103.9	175.3	173.6	126.4	255.8	194.5	160.1	147.8	155.2
Disbursements	176.4	256.8	270.4	243.6	398.6	418.3	405.0	413.5	420.0
Amortization	72.5	81.5	96.7	117.2	142.8	223.8	244.9	265.7	264.9
SNIM medium- and long-term loans	112.1	-51.5	-66.0	-8.2	-10.5	-43.6	-61.0	-59.7	-57.7
Other financial flows	222.8	581.0	237.1	92.0	100.0	90.0	70.0	60.0	50.0
Of which: Change in deposits held abroad by SNIM	-76.2	420.8	184.6	42.0	60.0	60.0	40.0	30.0	20.0
Other credit financing	299.0	160.2	52.5	50.0	40.0	30.0	30.0	30.0	30.0
Errors and omissions	-291.3	-61.3	-121.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	16.3	-309.4	-140.6	-136.5	-66.8	-13.3	8.9	-7.5	-1.2
Financing	-16.3	309.4	140.6	136.5	66.8	13.3	-8.9	7.5	1.2
Net foreign assets	-27.3	298.8	134.7	136.5	66.8	13.3	-8.9	7.5	1.2
Central bank (net)	-29.2	312.1	102.7	148.5	78.8	25.3	3.1	19.5	13.2
Assets (negative value implies accumulation of reserves)	-36.9	326.1	-182.1	161.8	95.9	107.0	87.8	102.5	103.9
Liabilities	7.7	-14.0	284.8	-13.2	-17.1	-81.7	-84.6	-83.0	-90.7
Commercial banks (net)	5.8	-17.6	15.7	-12.0	-12.0	-12.0	-12.0	-12.0	-12.0
Oil account flow	-3.9	4.3	16.3	29.5	0.9	12.7	12.5	4.9	5.0
Exceptional financing 1/	11.0	10.6	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Debt forgiveness	0.0	0.0	0.0	993.9	0.0	0.0	0.0	0.0	0.0
Cancellation of arrears	0.0	0.0	0.0	-993.9	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP (in millions U.S. dollars)	5,588.5	5,300.4	4,752.2	4,541.3	4,520.1	4,598.6	4,856.1	5,169.2	5,455.1
Current account balance (in percent of GDP)	-22.6	-27.7	-19.3	-13.6	-15.8	-13.2	-11.1	-11.3	-10.5
Trade balance (in percent of GDP)	-7.0	-13.4	-10.5	-4.5	-5.7	-6.5	-6.1	-7.2	-8.9
Total external financing requirements (in percent of GDP)	24.4	30.5	22.7	17.7	20.4	19.5	17.4	17.6	16.4
Net international reserves (in millions of U.S. dollars)	988.7	653.1	536.4	387.9	309.1	283.7	280.6	261.1	247.9
Gross official reserves									
In millions of U.S. dollars	996.4	639.1	821.3	659.5	563.6	456.5	368.8	266.3	162.4
In months of imports excluding extractive industries	5.9	5.3	7.7	5.9	5.1	4.1	3.2	2.3	1.4
Oil account	97.1	92.8	76.6	47.1	46.2	33.4	20.9	16.1	11.1

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

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

Table 3. Mauritania: Central Government Operations, 2013–21

(In billions of UM, unless otherwise indicated)

	2013	2014	2015	2016	2016	2017	2018	2019	2020	2021
	Est.	Est.	Est.	LFI			Proj.			
Total revenues and grants	422.7	424.0	460.2	451.7	482.3	505.3	522.3	558.2	588.9	635.9
Nonextractive revenue and grants	293.0	308.2	417.8	418.4	463.6	478.1	508.1	542.1	572.3	618.2
Nonextractive revenue	281.7	306.1	389.5	404.9	446.3	466.9	496.3	531.1	561.3	607.2
Tax revenue	203.8	231.4	245.6	297.2	305.7	323.1	347.4	376.2	398.2	432.0
Nontax revenue	77.9	74.7	144.0	107.7	140.6	143.8	148.9	154.9	163.1	175.1
Total grants	11.3	2.2	28.3	13.5	17.3	11.2	11.8	11.0	11.0	11.0
Of which: Projects	1.8	1.6	7.8	9.8	9.8	9.6	10.1	10.0	10.0	10.0
Extractive revenue	129.7	115.8	42.4	33.3	18.7	27.2	14.2	16.2	16.5	17.7
Net revenue from oil	20.7	24.1	13.2	19.5	9.0	11.7	0.0	0.0	0.0	0.0
Mining revenue	108.9	91.7	29.2	13.8	9.7	15.5	14.2	16.2	16.5	17.7
Expenditure and net lending	436.7	479.1	513.7	476.1	513.2	550.2	582.4	622.9	656.9	706.5
Current expenditure	267.2	287.6	290.9	278.7	293.2	306.7	327.9	354.7	381.5	414.6
Compensation of employees	103.7	110.4	119.4	121.9	123.4	130.9	138.4	149.7	161.2	175.3
Goods and services	60.1	64.7	62.4	61.8	61.8	64.9	68.7	73.0	77.4	83.4
Subsidies and transfers 1/	70.2	72.5	67.8	61.7	65.2	66.7	69.8	74.4	79.2	87.1
Of which: Emergency program	12.3	18.0	21.0		22.6	23.7	25.0	26.3	27.6	29.0
Energy subsidies	14.1	14.0	6.9		4.0	4.0	4.0	4.0	4.0	4.0
Arrears repayments	13.3	3.6	3.6		3.6	0.0	0.0	0.0	0.0	0.0
Interest	15.7	15.8	17.8	16.3	17.8	22.3	27.6	32.1	36.1	38.9
External	12.0	11.9	12.7	12.3	14.3	17.4	21.7	25.2	28.2	30.7
Domestic	3.6	3.9	5.1	4.0	3.5	4.8	5.9	6.9	7.9	8.2
Special accounts and others 2/	6.5	10.3	3.2	4.1	4.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure	169.6	191.5	219.9	197.3	220.0	243.4	254.6	268.1	275.4	291.9
Foreign-financed investment	48.7	57.9	78.2	59.0	81.8	101.8	112.1	112.4	117.2	121.6
Domestically financed investment	120.9	133.6	141.7	138.3	138.3	141.7	142.4	155.7	158.2	170.3
Restructuring and net lending	0.0	0.0	2.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Common reserves	10.7	11.3	11.9	12.9	12.2	12.8	13.6	14.9	16.2	17.5
Primary balance	1.6	-39.3	-35.7	-8.1	-13.1	-22.6	-32.6	-32.6	-32.0	-31.7
Overal balance excluding grants (deficit -)	-25.4	-57.2	-81.8	-37.9	-48.2	-56.1	-72.0	-75.6	-79.0	-81.6
Overall balance including grants (deficit -)	-14.1	-55.1	-53.5	-24.4	-30.9	-44.9	-60.2	-64.6	-68.0	-70.6
Financing	14.1	55.1	53.5	24.4	30.9	44.9	60.2	64.6	68.0	70.6
Domestic financing	-5.5	11.0	-1.2	-13.5	-1.0	15.1	16.8	26.3	22.2	24.5
Banking system	58.1	50.0	12.2	-13.5	4.0	10.1	11.8	19.3	15.2	17.5
Treasury account	83.7	49.2	36.9	-3.5	-1.0	2.1	1.8	4.3	0.2	1.5
Commercial banks	-25.6	0.9	-24.7	0.0	5.0	8.0	10.0	15.0	15.0	16.0
Nonbanks	8.3	5.3	8.9	-10.0	-5.0	5.0	5.0	7.0	7.0	7.0
Privatization and other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-5.5	-8.8	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits accounts balances	-74.8	-31.4	7.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	25.8	50.2	57.2	3.2	32.0	29.8	43.3	38.4	45.8	46.1
Oil account (net)	-1.3	0.8	4.8	-2.5	10.5	0.3	5.0	5.0	2.0	2.1
Net revenue from oil (net)	-20.7	-24.1	-13.2	-17.5	-9.0	-11.7	0.0	0.0	0.0	0.0
Oil account contribution to the budget	19.4	25.0	18.0	15.0	19.5	12.0	5.0	5.0	2.0	2.1
Other (net)	27.1	49.3	52.3	5.7	21.5	29.5	38.3	33.4	43.8	44.0
Net borrowing (net)	23.8	46.1	48.4	5.7	21.5	29.5	38.3	33.4	43.8	44.0
Disbursements	46.9	69.9	77.0	49.1	58.5	76.5	90.3	87.3	101.3	98.2
Amortization	-23.1	-23.9	-28.3	-43.4	-37.0	-47.0	-51.9	-53.9	-57.4	-54.2
Exceptional financing	3.7	3.1	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap (projection period	-6.2	-6.1	-2.5	34.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Real growth rate of public expenditure	-2.5	5.7	6.7	-10.7	-3.8	2.2	0.5	1.6	0.3	2.3
Current expenditure	-7.6	2.3	0.4	-4.5	-1.7	-0.2	0.9	1.6	1.3	2.0
Capital expenditure	5.2	3.5	6.3	-6.2	-2.1	2.3	-0.3	0.0	-1.0	0.3
Overall balance excluding grants and FAID (deficit -)	-25.4	-63.8	-125.6	-52.4	-92.0	-99.9	-115.8	-119.5	-122.8	-125.4
Nonextractive balance excluding grants (deficit -)	-155.1	-173.0	-124.2	-71.2	-66.9	-83.3	-86.1	-91.8	-95.6	-99.3
Non-extractive balance including grants (deficit -)	-143.8	-170.9	-95.9	-57.7	-49.6	-72.1	-74.3	-80.8	-84.6	-88.3
Basic budget balance (excl. grants) 3/	23.3	0.6	-3.6	21.1	33.6	45.7	40.2	36.8	38.2	40.0
Basic budget balance (incl. grants) 3/	34.6	2.8	24.7	34.6	50.9	56.9	52.0	47.8	49.2	51.0

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

1/ Including transfers to public entities outside the central government. For 2012, it also includes payments

2/ These include the development fund (FAID).

3/ Overall balance excluding foreign-financed investment expenditure.

Table 4. Mauritania: Central Government Operations, 2013–21

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

	2013	2014	2015	2016	2016	2017	2018	2019	2020	2021
	Est.	Est.	Est.	LFI			Proj.			
Total revenues and grants	33.6	30.2	31.7	29.8	31.8	31.1	29.6	29.1	28.2	27.9
Nonextractive revenue and grants	23.3	22.0	28.8	27.6	30.6	29.4	28.8	28.2	27.4	27.2
Nonextractive revenue	22.4	21.8	26.9	26.7	29.4	28.8	28.2	27.6	26.8	26.7
Tax revenue	16.2	16.5	16.9	19.6	20.2	19.9	19.7	19.6	19.0	19.0
Nontax revenue	6.2	5.3	9.9	7.1	9.3	8.9	8.5	8.1	7.8	7.7
Total grants	0.9	0.2	2.0	0.9	1.1	0.7	0.7	0.6	0.5	0.5
Of which: Projects	0.1	0.1	0.5	0.6	0.6	0.6	0.6	0.5	0.5	0.4
Extractive revenue	10.3	8.3	2.9	2.2	1.2	1.7	0.8	0.8	0.8	0.8
Net revenue from oil	1.6	1.7	0.9	1.3	0.6	0.7	0.0	0.0	0.0	0.0
Mining revenue	8.7	6.5	2.0	0.9	0.6	1.0	0.8	0.8	0.8	0.8
Expenditure and net lending	34.7	34.2	35.4	31.4	33.9	33.9	33.1	32.4	31.4	31.0
Current expenditure	21.2	20.5	20.1	18.4	19.3	18.9	18.6	18.5	18.2	18.2
Compensation of employees	8.2	7.9	8.2	8.0	8.1	8.1	7.9	7.8	7.7	7.7
Goods and services	4.8	4.6	4.3	4.1	4.1	4.0	3.9	3.8	3.7	3.7
Subsidies and transfers 1/	5.6	5.2	4.7	4.1	4.3	4.1	4.0	3.9	3.8	3.8
Of which: Emergency program	1.0	1.3	1.4		1.5	1.5	1.4	1.4	1.3	1.3
Energy subsidies	1.1	1.0	0.5		0.3	0.2	0.2	0.2	0.2	0.2
Arrears repayments	1.1	0.3	0.2		0.2	0.0	0.0	0.0	0.0	0.0
Interest	1.2	1.1	1.2	1.1	1.2	1.4	1.6	1.7	1.7	1.7
External	1.0	0.8	0.9	0.8	0.9	1.1	1.2	1.3	1.3	1.4
Domestic	0.3	0.3	0.4	0.3	0.2	0.3	0.3	0.4	0.4	0.4
Special accounts and others 2/	0.5	0.7	0.2	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Capital expenditure	13.5	13.7	15.2	13.0	14.5	15.0	14.4	14.0	13.2	12.8
Foreign-financed investment	3.9	4.1	5.4	3.9	5.4	6.3	6.4	5.9	5.6	5.3
Domestically financed investment	9.6	9.5	9.8	9.1	9.1	8.7	8.1	8.1	7.6	7.5
Restructuring and net lending	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Common reserves	0.9	0.8	0.8		0.8	0.8	0.8	0.8	0.8	0.8
Primary balance	0.1	-2.8	-2.5	-0.5	-0.9	-1.4	-1.8	-1.7	-1.5	-1.4
Overall balance excluding grants (deficit -)	-2.0	-4.1	-5.6	-2.5	-3.2	-3.5	-4.1	-3.9	-3.8	-3.6
Overall balance including grants (deficit -)	-1.1	-3.9	-3.7	-1.6	-2.0	-2.8	-3.4	-3.4	-3.3	-3.1
Financing	1.1	3.9	3.7	1.6	2.0	2.8	3.4	3.4	3.3	3.1
Domestic financing	-0.4	0.8	-0.1	-0.9	-0.1	0.9	1.0	1.4	1.1	1.1
Banking system	4.6	3.6	0.8	-0.9	0.3	0.6	0.7	1.0	0.7	0.8
Treasury account	6.6	3.5	2.5		-0.1	0.1	0.1	0.2	0.0	0.1
Commercial banks	-2.0	0.1	-1.7	0.0	0.3	0.5	0.6	0.8	0.7	0.7
Nonbanks	0.7	0.4	0.6	-0.7	-0.3	0.3	0.3	0.4	0.3	0.3
Privatization and other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears	-0.4	-0.6	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in deposits accounts balances	-5.9	-2.2	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	2.0	3.6	3.9	0.2	2.1	1.8	2.5	2.0	2.2	2.0
Oil account (net)	-0.1	0.1	0.3	-0.2	0.7	0.0	0.3	0.3	0.1	0.1
Net revenue from oil (net)	-1.6	-1.7	-0.9	-1.2	-0.6	-0.7	0.0	0.0	0.0	0.0
Oil account contribution to the budget	1.5	1.8	1.2	1.0	1.3	0.7	0.3	0.3	0.1	0.1
Other (net)	2.2	3.5	3.6	0.4	1.4	1.8	2.2	1.7	2.1	1.9
Net borrowing (net)	1.9	3.3	3.3	0.4	1.4	1.8	2.2	1.7	2.1	1.9
Disbursements	3.7	5.0	5.3	3.2	3.9	4.7	5.1	4.5	4.8	4.3
Amortization	-1.8	-1.7	-2.0	-2.9	-2.4	-2.9	-2.9	-2.8	-2.7	-2.4
Exceptional financing	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap (projections)	-0.5	-0.4	-0.2	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Overall balance excluding grants and FAID (deficit -)	-2.0	-4.5	-8.7	-3.5	-6.1	-6.2	-6.6	-6.2	-5.9	-5.5
Nonextractive balance excluding grants (deficit -)	-12.3	-12.3	-8.6	-4.7	-4.4	-5.1	-4.9	-4.8	-4.6	-4.4
Non-extractive balance including grants (deficit -)	-11.4	-12.2	-6.6	-3.8	-3.3	-4.4	-4.2	-4.2	-4.0	-3.9
Overall balance (in percent of GDP)	-0.9	-3.4	-3.5	-1.5	-2.0	-2.7	-3.4	-3.4	-3.2	-3.1
Basic budget balance (excl. grants) 3/	1.9	0.0	-0.2	1.4	2.2	2.8	2.3	1.9	1.8	1.8
Basic budget balance (incl. grants) 3/	2.7	0.2	1.7	2.3	3.4	3.5	3.0	2.5	2.4	2.2

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

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

2/ These include the development fund (FAID).

3/ Overall balance excluding foreign-financed investment expenditure.

Table 5. Mauritania: Monetary Situation, 2013–18
(In billions of ouguiyas at end-of-period exchange rates, unless otherwise indicated)

	2013	2014	2015	2016	2017	2018
	Est.	Est.	Est.		Proj.	
Monetary survey						
Net foreign assets	196.7	108.1	78.0	36.5	13.3	8.8
Net domestic assets	273.0	402.1	434.1	493.3	548.3	594.4
Net domestic credit	522.6	618.2	664.1	688.8	720.7	772.3
Net credit to the government	124.2	175.3	178.4	196.3	206.4	218.2
Credit to the economy	398.4	443.0	485.7	492.5	514.3	554.1
Other items net	-249.6	-216.1	-230.0	-195.5	-172.4	-177.9
Broad money	469.7	510.2	512.1	529.7	561.6	603.1
Monetary authorities						
Net foreign assets	220.0	126.1	101.9	54.1	27.4	18.8
Net domestic assets	10.9	101.0	118.8	174.2	214.7	241.1
Net domestic credit	96.6	142.7	167.0	180.0	182.0	183.8
Net credit to the government	91.8	138.1	162.3	175.3	177.4	179.2
Other items net	-85.8	-41.8	-48.2	-5.8	32.6	57.3
Reserve money	230.8	227.0	220.7	228.3	242.0	259.9
Currency in circulation	132.7	130.9	129.7	134.1	142.2	152.7
Reserves of banks	98.1	96.1	91.0	94.1	99.8	107.2
Of which: Banks deposits in FX	27.1	28.5	20.8	21.5	22.8	24.5
Commercial banks						
Net foreign assets	-23.3	-18.0	-23.9	-17.6	-14.0	-10.0
Net domestic credit	426.3	475.5	497.1	508.8	538.6	588.4
Net credit to the government	32.3	37.1	16.0	21.0	29.0	39.0
Credit to the private sector	394.0	438.4	481.1	487.8	509.6	549.4
Other items net	-163.8	-174.4	-181.8	-95.6	-105.2	-128.0
Memorandum items:						
Velocity of broad money	3.5	3.1	3.0	3.0	2.9	2.9
Velocity of broad money (GDP excluding extractive	2.7	2.7	2.8	2.9	2.9	2.9
Credit to the private sector (percent of non extractive GDP)	31.3	31.3	33.2	32.2	30.9	31.2
Net foreign assets of banks (in millions of U.S. dollars)	-78.0	-61.6	-61.6	-49.6	-37.6	-25.6

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

Table 6. Mauritania: Banking Soundness Indicators, 2008–15

(In percent, unless otherwise indicated)

	2008	2009	2010	2011	2012	2013	2014	2015 Prel.
Balance sheet								
Assets / GDP	32.0	35.3	31.1	30.9	32.5	35.2	42.5	43.2
Net private-sector credit / total assets	56.6	51.1	53.2	48.2	50.8	52.1	55.5	...
Public enterprise credit / total assets	15.0	13.1	13.3	10.2	7.2	3.4	6.9	3.3
Government securities / total assets	17.2	16.0	18.8	11.1	11.2	5.8	5.8	2.0
Private-sector credit growth (y-o-y)	23.6	4.0	16.0	10.6	15.1	14.9	21.3	8.0
Gross NPLs / gross loans	n.a.	n.a.	45.3	39.2	25.7	20.4	23.9	27.6 [2/]
Of which: accrued interest on NPLs / gross loans	n.a.	n.a.	11.6	11.5	8.3	7.1	...	...
Of which: legacy NPLs (pre-2010) / gross loans	n.a.	n.a.	16.7	13.7	13.8	12.8	...	...
Of which: new NPLs / gross loans	n.a.	n.a.	17.0	14.1	3.6	0.5	...	...
Provisions / (gross NPLs - accrued interest)	n.a.	n.a.	30.0	31.2	53.1	52.9	52.5	...
Provisions / loans 360+ days in arrears	84.1	85.2	87.7	90.7	88.0	88.8	87.0	...
Uncovered loans 360+ days in arrears / gross loans	84.1	85.2	87.7	90.7	88.0	88.8	87.0	...
Deposits / total assets	55.5	57.4	59.3	60.9	59.1	57.8	61.0	...
Private-sector gross loans / private-sector deposits	127.4	115.3	118.4	105.9	110.7	113.7	137.7	134.1
Capital ratios								
Capital / total assets	16.9	16.7	16.7	18.5	17.5	18.7	14.7	13.7
Capital adequacy ratio	33.0	38.2	34.0	35.2	29.2	32.4	28.1	23.1
Foreign exchange exposure								
Fx assets / total assets	9.3	13.9	10.5	10.5	10.5	10.6	10.5	6.7
Fx assets / fx liabilities (on balance sheet)	75.0	123.7	112.1	135.2	100.1	106.6	138.6	108.2
Open fx position / capital (including off balance sheet)	-19.1	5.0	-16.0	-32.7	...	...	...	...
Profitability and liquidity								
Return on assets	1.9	1.4	0.4	1.2	1.4	2.0	1.9	...
Return on equity	10.7	8.5	2.7	6.0	8.4	8.7	10.7	...
Liquid assets / total assets 1/	30.9	29.8	29.5	29.7	29.8	24.0	23.5	21.4
Memorandum items:								
Share of assets held by three largest banks	53.4	53.6	53.7	50.7	45.4	42.3	45.7	42.0
Number of banks	10	10	10	12	12	15	15	16
Bank private-sector credit / GDP	23.3	24.2	22.5	20.5	22.1	23.8	26.6	29.4

Sources: Mauritanian authorities; and IMF staff.

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

2/ The ratio is estimated at 20.3 percent when acccounting for the expected transfer of NPLs out of balance sheets.

Table 7. Mauritania: Selected Economic Indicators for the Medium Term, 2012–21

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Est.	Est.	Est.	Est.			Proj.			
	(In percent; unless otherwise indicated)									
National income and prices (y-o-y growth)										
GDP at constant prices	5.8	6.4	6.6	1.9	4.1	3.9	1.7	3.8	3.9	3.2
Nonextractive GDP at constant prices	7.3	8.0	6.6	3.1	2.9	3.3	4.0	4.3	4.4	4.4
Iron ore production (tons)	11.2	12.5	13.3	11.6	15.2	17.0	17.0	17.0	17.0	17.0
GDP deflator	1.0	0.3	-9.4	-5.5	-1.6	0.6	5.1	5.3	4.6	4.5
GDP excluding extractive industries deflator	9.5	1.8	4.5	0.3	1.6	3.7	4.4	4.5	4.2	4.3
Consumer price index (period average)	4.9	4.1	3.8	0.5	3.8	4.9	5.3	5.3	5.1	5.1
Consumer price index (end of period)	3.4	4.5	5.0	-2.8	3.8	4.9	5.3	5.3	5.1	5.1
External sector										
Value growth of exports of goods, f.o.b.	-4.9	0.4	-27.0	-29.5	-4.8	2.8	-3.7	0.9	-1.1	-7.3
Value growth of imports of goods, f.o.b.	28.5	-4.0	-13.1	-29.5	-19.2	5.7	-0.4	0.7	3.8	1.1
Current account balance (in percent of GDP)	-24.2	-22.6	-27.7	-19.3	-13.6	-15.8	-13.2	-11.1	-11.3	-10.5
Gross official reserves 1/										
In millions of U.S. dollars, end of period	961.9	996.4	639.1	821.3	659.5	563.6	456.5	368.8	266.3	162.4
In months of following year's imports excluding extractive i	6.8	5.9	5.3	7.7	5.9	5.1	4.1	3.2	2.3	1.4
PPG external debt (percent of GDP) 2/	68.1	63.5	74.0	87.6	70.2	76.3	79.3	77.5	75.6	74.6
Money										
Money and quasi-money (percentage change)	10.5	13.6	8.6	0.4	3.5	6.0	7.4	8.0	7.7	7.8
Credit to the private sector (percentage change)	14.6	11.1	11.2	9.7	1.4	4.4	7.7	9.0	8.7	8.8
Investment and savings										
Gross investment (percentage of GDP)	58.8	52.4	49.6	35.6	30.9	30.6	27.9	26.2	27.0	26.5
Gross savings (percentage of GDP)	35.1	29.8	21.9	16.2	17.3	14.8	14.7	15.1	15.7	16.0
	(In percent of nonextractive GDP; unless otherwise indicated)									
Consolidated government operations										
Nonextractive revenue and grants	26.9	23.3	22.0	28.8	30.6	29.4	28.8	28.2	27.4	27.2
Nonextractive revenue	21.0	22.4	21.8	26.9	29.4	28.8	28.2	27.6	26.8	26.7
Expenditure and net lending	37.6	34.7	34.2	35.4	33.9	33.9	33.1	32.4	31.4	31.0
Nonextractive balance excluding grants	-16.6	-12.3	-12.3	-8.6	-4.4	-5.1	-4.9	-4.8	-4.6	-4.4
Basic non-oil balance 3/	0.5	0.9	-0.7	-0.3	2.5	3.1	3.5	3.2	3.2	3.1
Overall balance including grants	3.1	-1.1	-3.9	-3.7	-2.0	-2.8	-3.4	-3.4	-3.3	-3.1
Public sector debt (percent of GDP) 2/	73.5	67.8	80.4	93.3	75.7	82.4	85.9	84.6	83.3	81.1
Memorandum items:										
Nominal GDP (in billions of UM)	1,551.7	1,655.6	1,599.0	1,539.2	1,577.5	1,648.6	1,761.1	1,925.5	2,093.7	2,256.9
Nominal GDP (in millions of U.S. dollars)	5,225.5	5,588.5	5,300.4	4,752.2	4,541.3	4,520.1	4,598.6	4,856.1	5,169.2	5,455.1
GDP per capita (in U.S. dollars)	1,513.1	1,579.9	1,463.6	1,282.3	1,197.1	1,164.5	1,158.4	1,196.5	1,246.4	1,286.6
Price of oil (US$/barrel)	105.0	104.1	96.2	50.8	34.8	41.0	44.5	47.6	49.4	50.5
Price of iron ore (US$/Ton)	128.5	135.4	96.8	55.2	42.4	35.5	33.8	35.9	35.9	35.9
Price of gold (US$/Ounce)	1,668.8	1,411.1	1,266.2	1,160.1	1,218.6	1,230.7	1,234.0	1,243.0	1,254.6	1,277.3
Price of copper (US$/Ton)	7,958.9	7,331.5	6,863.4	5,510.5	4,676.9	4,693.1	4,693.5	4,701.5	4,717.7	4,724.0

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

1/ Excluding the oil account.

2/ HIPC debt relief from Kuwait is programmed to take place at end-2014.

3/ Previous program definition in percent of non-oil GDP. Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-

Table 8. Mauritania's FSAP (2014): Main Recommendations and Progress

Recommendations and Authority Responsible for Implementation	Timeframe 1/	Status
Central Bank		
Adoption of the Banking Act giving more legal protection to decisions made as part of the exercise of the BCM's powers.	Near-term	In preparation
Adoption of the Act concerning the BCM's charter, bolstering its independence, responsibilities and transparency.	Near/Medium term	In preparation
Parliamentary approval of the 2013 agreement on the BCM's claims on the government.	Near-term	No progress
Financial stability		
Issuance of a timeline in which scheduled auction dates for Treasury bills are separate from those for Treasury bonds.	Immediate	No progress
Quarterly updates of monetary programming tables, setting out medium-term monetary objectives.	Medium-term	No progress
Gradual securitization of the stock of the BCM's claims on the government, using marketable securities that would extend the yield curve.	Medium-term	No progress
Increase the quality and reliability of data gathered by the bank's supervisor.	Near-/Medium term	In progress
Ensure strict compliance with the new instruction issued in June 2014 concerning loan classification and provisioning.	Immediate	In progress
Foreign exchange markets		
Adopting an instruction concerning systematic field audits for banks by applying the foreign currency regulation (authentication of the request, application of the upper limit of USD 100,000).	Immediate	Partially done, the BCM is reinforcing compliance with FX operations requirements
Adopting an instruction on non-compliance with FX regulations, and applying penalties with repeated violations, including suspension of participation in FX auctions on the fixing market (after two warnings).	Immediate	Partially done
Eliminate all penalties and commissions applied to foreign exchange auctions.	Near-term	Partially done (commissions are still applied)
Adopt a multiple-rate auction system with a benchmark rate (corridor d'appel d'offres).	Near-term	Not done
Non-banking financial institutions (MFIs, pensions, insurance)		
Encourage the setup of insurance companies with good reputation.	Medium-term	No progress
Transfer auditing and surveillance of the CDD and insurance companies to the BCM.	Medium-term	Still pending for the CDD
Supervision and oversight		
Publication of the financial statements of banks audited by the BCM each end June after the year end.	Medium-term	No progress
Establish a qualification approval system by the BCM for auditors, based on objective and known criteria.	Medium-term	In preparation, envisaged under the draft banking law
Implementation, without suspensions, of the regulation in place on loans to related parties and application of sanctions in cases of infractions.	Immediate	Not done. Gradual implementation
Crisis Management and Bank Resolution		
Approval of the legal and regulatory framework on banking resolution.	Immediate	In progress
A contribution increase of banks to the Deposits Guarantee Fund (to attain at least MRO 6 billion in 3 years).	Near-term	No progress

1/ "Immediate" refers to within one year; "near-term" is 1–3 years; "medium-term" is 3–5 years.

Annex I. Mauritania: Implementation Status of the Main 2014 Article IV Recommendations

Mauritania's 2014 Article IV policy recommendations were focused on ensuring fiscal sustainability, strengthening the monetary policy and the bank resolution frameworks, and building the foundations for solid private sector led growth through economic diversification and inclusive growth. Progress in implementing the recommendations has been mixed.

Recommendations	Implementation Status
Fiscal Policy **Framework for managing the mining wealth**	*Partial progress.* No advances in anchoring fiscal policy to non-mining revenues and adopting a fiscal framework for managing mining wealth. However, pending approval, a revised draft of the organic budget law incorporating provision for a stabilization fund has been prepared.
Fiscal consolidation to support fiscal sustainability	*No progress*. Lower mining revenues due to the persistent ToT shock and sustained public investment spending has deteriorated the 2015 fiscal position.
Debt sustainability	*No progress*. Risk of debt distress remains high, macroeconomic outlook has deteriorated with the ToT shock, and the authorities had recourse to more debt to weather the shock mostly on non-concessional terms.
Monetary and Financial Policies	
Strengthen monetary policy formulation	*No progress*
Liberalize the foreign exchange market to achieve greater exchange rate flexibility.	*Partial Progress.* The authorities introduced some flexibility in determination of the exchange rate by establishing a crawl-like exchange rate arrangement.. It remains heavily managed, and has not played the role of a shock absorber.
Introduce liquidity support and banking resolution frameworks	*Partial progress.* A draft of the banking law is under finalization. The passing of the law will represent a fundamental step to strengthen the operational framework of the Central Bank
Structural reforms **Accelerate the reforms for economic diversification and inclusive growth**	*Progress.* The authorities have initiated a diversification of the economic base by supporting the development of new areas (fishing, agriculture, and livestock) in which they have identified sectoral comparative advantage. They also improved the business environment to address structural weaknesses by eliminating the minimum capital requirement, reducing the time for documentary and border compliance for importing; and expanding borrower coverage in the credit registry.

Annex II. Mauritania: Debt Dynamics and Fiscal Risks

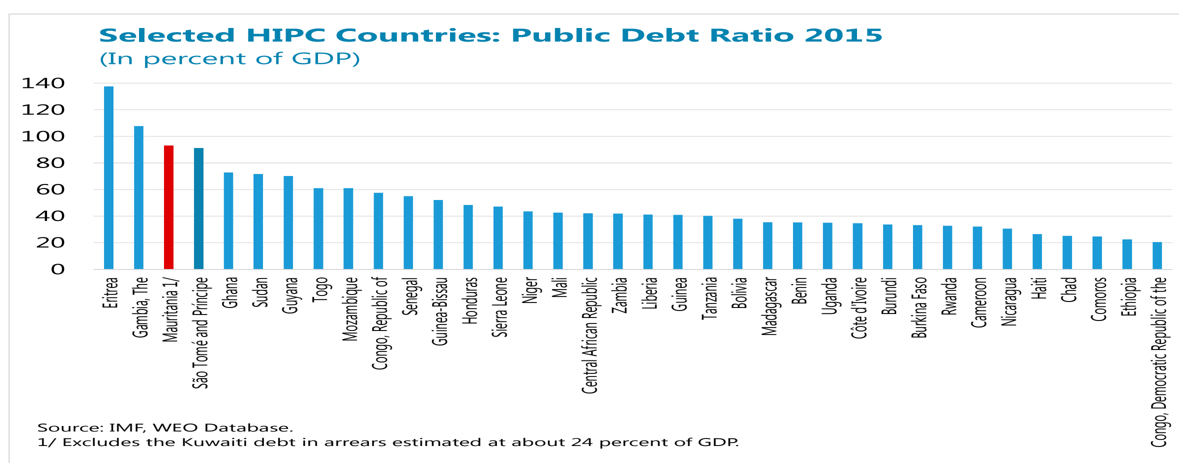
This note analyzes recent trends and vulnerabilities associated with Mauritania's public debt. In addition to the high level of debt and debt service due over the medium term, vulnerabilities arise from elevated exposure to US dollar developments and regional lenders (mostly oil exporters). In addition, potential fiscal risks could emanate from the state enterprises and other public entities.

A. Public Debt Coverage and Institutional Arrangement

1. Mauritania's public debt includes that of the central government, state-owned enterprises (SOEs) and the central bank. Public debt is mostly external debt (97 percent of total public debt), and domestic debt is small (3 percent). The external debt is medium to long term foreign-currency loans contracted by the central government and the central bank. The central government also contracts external debt on behalf of all the SOEs except the mining company SNIM which borrows without explicit government guarantee.[1] SOEs' debt is dominated largely by the power company SOMELEC. Domestic public debt is short term and is composed of treasury bills held by banks and non-banks, but excludes SOEs' liabilities towards domestic banks.

B. Current Trends

2. Mauritania's debt level is high when compared to other countries that received HIPC and MDRI debt relief. Lower debt relief from non-Paris Club creditors (NPCs) and recent rapid new borrowing to close infrastructure gaps explain the high debt level. Since 2014, debt dynamics have deteriorated, following unfavorable revisions to the macroeconomic outlook emanating from the persistent terms-of-trade shock. Institutional capacity for debt management remains limited. Mauritania is now one of 12 low-income countries with high risk of debt distress according to the latest IMF-WB assessment.[2]

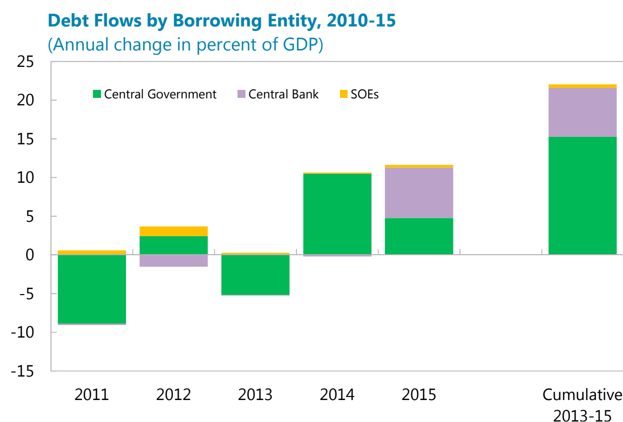


Source: IMF, WEO Database.
1/ Excludes the Kuwaiti debt in arrears estimated at about 24 percent of GDP.

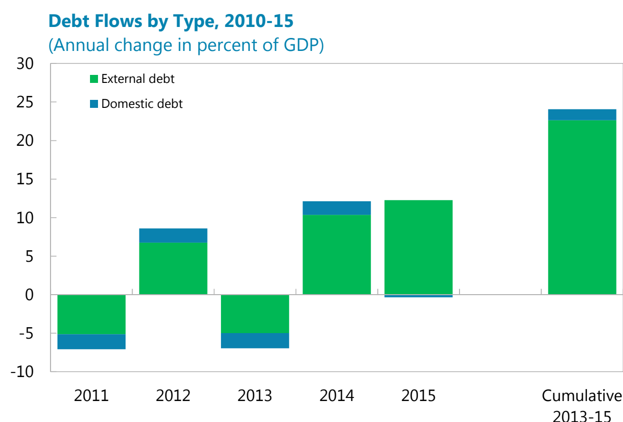
[1] SNIM is the largest SOE with over 70 percent government participation and is commercially managed.

[2] See "Debt Sustainability Analysis" for Mauritania.

3. Public debt has grown markedly since early 2014. Public debt level has risen rapidly—by 22.2 percent of GDP—owing to borrowing by the central government (15.3 percentage points of GDP in 2014–15) and the central bank (6.3 percentage points of GDP in 2015). The central government resorted partly to external debt financing to tackle their sizeable infrastructure gaps, while the central bank use the external financing to boost its gross reserve position following the persistent ToT shock.



Source: Mauritanian authorities.

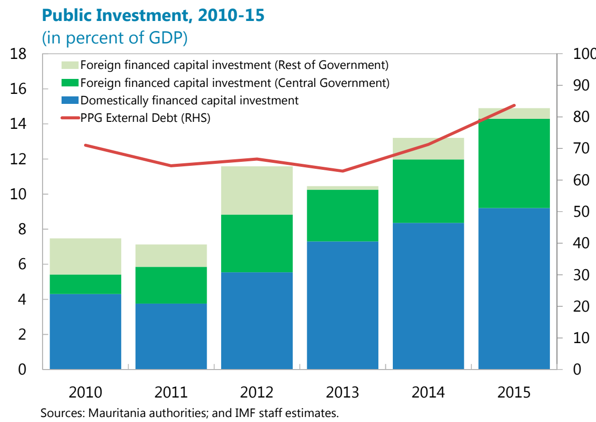


Source: Mauritanian authorities.

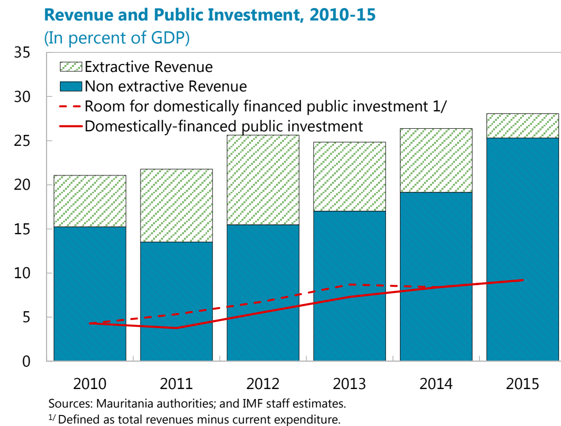
4. The scaling-up on public investment has allowed to address sizable infrastructure gaps. Since 2011, to boost potential growth and diversify their economy, the authorities started to proactively improve roads, power supply, arable lands and water distribution networks. Over 2009–15, they have achieved notable advances such as increasing the access to potable water from 45 to 68 percent, augmenting the power supply from 44 to over 400 megawatts, extending the road networks from 2,720 to 4,600 km, increasing arable land by about 200 percent and agricultural production by 90 percent. Public investment increased from 7.5 to 15 percent of GDP during 2010–15 financed with both domestic and external resources.

- Domestically-financed investment, representing on average 60 percent of the public investment program, has been fueled by significant domestic revenues from high iron ore prices, improved tax collection, and lately from lack of adjustment of domestic energy prices. The authorities have used all the room for domestically-financed public investment since 2014 (measured by the difference between total revenues minus current expenditures). Going forward, sustaining this level of domestic financing will require sustaining non-extractive revenues and streamlining current expenditures.

- As for the foreign financed investment, it grew to 5.7 percent of GDP in 2015 from 3.2 percent in 2010.

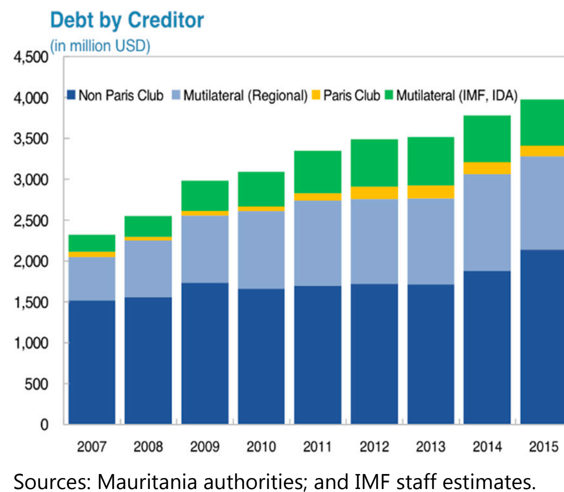


Sources: Mauritania authorities; and IMF staff estimates.



Sources: Mauritania authorities; and IMF staff estimates.
1/ Defined as total revenues minus current expenditure.

5. Official borrowing from Non-Paris Club Creditors (NPCs) has increased markedly. Mauritania shares similar trends with other LIC commodity exporters which experienced a higher non-concessional borrowing from NPCs to finance their developmental financing needs. In recent years, Mauritania has increased its borrowing from non-Paris Club bilateral creditors (mainly Saudi Arabia, Kuwait and China) and regional Arab multilateral institutions. In 2015, Mauritania borrowed mainly from Saudi Arabia, Kuwait, India and China to finance its investment program and support reserves. As noted in a recent board paper, Mauritania shares similar trends with other LICs which experienced a higher non concessional borrowing from NPCs to cover their developmental financing needs. [3]



Sources: Mauritania authorities; and IMF staff estimates.

C. Contributing Factors to Debt Dynamics, 2010–15

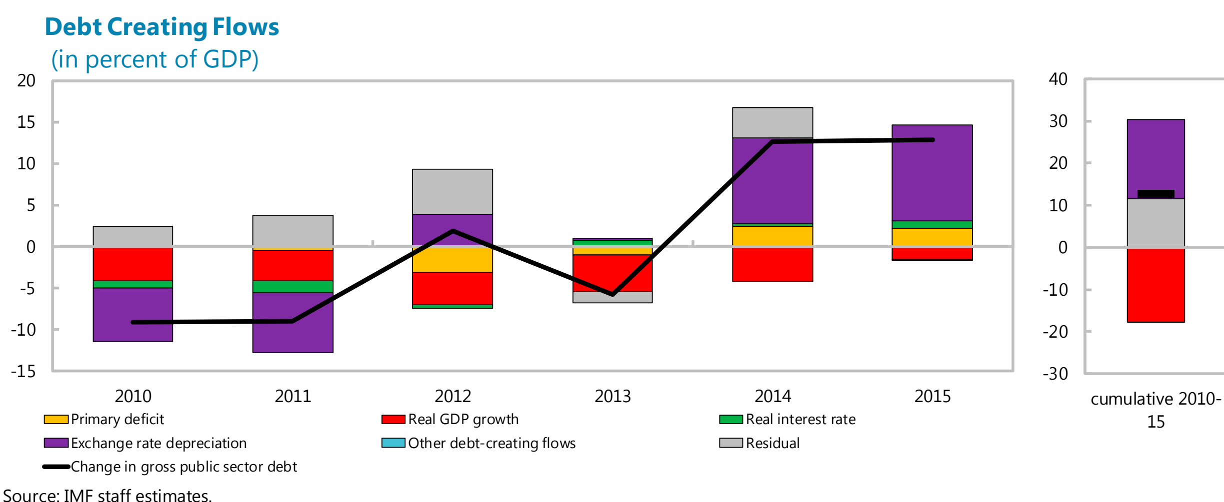
6. A decomposition of debt dynamics flows reveals that exchange rate depreciation played an important role.

- ***Real growth and interest rate differential:*** Mauritania benefited from strong growth during the commodity boom years and low interest rates with regards to debt dynamics.
- ***Primary balance***: Overall the primary balance did not contribute to the worsening of the debt dynamics during this period.

[3] Public Debt Vulnerabilities in Low-Income Countries—The Evolving Landscape, http://www.imf.org/external/np/pp/eng/2015/110215.pdf

- ***Exchange rate depreciation***: The nominal exchange rate depreciation vis-à-vis the US dollar had a significant negative impact on debt dynamics. Over 2010–15, the ouguiya has cumulatively depreciated by about 20 percent against the US dollar in nominal terms. The large share of debt denominated in US dollar directly (27 percent) and indirectly (32 percent) to currencies pegged to the US dollar explains the debt sensitivity to the US dollar (see Section D).

- ***Residual flows***: Borrowing by public sector entities outside the central government and the central bank resulted in significant debt accumulation. The limited coverage of fiscal statistics to central government explains most of the large residuals that have contributed to the deteriorating public debt dynamics. For example, these residuals include external loans contracted by the central government on behalf of the public power enterprise (SOMELEC) to expand energy production.

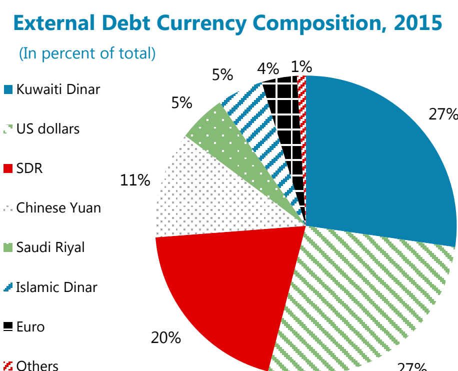


Source: IMF staff estimates.

D. Potential Vulnerabilities Arising from Debt Structure

The analysis of the debt structure highlights potential vulnerabilities associated with currency risk, maturity profile, and creditor base.

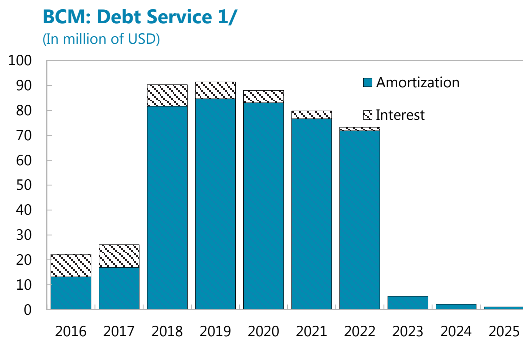
7. The large share of debt denominated in US dollar and foreign currencies linked to the dollar exposes the portfolio to currency risks. Over 90 percent of the debt stock is denominated in foreign currency, out of which 27 percent of is directly denominated in US, and about 32 percent is denominated in currencies tied to the US dollar (Kuwaiti dinar, Saudi riyal, etc.). Expanding the sources of FX receipts—currently dominated by mining exports—will help cope better with the currency risk. Mining exports represent 30 percent of GDP on



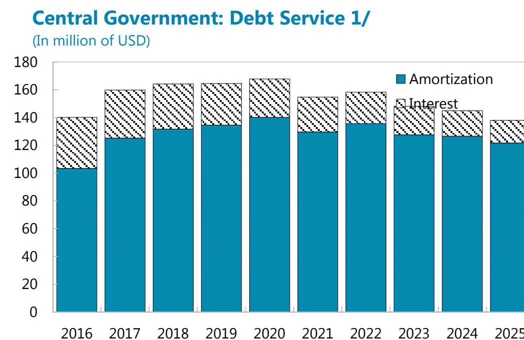
Source: Mauritania authorities.

average, are highly volatile depending on international prices, and are largely inelastic to the exchange rate. Countries with large tradable sectors can bear more foreign currency risk because a depreciation of the currency can lead to higher exports and income, and thus improve their ability to cope with higher debt service caused by depreciation.

8. An analysis of the maturity profile reveals elevated debt service over the medium term. The central government will continue to face high levels of debt service while for the BCM debt service spikes during 2018–22 reflecting the repayment of bilateral financing contracted in 2015 to boost reserves. The challenge for the BCM will be to maintain an appropriate level of gross reserve during this period as persistently low iron ore prices provide limited opportunities to build up reserves. The central government's debt service is also peaking to 3.6 percent of GDP (or 12.5 percent of revenue) over the medium term, as maturities falling due over 2016–21 represent 25 percent of its debt stock. These maturity profiles result in large external financing requirements and could add to pressure on reserves under a macroeconomic outlook marked with risk tilted on the downside.



Source: Mauritania authorities.
1/ Based on debt stock at end-2015.



Source: Mauritania authorities.
1/ Based on debt stock at end 2015.

9. With most debt owed to Saudi Arabia, Kuwait and Arab multilateral creditors, Mauritania is exposed to the economic situation in oil exporters. Over 80 percent of the debt portfolio is owed to oil exporters. In an environment of low oil prices, some oil exporters may reduce their financial support to countries in the region, leading to greater rollover risks.

E. Potential Contingent Liabilities

Contingent liabilities could emanate from SOEs. A comprehensive analysis of debt sustainability taking into account potential fiscal risks would be needed to better inform vulnerabilities and prepare contingency plans.

10. SOEs domestic borrowing could be a source of contingent liabilities and fiscal risks. In the past, the central government incurred in fiscal costs as it assumed some of SOEs debt vis-à-vis the banking system**.** While SOEs' domestic debt level (2 percent of GDP in 2015) is relatively small, it could become a source of fiscal risk due to the implicit government guarantee. This risk is first compounded by SOEs' ability to secure short-term credit from the banking sector and weak

monitoring. Second, the concentration of SOEs loans on some banks' balance sheets may require future government intervention to address banks' potential financial liquidity pressures if SOEs face treasury problems.

11. SNIM is the only SOE that can borrow externally without the explicit central government guarantee but should be closely monitored to avoid potential contingent liabilities. SNIM's external debt increased from 5 to 11½ percent of GDP during 2010–15 to finance its mining capacity expansion and diversify its portfolio. The debt service-to-revenue ratio was estimated at about 35 percent in 2015, and about 70 percent of its debt is coming due over 2016–21. Limited public information is available about its financial position and debt service profile, since its financial statements are not disclosed. .

12. All government external liabilities should continue to be centralized, and great caution would be warranted to monitor public sector borrowing. External liabilities should continue to be centralized in a debt registry at the MEF. Staff welcomes the authorities' plans for the proactive implementation of public entities reform, while proactively monitoring public guarantees through a central registry. For domestic borrowing of public institutions, the authorities intent to enhance monitoring to help limit fiscal risks and safeguard financial stability.

13. Additional fiscal risks could arise from PPPs. The authorities are seeking to mobilize private investment for some development projects through PPPs, mainly for the FTZ and further route expansion. Should the authorities move in this direction, explicit and implicit guarantees should be centrally recorded, and fiscal risks should carefully be assessed. Country experience has shown that fiscal risks in PPPs are more likely to arise in the absence of a comprehensive, clear, and stable body of legislation informed by common principles. As an initial step, a sound legal and institutional framework covering all major aspects of the PPPs process should be developed introducing the general principles of transparency, fairness, and long term sustainability. In particular the framework should establish a legal environment that is clear, fair, predictable, and easily accessible, give the private sector assurance that the public sector will honor its commitments, and clarify the roles and responsibilities of all relevant counterparts.

F. Institutional Considerations

14. Foreign borrowing decisions are centralized by the central government and central bank, which allows to keep under control guarantees and borrowing levels. For all of the public sector, excluding SNIM, borrowing decisions are centralized by the central government which contracts and guarantees loans. Until early 2016, the Ministry of Economic Affairs and Development (MAED) was in charge of negotiating and contracting the debt and the Ministry of Finance (MF) was responsible of servicing the debt. With the merge of the two ministries as the Ministry of Economy and Finances (MEF) in February 2016, the responsibilities are now within one ministry, which will help align borrowing incentives.

G. Policy Recommendations

Putting the debt on a downward trend will require strengthening the institutional framework, have a unified budget, tackle public spending efficiency issues, and broaden the coverage of fiscal statistics.

15. Institutional framework. Staff welcomes the merge of ministries that will allow aligning borrowing incentives and increase coordination in formulating financing strategies. The approval and implementation of the organic budget law—which will pave the way for a unified budget presenting a consolidated investment budget, with both domestically and foreign financed envelopes—and the budget law will be important measures. In the meantime, monitoring investment projects executed outside the central government (by SOEs and other public entities) will be required to ensure that debt target would be reachable.

16. Efficiency of public investments should be maximized to reap their benefits in terms of growth and reduce debt vulnerabilities. Efficiency of investment even more so than the level determines the growth benefit.

17. Coverage of fiscal statistics. Expanding the statistical coverage of public finances towards the general government and preparing a unified budget with both envelopes of investment (foreign and domestically financed) will help put the total public debt on a downward path. Such steps will anchor the fiscal deficit to the public debt path.

18. Mauritania's high debt levels and associated vulnerabilities give urgency to start putting the public debt on a downward path by:

- Adopting a single budget which incorporates both externally and domestically financed projects as part of the budget submitted to Parliament, and passing the organic budget law.
- Improving the coverage of fiscal statistics beyond the central government to ensure comprehensive monitoring and management.
- Reducing imbalances in the rest of the public sector so that the debt reduction target can be achieved.
- Establishing a fiscal anchor coherent with the debt target (see Box 2 in Staff Report).

19. Addressing vulnerabilities tied to the public debt structure through intensifying the efforts for economic and export diversification will help reduce the impact of exchange rate depreciation on debt dynamics. Increasing the relative size of the tradable sector by expanding the exporting industries will help the economy cope better with external shocks and amplify the base of foreign currency resources. For countries with a significant weight of foreign currency denominated debt, exchange rate depreciation will increase debt service but at the same time augment debt servicing capacity by increasing the value of its tradable goods and boosting FX receipts.

20. A cautious and proactive approach to contingent liabilities is advisable through:

- Strengthening the supervision of SOEs and other public entities, including by keeping a centralized registry of their domestic borrowing to have a full grasp of the contingent liabilities and fiscal risk their could pose
- To achieve a comprehensive view of the scope of contingent liabilities, the authorities could expand the DSA analysis to incorporate fiscal risks.
- The budget law should also include an annual report on debt dynamics, contingent liabilities, and guarantees.

21. Strengthening institutional processes and governance will also contribute to improved debt dynamics and risk rating:

- Enhance the efficiency of public investments projects (FAD PIMA) to maximize their growth benefit.
- Strengthen the debt management capacity: Improved data collection (already significant progress with the DAD); inter-institutional coordination; medium-term debt plans.
- Broadening the coverage of public finance—going beyond the central government and the budget.

Annex III. Mauritania: Effects of Worsened Terms of Trade on the Financial System—Exploring Macro-Financial Linkages[1]

The Central Bank of Mauritania (BCM) has made noteworthy efforts in recent years in the area of supervision and undertaken a program of reforms with West AFRITAC support. In addition to enhancing capacity for banking and financial supervision and bringing regulations toward standard (on bank governance, risk management, internal control, and risk-based supervision), the BCM now monitors the banks more regularly and applies the penalty regulations more systematically.

However, the cyclical slowdown, combined with the financial sector's structural weaknesses, is beginning to affect the financial system. The sustained decline in metal prices is having an impact on the banking sector, primarily through the downturn in economic activity, which heightens the credit and liquidity risks. Asset quality has deteriorated, and deposits, which represent the principal banks' financing resource, have stagnated. In the context of a fragmented banking sector with highly concentrated credit and deposit portfolios, the banks have limited capacity to absorb shocks. Although the system remains generally liquid, buffers are declining, and some banks are facing liquidity pressures and deposit losses. Their profitability is likely to suffer from the decline in import-financing operations and the upturn in provisioning needs. The viability of the microfinance sector remains uncertain and the capital adequacy ratio (CAR) of most microfinance institutions (MFIs) is below regulatory standards.

Given heightened risks that may affect the financial system's ability to support economic diversification over the medium term, the BCM should increase vigilance and continue strengthening the prudential and crisis management frameworks while putting into place contingency plans to help clarify the course of action if vulnerabilities materialize. It is also important to increase the coordination of monetary and fiscal policies in such a way as to limit amplifying the shock on liquidity.

A. Snapshot of the Financial Sector in Mauritania

1. Banks dominate the financial sector. In 2014, the Mauritanian financial sector comprised 16 licensed commercial banks, including two investment banks and five Islamic banks; 21 microfinance institutions (MFIs) and two active networks (*Agence de Promotion des Caisses Populaires d'Epargne et de Crédit* [PROCAPEC], with 51 offices, and *Mutuelle d'Investissement des Crédits Oasiens* [MICO]); two specialized financial institutions (*Caisse de Dépots et de Développement* [CDD] and *Finance, Conseils, et Investissement* [FCI]); 32 exchange bureaus; 12 insurance companies; and two pension funds. There is no stock market.

- End-2015 banks' total assets, estimated at about US$2 billion (43.5 percent of GDP), represented over 90 percent of total financial sector assets. Credit-to-GDP ratio amounts to 31 percent of GDP.

[1] Prepared by Tarak Jardak and Malik Garad, with the assistance of Rafik Selim (all MCD).

- The number of banks has increased significantly, with nine new licenses granted since 2007. The number of foreign banks has risen to six (from one in 2005), with a share of about 30 percent in total banking assets. Five Islamic banks have been licensed since 2012, and a growing number of banks are offering Islamic products.[2]

- The public development bank CDD, with a special legal status, has grown rapidly since its creation (in 2011) to finance development, representing 5 percent of total credit in the system.[3] Its credit portfolio is highly concentrated on the short term (68 percent of the total).

2. Mauritania's financial sector suffers from structural weaknesses. The 1991–92 banking crisis resulted in the privatization and restructuring of public banks. Since then, some banks and MFIs have been restructured or liquidated, with limited spillovers to the financial system given limited interbank operations. For example, BACIM (2007) was taken over by a foreign bank; GBM (2013) experienced difficulties; and Maurisbank has been under liquidation since December 2014.[4] The recurrence of such incidents results from several structural vulnerabilities:

- *The banking sector is at once highly fragmented and concentrated.* There were six commercial banks in Mauritania for every one million adults in 2013, which is high compared to peer countries. Despite increasing number of banks in recent years, concentration remains high; five banks control 58 percent of total credit and 71 percent of deposits. All other banks are small with low profitability and little opportunities to develop and gain market shares. Banks' governance remains weak: despite improving regulation, there is no effective separation between management and shareholders.

- *Close ties with business conglomerates limit transparency and governance and may lead to systemic risks.* Domestic banks have strong ties to business conglomerates. Transactions with entities of the same group lack transparency and do not comply with regulatory exposure limits to companies of the same group (set at 25 percent).[5] Such noncompliance presents risks for financial stability.

- *Banks have highly concentrated deposit and credit portfolios.* Given the small size of the formal economy, there is little deposit and credit diversification. Because the banks have limited funding sources, competition is focused on few customers and highly cyclically-sensitive sectors, such as trade, construction and public works. In addition, information asymmetry,[6] lack of collateral, and problems related to collateral enforcement, reduce the number of individuals and

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[2] Three out of the four licensed Islamic banks are still in operation.

[3] According to its organic law, CDD is considered a special financial institution, not a bank. For the purpose of this analysis, banks refer to commercial banks. CDD is not part of the monetary survey.

[4] A network of MFIs (UNACEM) has been liquidated. The CAPEC network has also recently faced liquidity problems.

[5] The DGSB has recently engaged in the identification of liabilities to related parties and received technical assistance from West AFRITAC on improving the CAR calculation.

[6] A credit registry exists, but data dissemination to banks is not timely.

companies that qualify for bank credit, which limits private sector access to credit and increases banks' concentration risk.

- *Despite progress in strengthening banking supervision, asset quality and risk management practices remain weak.* At end-December 2015, NPLs represented 27.6 percent of total credits. NPLs were reduced from 40 percent in 2010 to 20 percent in 2013, primarily as a result of the restructuring of claims on the public sector, write-offs and favorable economic conditions; in addition, new banks had not yet recorded any NPLs on their loan portfolios.

- *Bank profitability is weak.* Despite relatively low funding costs due to a large share of unremunerated demand deposits, average ROE and ROA during 2008–14 remained low, at 8 percent and 1.5 percent respectively. This can probably be explained by cost of provisioning but may also be attributed to the low profitability of new banks during the initial years of operation.

3. Structural weaknesses hamper financial sector deepening and financial inclusion. Despite some improvement in recent years, financial intermediation and inclusion remain limited. Since 2011, deposits with banks hovered around 25 percent of non-extractive GDP, whereas credit granted by commercial banks to the private sector reached 33.6 percent of non-extractive GDP in 2015 (from 31.6 percent in 2011), benefiting somewhat from favorable economic conditions.

- According to the 2014 World Bank Enterprise Survey, *access to credit nevertheless remains a major constraint for 52 percent of Mauritanian companies,* compared to 42 percent in Sub-Saharan Africa. Only 9 percent of the companies, primarily medium-sized, were eligible for investment credit. Access to finance is also restricted by the lack of financial reporting standards for SMEs; the authorities are working on those standards and on establishing a professional career stream for accounting and auditing.

- Financial inclusion is hampered by the existence of a large informal sector. Efforts to promote financial inclusion comprise microcredit and Islamic banking. The microfinance sector could be a catalyst for financial inclusion, but its financial viability is unclear, and its solvency low (see Section E).

B. Macro-Financial Linkages and Transmission Channels

4. A sustained drop in metal prices affects the banking sector directly because of the interaction with the mining sector and, indirectly, through the resulting slowdown in overall economic activity, which increases credit and liquidity risks. Since the direct transmission channel is limited in Mauritania, the effects of the deterioration in the terms of trade are largely dictated by its impact on economic growth and consequently by the authorities' response to this shock.[7]

[7] Deposits with the banking sector are limited to working capital needs, as most companies are foreign and the public mining company (SNIM) repatriates part of its receipts via its central bank's account. Credit to the mining sector represented less than 2 percent of total credits in October 2015.

- *The public sector channel*. As low iron ore prices persist, lower revenues reduce fiscal space for countercyclical policy and, ultimately, public spending and growth. This affects the performance of state-owned enterprises (SOEs) and private companies, leading to lower liquidity (deposits) and reduced ability to service debt (thus to NPLs). In addition, in the event that the authorities seek higher domestic financing through the issuance of T-bills, there could be also tighter banking liquidity, private-sector crowding out, and higher domestic interest rates.

- *The FX channel*. In the face of pressures on reserves, the central bank could reduce foreign currency sales or allow for faster depreciation of the ouguiya. In the first case, a self-reinforcing mechanism could be triggered, in which banks experiencing problems in obtaining FX might lose deposits,[8] reducing their liquidity and exacerbating their difficulties. This is particularly relevant in the context of a shallow interbank market without a lender-of-last-resort function. In the second case, the depreciation would affect households' real incomes, consumption, and repayment ability, as well as the balance sheets of companies and banks, depending on their net FX positions.

- *The confidence channel*. The expectations of domestic and foreign investors as regards Mauritania's economic outlook could also affect the banking sector. Although recent events in the financial sector –in particular difficulties of GBM and liquidation of Maurisbank– did not have a systemic impact partly because of action taken by the BCM, the confidence of economic operators may have been somewhat shaken.

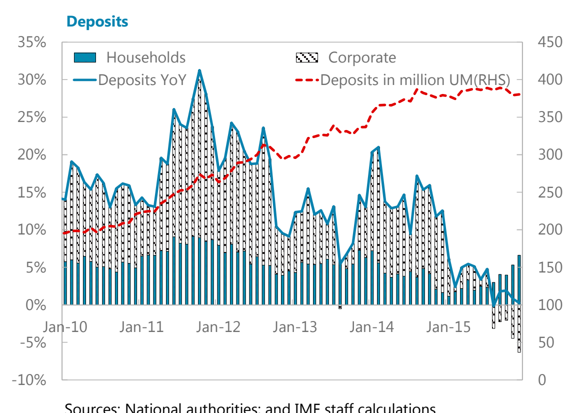
- *Spillbacks*. A self-reinforcing loop could occur, with banks potentially tightening their credit conditions (higher risk premium) and/or rationing their credit supply, which would exacerbate their customers' liquidity and solvency problems. Another channel is the fiscal cost that could arise from the bankruptcy of a bank.

[8] According to the FX market regulations, banks must hold 100 percent of their bids as free reserves at the BCM in order to purchase FX.

C. Recent Developments in the Banking Sector

Deposits

5. Deposits have stagnated due to lower economic growth and competition from CDD. After years of relatively strong growth, deposit growth has decelerated since mid-2014, coinciding with the decline in export prices and increased competition from CDD for public sector deposits.[9] Deposits have evolved unevenly across various categories of depositors. SOEs' deposits, excluding those at the CDD, fell by 14 percent in 2015, as they invested in T-bills. Deposits of private corporates declined by 8 percent by end-2015, whereas those of households increased by 21 percent on account of the increase in civil service wages and deflationary pressures. As a result, the share of households in total deposits rose to 36 percent.

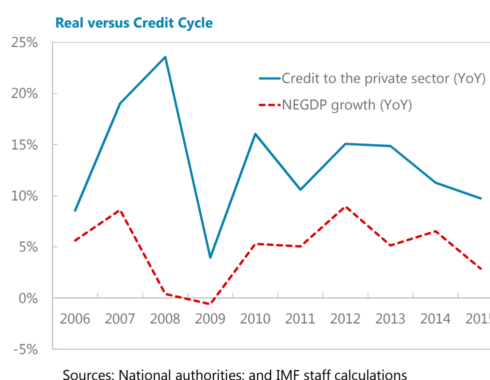


Sources: National authorities; and IMF staff calculations

6. Despite a growing appetite for time deposits, banks remain heavily reliant on short-term funding. In December 2015, time deposits increased by nearly 20 percent year-on-year, to 22 percent of total deposits. In addition to the households' income effect, this could reflect a precautionary behavior by depositors and a more aggressive pricing strategy adopted by some banks to attract more stable deposits in a context of lower liquidity and greater competition. Should this behavior become more widespread, it could increase funding costs and reduce interest margins.

Credit to the economy

7. Credit to the economy has evolved broadly in line with growth dynamics in the non-extractive sector and liquidity conditions. The expansion of domestic credit slowed from 10.7 percent in December 2014 to 4.5 percent in December 2015. Low rates on T-bills led to lower banks' T-bills holdings, at UM 16 billion in December 2015 from UM 37.6 billion at end-2014. This enabled the banks to free some liquidity to maintain relatively high growth in credit to the private sector (up 9.7 percent).[10] Accordingly, the loan-to-deposit ratio stood at 80 percent (78.5 percent) of



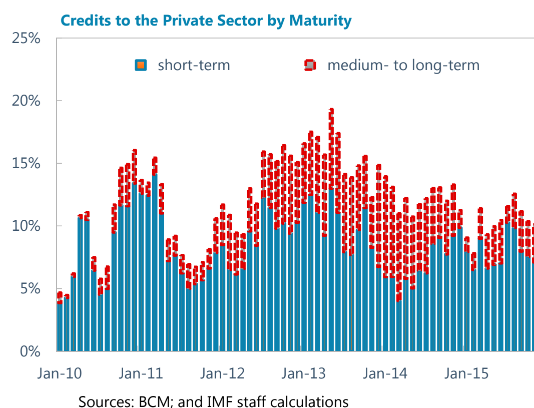
Sources: National authorities; and IMF staff calculations

[9] According to the CDD's financial statements, deposits increased from UM 10 billion in 2013 to UM 51 billion in 2014.

[10] Following the BCM's classification, which includes public enterprises, whereas credit to the public sector corresponds only to credit granted to the central government.

credit to the private sector (domestic credit) in December 2015, compared to 86.5 percent (81.2 percent) in December 2014.

8. New credit remains concentrated on few borrowers and short-term maturities. During 2015, new credit included loans to finance the airport construction and the renewal of the telecommunication license of a local operator. At the same time, the share of medium- and long-term loans has declined significantly since early 2014, possibly because of lower demand and, on the supply side, higher banks' risk aversion. It can also be explained by the January 2014 instruction restraining consumer credit.[11] Going forward, preliminary IMF staff projects credit growth at 1.4 percent in 2016, to recover to below 10 percent over the medium term.



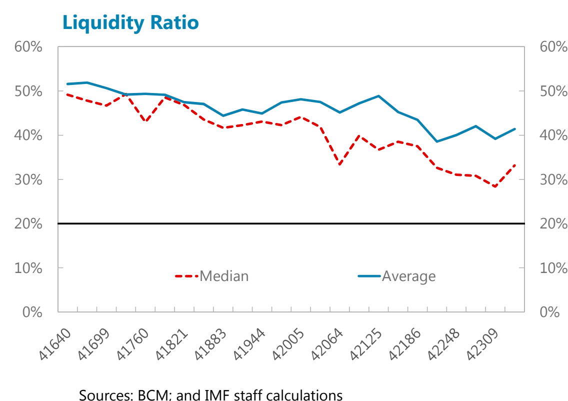
Sources: BCM; and IMF staff calculations

D. Risks to Financial Stability

Liquidity risk

9. Although the banking system remains broadly liquid, buffers have declined.[12] Although still above the 20 percent norm, the median liquidity ratio worsened to 33 percent in December 2015, from 49 percent before the deterioration in the terms of trade, mainly because of the decline in liquid asset holdings (T-bills converted to credit) and the stagnation in deposits.

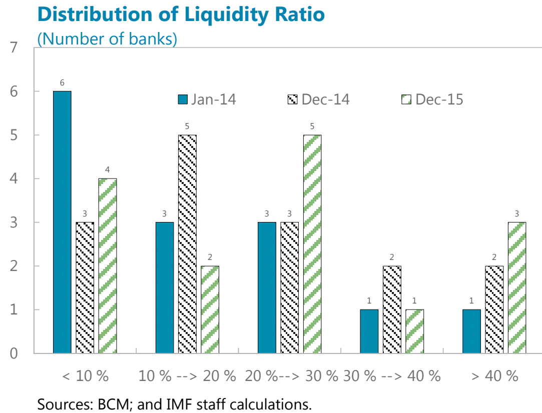
10. In the absence of an interbank market, some banks are experiencing liquidity pressures and a important loss of deposits. During 2015, the liquidity ratio of two banks—with 14 percent of the total assets—was consistently below the 20-percent liquidity requirement and two other banks recorded intermittent breaches. In addition, some banks have faced major deposit reductions.



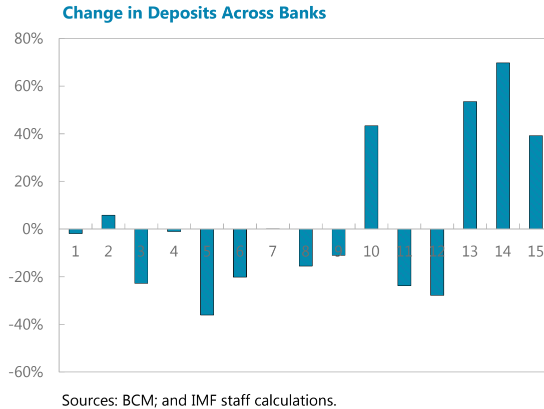
Sources: BCM; and IMF staff calculations

[11] Instruction 2/GR/2014 included a stricter definition of consumer credits and limited their maturities to a maximum of three years.

[12] Buffers refer here to excess liquid assets with respect to the minimum requirement (20 percent for the liquidity ratio) which will determine the banks capacity to absorb additional liquidity shocks.



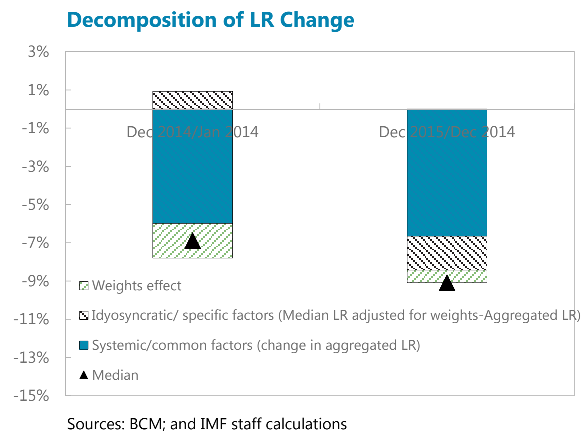
Sources: BCM; and IMF staff calculations.



Sources: BCM; and IMF staff calculations.

11. The deterioration in banking liquidity can be explained not only by lower economic activity but also by idiosyncratic factors.

- First, increasing competition is causing a rapid change in deposit market shares, and negatively affecting the deposits and liquidity of some banks, in particular those of small-size and those with a high concentration of deposits, including from SOEs.



Sources: BCM; and IMF staff calculations

- Second, limited access to FX and to credit, as well as stricter enforcement of the regulations on FX repatriation, probably exacerbated the deposit losses for some banks. This is particularly the case for one medium-sized bank facing liquidity pressures, with no access to the FX market because of insufficient free reserves.[13]

12. Stress tests show that some banks have limited capacity to address liquidity shocks. Although still above the regulatory minimum, certain banks do not have enough flexibility to cope with liquidity pressures. Under a scenario of a deposit run, with daily withdrawal of 6 percent of the total deposits, three banks – including a major institution – would be short of liquidity to deal with withdrawals within six days (see Box 1). The liquidity ratios remain above the 20-percent minimum requirement under the scenario of deposit withdrawal of two largest depositors or of 50 percent of public deposits.

[13] Liquidity problems originated from higher credit to a SOE and lower deposits of fishing exporters due to the appreciation of the ouguiya against the euro.

Box 1. Mauritania: Results of Stress Tests

The simulation scenarios aim at providing information about potential risks to the banking sector. It covers 15 banks, 100 percent of banking assets, using provisional end-2015 data (or the latest available data). The scenarios are conducted under unfavorable economic scenarios which are designed to determine whether banks have enough resilience to withstand the impact of adverse developments.

Mauritania: Summary of Stress Tests Results; Liquidity Risk
(Median, unless otherwise indicated)

	Foreign banks	Local banks	New banks	Large	Medium	Small	All banks
Number of banks in critical liquidity situation in case of a deposit run*							
Day 1	0	0	0	0	0	0	0
Day 3	0	1	0	0	1	0	1
Day 6	0	3	1	1	1	1	3
				(In percent)			
Liquid assets/Short-term deposits before the shock	61.0	39.7	50.0	35.9	54.9	50.0	41.3
Liquid assets/Short-term deposits after the shock							
Deposit withdrawal of the 2 largest depositors 50%	57.2	33.8	41.1	30.7	50.7	46.6	36.8
Deposit withdrawal of the public sector 50%	60.9	32.1	40.0	34.7	48.9	44.1	34.7

Source: IMF staff estimates.

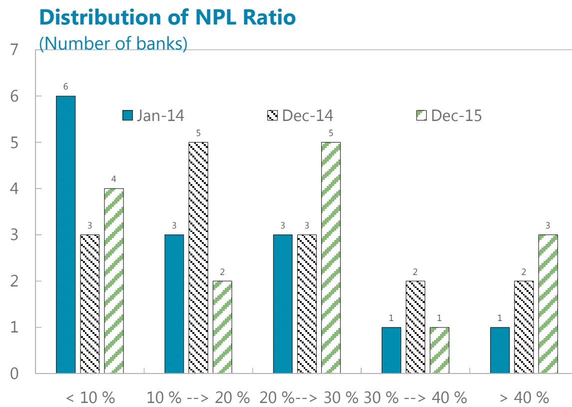
* Banks with negative liquid assets after deposits withdrawal of 6 percent per day.

Credit risk and solvency

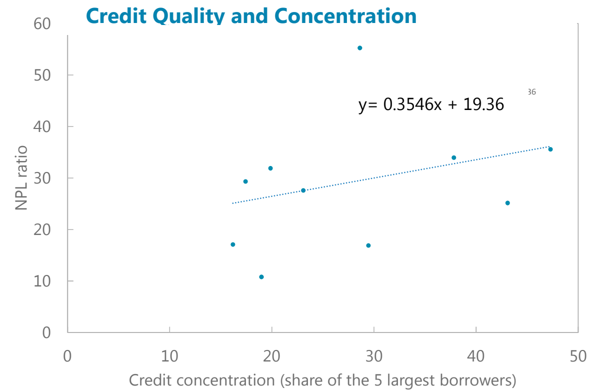
13. **Credit quality remains low and fell further in 2014–15, partly because of the regulations strengthening risk classification**. In 2015, NPLs for the aggregate banking system increased by 3.7 percentage points, to 27.6 percent. This increase reflects a deterioration of credit quality; NPLs have grown by 37.3 percent since December 2014, with five banks recording more than 30 percent growth in NPLs over the same period and the NPL ratio exceeding 25 percent in seven banks. In addition to the cyclical effect, this increase results from stricter enforcement of the risk classification regulations published in 2014.[14] Therefore, a high share of those NPLs pre-date 2010 and are fully provisioned, and will be written off.[15]

[14] Instruction N5/GR 2014: this instruction spelled out stricter, more specific rules for the calculation of delinquent loans and their provisioning.

[15] These claims have now been identified and will be deleted from the balance sheet as of end-FY 2015—data to be confirmed with the reporting of banks' financial statements in June 2016. This will bring the NPL ratio down from 27.6 percent to around 20 percent, according to authorities' calculations.



Sources: BCM; and IMF staff calculations.



Sources: BCM; and IMF staff calculations.

14. The banking system seems generally well capitalized, but there are weaknesses in net equity calculation. The median CAR is 27 percent, well above the 10 percent minimum requirement, in part because of the high ratios carried by the new banks that have not yet engaged in significant lending.[16] However, the central bank applies a methodology that differs from the Basel III international standards, especially on exposures to related parties, whereby all related liabilities must be subtracted from the net equity calculation. The BCM allows for a 25-percent related-party exposure in the CAR; in addition, half of the banks do not respect the regulation, and in six out of seven banks' exposure to related parties is twice the regulatory limit. According to the BCM regulation, three banks would be below the minimum threshold of 10 percent when complying with the 25-percent limit, with recapitalization needs amounting to 0.4 percent of GDP.[17] Finally, as regards the calculation of weighted risks, loans to the central government and to SOEs are zero-weighted.

15. Given the concentration on a limited number of borrowers and exposures to cyclically sensitive sectors, some banks may need recapitalization. Claims on the trade, transport, and construction sectors represent 43 percent of total claims.[18] Based on stress tests, weakened trade sector activity as reflected by a default on 20 percent of all the sector's liabilities would result in a recapitalization shortfall for two medium-sized banks. Similarly, a 30-percent default on liabilities in the construction and public works sector would require the recapitalization of four banks, including a major institution. Also, four banks (including two large ones representing 32 percent of total banking assets) would be in violation of the minimum CAR in the event of default of their principal borrower (see Box 1).[19]

[16] Only one bank has a CAR of about 10 percent.

[17] Estimated by West AFRITAC in November 2015 on the basis of end-2014 data.

[18] These refer to direct loans and signature liabilities. The latter are shown off-balance sheet and represent one third of total liabilities.

[19] It is noteworthy that simulations do not take into account neither recapitalization needs related to connected parties nor guarantees held against customer liabilities.

Exchange risk

16. Currency mismatch and short FX positions expose banks to losses in the event of ouguiya depreciation. The asset-to-liability ratio in foreign currency fell abruptly to 68 percent in 2015 from 138 percent in 2014. This may be attributable not only to the decline in export proceeds but also to the enforcement of repatriation requirements (e.g. in the case of fishing export proceeds). Most banks reported short open positions for both the US dollar and the euro, often exceeding the regulatory ceiling (of10 percent per currency and 20 percent for all currencies). A simulation of a 40 percent depreciation of the ouguiya to the dollar or the euro would trigger losses for banks but would not have a significant impact on solvency (Box 2).[20] Yet, if banks channel exchange risk to their customers, they would amplify credit risk as importers' balance sheets are less diversified and more sensitive to exchange rate fluctuations.

Box 2. Mauritania: Results of Stress Tests

The simulation scenarios aim at providing information about potential risks to the banking sector. It covers 15 banks, 100 percent of banking assets, using provisional end-2015 data (or the latest available data). The scenarios are conducted under unfavorable economic scenarios which are designed to determine whether banks have enough resilience to withstand the impact of adverse developments.

Mauritania: Summary of Stress Tests Results

(Median, unless otherwise indicated)

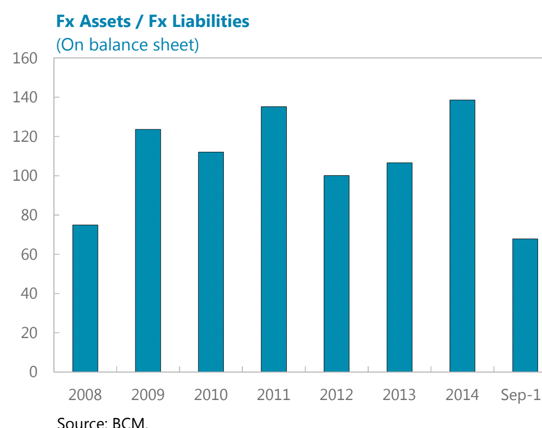
	Foreign banks	Local banks	New banks	Large	Medium	Small	All banks
				(in percent)			
CAR before the shock	36.3	21.1	27.8	17.1	20.1	42.3	28.6
CAR after the shock							
A. Credit risk							
Default of the main borrower	29.7	17.1	15.3	8.9	13.8	37.2	22.2
Household sector 30% NPL deterioration	32.9	16.6	27.8	3.2	14.5	38.7	25.2
Commerce sector 20% NPL deterioration	34.3	15.5	24.4	11.8	17.5	36.8	22.6
Construction and Public work (BTP) sector 30% NPL deterioration	26.9	14.5	21.6	12.7	12.2	34.2	18.6
B. Exchange rate risk							
40 percent depreciation relative to the U.S. dollar	34.8	20.7	21.6	17.5	19.3	42.5	23.9
40 percent appreciation relative to the U.S. dollar	42.2	21.2	33.8	16.6	21.0	42.2	26.6
40 percent depreciation relative to EUR	33.2	20.6	27.6	17.3	19.2	38.6	27.0
40 percent appreciation relative to EUR	40.3	21.7	28.0	16.8	21.0	46.0	29.4

Source: IMF staff estimates.

[20] The depreciation rate is hypothetical and is based on that simulated during the 2014 FSAP.

Profitability

17. Profitability is likely to be negatively affected by lower trade-financing operations and higher provisioning needs. Banks' most profitable activity is import-financing through credit or letters of credit, which makes them highly reliant on BCM's FX supply. Low food and oil prices would reduce revenues and fees on import-related transactions. In addition, the economic slowdown could result in less credit and more NPLs, hence affecting negatively profitability. Interest margins would continue to shrink because of competition. Similarly, tighter banking liquidity would likely increase funding costs and reduce further interest margins.



Source: BCM.

E. Financial Stability Considerations in the Microfinance Sector

18. The microfinance sector remains highly fragmented in Mauritania. According to the BCM's 2014 Annual Report, there are two active networks and 21 MFIs. The largest network—the UNACEM (National Union of Mauritanian Agricultural Savings and Loan Cooperatives)—was placed under liquidation in 2014. The PROCAPEC is the main active network, with 51 MFIs, followed by the MICO. The CAPEC network accounted for 84 percent of MFI members. At end-2015, CAPEC distributed 38 percent of loans and received 80 percent of the total deposits within the microfinance sector.

19. The lending products offered by MFIs are limited to short-term micro-credits. Loans granted by MFIs reached UM 2.1 billion (0.3 percent of total credit), and deposits stagnated at UM 5.5 billion (1.5 percent of total deposits). These are essentially individual loans granted to very small businesses and group loans to support women in income-generating activities. Annual microcredit interest rates vary in the range of 10–15 percent, which is close to commercial banks' lending rates. In addition, MFIs provide Islamic products such as *Murabaha*, representing more than three quarters of all CAPEC loans. MFIs have also started developing new products and services such as money transfers and mobile payments. These activities are still negligible but could contribute significantly to financial inclusion.

Main Indicators of the Microfinance Sector as of December 2015						
	Members and Customers		Credits		Savings	
	Number	Share in percent	UM Billion	Share in percent	UM Billion	Share in percent
CAPEC	228,797	84	0.8	38	4.4	80
Other MFIs	43,477 1/	16	1.3	22	1.1	20
Total	272,274	100	2.1	100	5.5	100

Source: BCM.
1/ Data as at end-2014.

20. The sector's viability is uncertain, and the CAR of its institutions is below regulatory norms.

- The CAPEC network has been facing major difficulties since 2009, due to embezzlement and mismanagement that has led to deposit withdrawals. The deterioration in asset quality remains substantial (from 13.2 percent in 2013 to 23.3 percent in 2015).
- Safeguard measures to support the network were initiated in 2010 but have ensured neither its full recovery nor its return to financial viability. Operating risks, lack of access to reliable credit information, low capacity, and weak supervision are all factors that explain the sector's difficulties in regaining viability.
- MFIs depend primarily on grants (operating subsidies from the government to PROCAPEC) and other external financing resources (in the form of external credit lines and earmarked funds). Financial autonomy and transparency are major challenges for these institutions to make professional operators in the sector.
- Even though the liquidity ratio appears high (49 percent at end-2015, compared to 42 percent at end-2014 and 44 percent at end-2013), MFIs record negative net equity as a result of CAPEC situation.[21] The assets medium- and long-term are not fully covered by medium- and long-term resources as required in the regulation.

21. The BCM should strengthen control and supervision of the microfinance sector, to support strengthening of risk management practices and promptly implementing corrective measures. The BCM has built up its capacity and has been performing on-site inspections of vulnerable MFIs since 2014; but not much progress has been made in terms of addressing the restructuring of the sector. In addition, the BCM should end its participation in the CAPEC

[21] The liquidity ratio is set at a minimum of 25 percent, and the CAR requirement is set at 15 percent.

orientation board, which creates a conflict of interest likely to reduce the effectiveness of the sector's supervision.

22. Prior to restructuring the microfinance sector, a comprehensive diagnosis of the MFIs seems a critical step to identify the main bottlenecks and establish a strategic development agenda for the sector, which can help support its financial autonomy and viability. This diagnostic work could be entrusted, if necessary, to a specialized firm,[22] while considering corrective measures to improve the situation of MFIs in Mauritania.

F. Recommendations

23. The BCM should increase its oversight, further strengthen the prudential and crisis management frameworks, and put in place contingency plans.

- On surveillance, the data sharing system currently being finalized would facilitate greater and more regular monitoring of liquidity, credit, and exchange risks but should be supported by sustained efforts to improve data reliability.
- At the prudential level, the process of transition toward risk-based supervision and the alignment of the regulations with international standards are on the right track, with the new banking law and the instruction on capital adequacy ratio under preparation. In the meantime, it is important to enforce regulations—if necessary through more severe penalties—and strengthen the micro- and macro-prudential framework to better take account of the specific risks associated—in particular with concentration and transactions with related parties. In this context, the BCM is currently preparing a circular allowing for gradual regularization (over three years) of cases where exposure limits to connected parties have been violated. Staff recommends that the central bank acts decisively and proactively to address capital shortfalls for these banks, and reducing the regularization timeframe to two years.
- Finally, Mauritania is in the process of establishing the legal framework for a modern crisis management framework. At the same time, it would be helpful to activate the emergency liquidity mechanism and increase banks contributions to the deposit insurance system.

24. The BCM should adapt its liquidity management framework to a new context that may be marked by liquidity shortfalls. The BCM needs to make more active use of the existing short-term liquidity management instruments and broaden the range of intervention tools. Proper coordination with exchange rate and fiscal policies would also be necessary to avoid amplifying

[22] The diagnostic should include preparation of terms of reference; compilation of various internal and external audit reports, annual reports, and financial statements; assessment of human and financial resources; etc.

effects on liquidity.[23] The BCM should also actively play its role as lender of last resort when required, that is, when banks are illiquid but solvent. However, it should distinguish clearly between day-to-day liquidity management (monetary policy) and interventions using the emergency liquidity mechanism (prudential policy) to avoid conflicts of objectives.[24]

25. Restructuring the central bank and developing analytical capacity should be accelerated. The BCM has made laudable efforts as regards its regulatory framework. The decision-making process will be strengthened through the creation of three committees (prudential, resolution, and financial stability). Human resources improved with the recruitment and training of 14 additional inspectors. However, in order to increase the effectiveness of these reforms, action is needed to restructure the DGSB and the central bank in general as well as to build analytical capacities.

[23] For example, the BCM intervention in the money market to reduce FX demand and limit pressures on exchange rate and reserves could exacerbate the liquidity problems of some banks, especially in the absence of a lender of last resort. Similarly, the accumulation of arrears by the government, an abrupt fiscal consolidation or an increase in domestic financing through T-bills could amplify the liquidity shock.

[24] The planned separation in the decision-making process between monetary policy council and financial stability committee could limit the risk of conflicts.

Mauritania: Matrix of Financial Recommendations			
Main Risks	Recommendations	Entity responsible	Deadline
Number of banks (low profitability/liquidity)	• Temporary freeze bank licensing • Strengthen requirements for bank licensing (Article 15–17 of the Charter) • Gradually raise the minimum capital of banks • Bring the CDD under banking supervision (Article 1 of the Banking Law)	BCM	Immediate Short term Medium term Short term
Related party lending	• Reduce the 3-year time frame with respect to compliance with the rule governing related parties, with the aim of diminishing concentration risks (which may potentially hold systemic importance) • Reduce gradually the 25 percent concentration limit for related parties • Align regulation to Basel III where exposures to related parties are excluded from net equity calculation	BCM	Short term Medium term Medium term
Liquidity risk	• Activate the application of the ELA and define eligibility criteria (Article 96 of the Charter) • Ensure more effective coordination of actions with the MEF (T-bills) • Align the liquidity ratio (LCR) with international standards	BCM BCM / MEF BCM	Short term Short term Medium term
Credit risk	• Integrate off-balance-sheet commitments into concentration risk analysis • Review the risk weights on public enterprises • Resubmit to Parliament draft law on the recovery of claims	BCM BCM Min. Justice	Short term Short term Medium term
Exchange rate risk	• Ensure compliance with limits on daily foreign exchange positions	BCM	Short term
Strengthening the legal framework	• Validate draft laws (banking law and BCM statute) and submit them to Parliament • Evaluate the framework for penalties and strengthen it if necessary • Finalize the review of the instruction on calculating regulatory capital	BCM	Short term Short term Short term
Resolution framework and prevention mechanisms	• Implement a crisis management and resolution framework (Art. 76 to 85 of the Banking Law) • Raise contributions in the deposit protection system (Art. 132 to 141 of the Banking Law) • Recapitalize systemic banks	BCM	Short term Immediate Immediate
Enhancing data reliability and transparency	• Finalize the proposal for reform of the credit registry • Strengthen requirements for licensing statutory auditors • Publish certified financial statements for banks	BCM	Short term Short term Short term
Financial stability	• Implement a macro-prudential stability unit (Article 124 and 125 of the Banking Law) • Conduct stress test exercises on a regular basis	BCM	Short term Short term
Capacity-building	• Continue capacity-building activities for supervisors (Islamic finance) • Ensure protection for supervisors (Article 117 of the statute) • Multiply cooperation arrangements with foreign supervisors (Article 110 of the statute)	BCM	Short term Short term Medium term

Annex IV. Mauritania: Risk Assessment Matrix 1/

Sources of Risks	Relative Likelihood	Time Horizon	Expected Effect	Channel Mechanism	Policy Response
A. Global Shocks					
1. Sharper-than-expected global growth slowdown					
Significant China slowdown. Weak domestic demand futher supress commodity prices, roils global financial markets, and reduces global growth.	Low/ Medium	Short to Medium term	Medium/ High	A slowdown in China (main trading partner) will worsen the external and fiscal positions, due to lower demand for commodities and, likely, lower commodity prices. While lower oil prices will benefit Mauritania, further declines in iron ore prices could prompt questions about defering production.	In the short-term, external and fiscal buffers and higher exchange rate flexibility would provide room for some gradual adjustment. Sound macroeconomic management, a well-aligned exchange rate and reforms to increase the resilience of the economy to external shocks will require diversifying the economy and exports away from natural resources. Fiscal consolidation will be needed to limit risks to fiscal sustainability over the medium term in the context of high risk of debt distress. Policy coordination will be crucial to support sound policy management of the shock.
Structurally weak growth in key advanced and emerging economies. Easy global financial conditions coming to an end and insufficient reform progress undertmine medium-term growth in emerging market and suppress commodity prices (medium term)	High/ Medium	Medium term	High	Structurally weaker global growth will result in lower trade flows due to lower demand. While lower oil prices will benefit Mauritania, further declines in iron ore prices could prompt questions about defering production.	
2. Tighter or more volatile global financial conditions- Surge in the U.S. dollar. Improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but creating balance sheet strains for dollar debtors.	High	Short term	High	Under current exchange rate policies, the ouguiya is likely to appreciate further in effective terms, widening further the current account balance and exacerbating pressures on reserves. External sustainability will be at risk.	Higher exchange rate flexibility would be needed to support external sustainability and competitiveness. To mitigate balance sheet effects, limits in banks' FX position should be strictly enforced. Targeted social transfers will help contain effects on the poor. Efforts to implement structural reforms for economic diversification should be elevated and sound macroeconomic management will require increasing the effectiveness of the transmission mechanism to anchor inflation expectations.
3. Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa and Europe, leading to a sharp rise in migrant flows, with negative global spillovers.	High	Short term	Low	Intensifying conflict in the Middle East may create upside risks for oil prices, worsening external and fiscal balances. Scalating insurgent activity in Mali and Africa may plunge investor sentiment, with dampening effects on investment and FDI. Increased security-related costs may raise operational costs for business.	Higher exchange flexibility will help absorb higher oil prices. Lower fiscal revenues will call for renewed efforts for fiscal consolidation.
4. Persistently lower energy prices.	High	Medium term	Medium ↑	Lower oil and gas prices would improve the current account and the fiscal balance.	Additional policy space could help buildup buffers to increase the resilience of the economy to external shocks and elevate efforts for reforms to promote economic diversification.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseeline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the shource of risks and overall level fo concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short-term" and Medium-Term" are meant to indicate that the risk could materialize withing 1 year and 3 years, respectively.

B. Mauritania-Specific Shocks					
1. No expansion in iron ore production	Medium	Short to Medium term	High	Lower-than-expected mining production could result in worsening trade and fiscal balances. Weaker fundamentals may lead to higher overvaluation of the exchange rate.	High policy adjustment to address the commodity shock will be needed to support macroeconomic stability, including stronger fiscal consolidation and facilitating the role of the exchange rate as a shock absorber in light of limited external buffers.
2. Climate Change	Low	Medium term	Medium	Mauritania is specially prone to droughts, which affects agriculture (the sector with the highest level of employment) and, more intensively, the poor. High sea temperature could hinder productivity in the fishing sector. Climate change events could result in worsening trade and fiscal balances.	Build long-term food security and climate resilience, in addition to targeted social safety nets that builds in risk management and adaptation to climate change.
3. Political and/or social unrest	Low	Medium term	High	Lack of improved living standards for the population could put pressure for further additional current spending, and may slow down the pace of reforms hampering long-term growth prospects.	Prioritize and sequence reforms to promote more inclusiveness in economic growth.

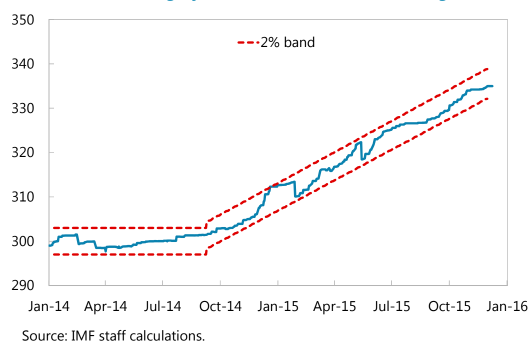
Source: IMF staff.

Annex V. Mauritania: External Sector Assessment

A. Exchange Rate Developments and Assessment

1. Since November 2014, the Ouguiya has followed a *de facto* crawl-like exchange rate arrangement around the US dollar with an annual 9 percent crawl rate. As a consequence, exchange rate dynamics have closely followed the EUR/USD exchange rate.

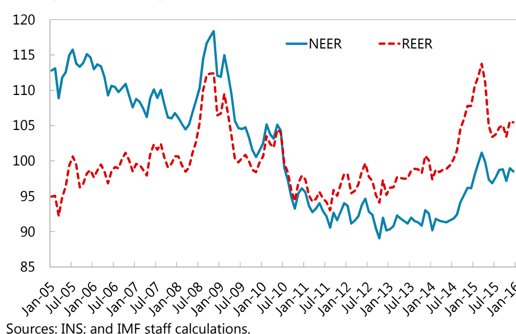
Mauritania Ouguiya to US Dollar (WMR) Exchange Rate



Source: IMF staff calculations.

2. Mauritania's average real effective exchange rate (REER) continued to appreciate in 2015. Despite the nominal depreciation, the average REER appreciated by 5 percent in 2015, compared to 3.5 percent in 2014 due in part to the strengthening of the US dollar during 2015; however, year-on-year, the REER depreciated by 2 percent in December 2015, in contrast with a 7 percent appreciation in 2014. The nominal effective exchange rate has followed a trend similar to the REER.

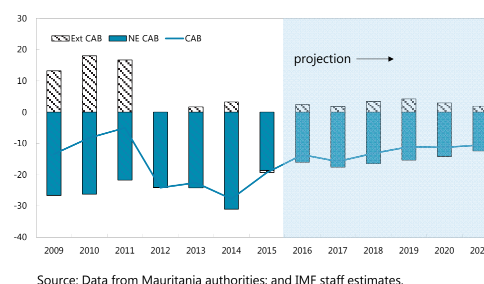
Effective Exchange Rates
(Index, 2010=100)



Sources: INS; and IMF staff calculations.

3. The current account deficit remains elevated. The 2015 current account deficit declined by 8.4 percentage points to reach 19.3 percent of GDP. The adjustment was driven in part by revenues from a fishing agreement with the EU, telecom licenses, and budget support grants amounting to 3.4 percent of GDP. The deficit in the non-extractive current account balance contracted despite the adverse terms of trade shock because of higher transfers. The surplus in the extractive current account balance was replaced with a deficit of 1 percent of GDP in 2015.[1]

Current Account Balance : Extractive and Non-extractive
(Percent of GDP)



Source: Data from Mauritania authorities; and IMF staff estimates.

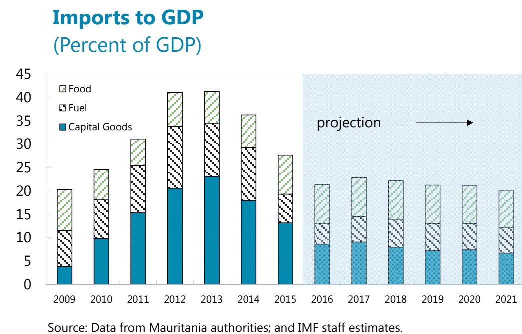
4. Under current policies, the current account is projected to improve modestly over the medium term. The 2016 current account deficit is projected to improve to 13.6 percent of GDP driven by lower imports of petroleum products and equipment for the extractive industry. Over the medium term, under current policies, the current account deficit will narrow to 10.5 percent of GDP, primarily because of the recovery of the surplus in the extractive current account and a pickup in growth in the outer years. Further adjustment in the non-extractive

[1] The current account related to the extractive sector adjusted significantly after 2011 due to higher imports related to investment projects that enhanced mining capacity.

sector will be limited in part because of food and fuel imports that account for 14.5 percent of total imports and are relatively inelastic. Current exchange rate policy supports limited current account adjustment.

5. A decline in imports of capital goods has been responsible for the adjustment in imports so far. Low iron ore prices have caused a decline in mining investment projects. Over the medium term, imports of capital goods are projected to decline moderately (after increasing in 2017 because of new investment projects related to the drainage of the port and electricity expansion) and stabilize around 7.5 percent of GDP. On the other hand, imports food and fuel have exhibited some adjustment due to price dynamics, but they are jointly projected to remain at around 13.5 percent of GDP over the medium term. The stability of imports of food and fuel goods over the medium term along with the adjustment in imports of capital goods suggests that space to contract imports into the future will be limited.

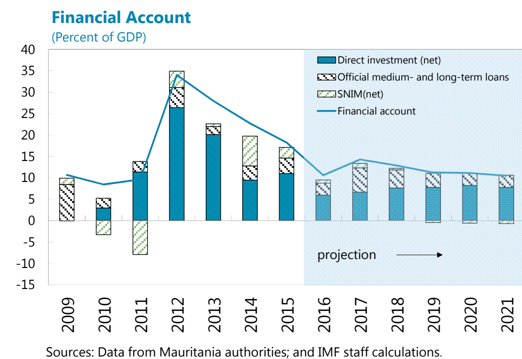
Imports to GDP
(Percent of GDP)



Source: Data from Mauritania authorities; and IMF staff estimates.

6. Lower FDI flows have driven a decline in Mauritania's financial account since 2012. The financial account is projected to decline further in 2016 driven by lower FDI flows, but it set to rebound in 2017 and 2018 because of an increase in medium and long term loans contracted to finance large public infrastructure projects. After 2018, the financial account stabilizes to around 11 percent of GDP despite lower net debt disbursements due to improved FDI flows. FDI is projected at around 7.5 percent of GDP over the medium term.

Financial Account
(Percent of GDP)



Sources: Data from Mauritania authorities; and IMF staff calculations.

7. EBA-lite approaches to assessing exchange rate misalignment suggest that the ouguiya is overvalued, but the estimated degree of the overvaluation varies significantly. In particular:

- **EBA-lite current account model**. Under the EBA-lite methodology, the current account balance is modeled as a function of its fundamentals.[2] The current account reference is the deficit of 19.3 percent of GDP for 2015. The estimated norm was a deficit of 3.6 percent of GDP (Table 1).

- **External sustainability approach.** This approach is designed to stabilize the net international investment position over the medium term at either -60 or -80 percent of GDP. On this basis, the estimated current account norms are between -4.7 and -5.8 percent of GDP, compared to a projected medium-term current account deficit of 10.5 percent of GDP (Table 1).

[2] See IMF working paper 13/272.

- **Equilibrium REER model**. The price-based approach directly models a REER norm within a panel framework as a function of the many fundamentals used in the EBA approach.

- Given the challenges in applying these methodologies to resource-rich low-income countries associated with the poor statistical fit of the regressions underpinning these methodological approaches and trade elasticities, the estimates need to be considered with caution as they may not be reliable indicators of Mauritania's real exchange rate gap. The real exchange rate gap estimates are also subject to uncertainties relating to the future path of commodity prices.

Table 1. Mauritania: Exchange Rate Assessment

	EBA-lite current account regression[1]	External sustainability assessment		Equilibrium REER regression[1]
		-60% of GDP	-80% of GDP	
Current account reference[2]	-19.3	-10.5	-10.5	...
Current account norm	-3.6	-4.7	-5.8	...
Current account gap	-15.7	-5.8	-4.7	...
Real exchange rate gap[3]	78.4	29.2	23.4	16.0

[1] Based on EBA methodology (IMF working paper 13/272)

[2] For current account regression, 2015 value; for external sustainability approach, 2021 value.

[3] Positive numbers indicate overvaluation. Elasticity of current account to real exchange rate gap is 0.2.

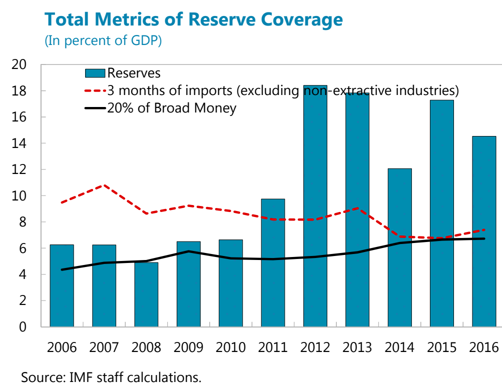
8. In light of a deteriorated outlook, Mauritania's external position will need to adjust. Economic growth in the short term is predicated on the expansion of mining. NEGDP growth is projected to be markedly lower over the medium term compared to the years of high commodity prices—in part due to the overvaluation of the exchange rate which hampers external competitiveness—but begins to improve in 2018. Under current policies, gross international reserves will drop below the authorities' target of three-month coverage of imports (excluding extractive industries) after 2019.

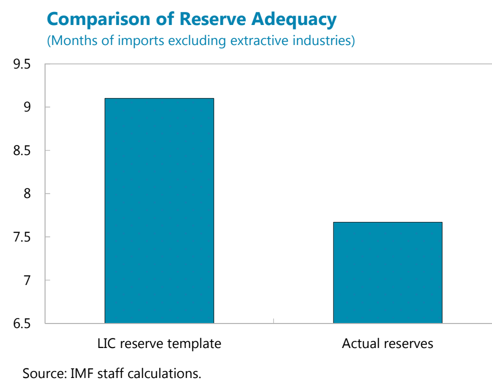
B. Reserve Adequacy Considerations

9. Mauritania's gross reserve coverage is adequate according to traditional measures. Gross reserves covered 7.7 months of non-extractive imports in 2015 and are projected at 5.9 months in 2016; this level is above the 3-month import coverage conventional rule and well-above the 20 percent coverage of broad money. However, the buildup of reserves during 2015 was debt-financed; and, in net terms, reserves have declined from US$998 million in 2013 to US$536 million in 2015, or 2.9 months of prospective imports excluding those related to the extractive industries. While the reserve adequacy assessment for credit constrained economies

suggests that reserves cover 9.1 months of imports, Mauritania's current reserves are close and cover 7.7 months of imports.[3]

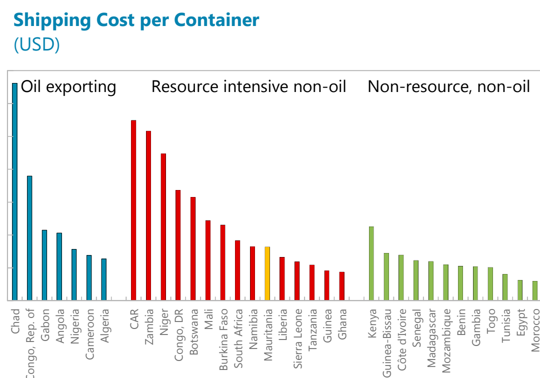
10. Rebuilding foreign reserve buffers would help mitigate the impact of possible future external shocks. Pressures on reserves are expected to remain over the medium term. The recent terms-of-trade shock demonstrated the economy's vulnerability to swings in global commodity prices, particularly those for iron ore prices. The collapse in iron ore prices in 2014–15 resulted in significant reserve losses. The Mauritanian economy remains vulnerable to additional external shocks, beyond developments in the global iron ore markets. Higher oil or/and food prices would bring about substantial deterioration in trade and current account balances. Other things equal, assuming the shock is fully absorbed with reserves, a 20 percent rise in world food or oil prices would result in a decline in foreign reserves equivalent to 0.4 month of imports.





C. Indicators of Structural Competitiveness

11. Non-price measures of structural competitiveness suggest that Mauritania has improved and ranks well among its peers. This is true for the relative price of communication and transport (Figure 1). Although the relative price of housing/water/electricity deteriorated compared to 2005, it remains slightly below the median for its peers. The shipping cost per container in Mauritania is on the lower end of the spectrum for oil exporters, resource intensive non-oil exporting countries, and non-resource intensive non-oil exporting countries in the Middle East and



Sources: World Bank, World Development Indicators; and IMF staff estimates.
Note: Includes costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport.

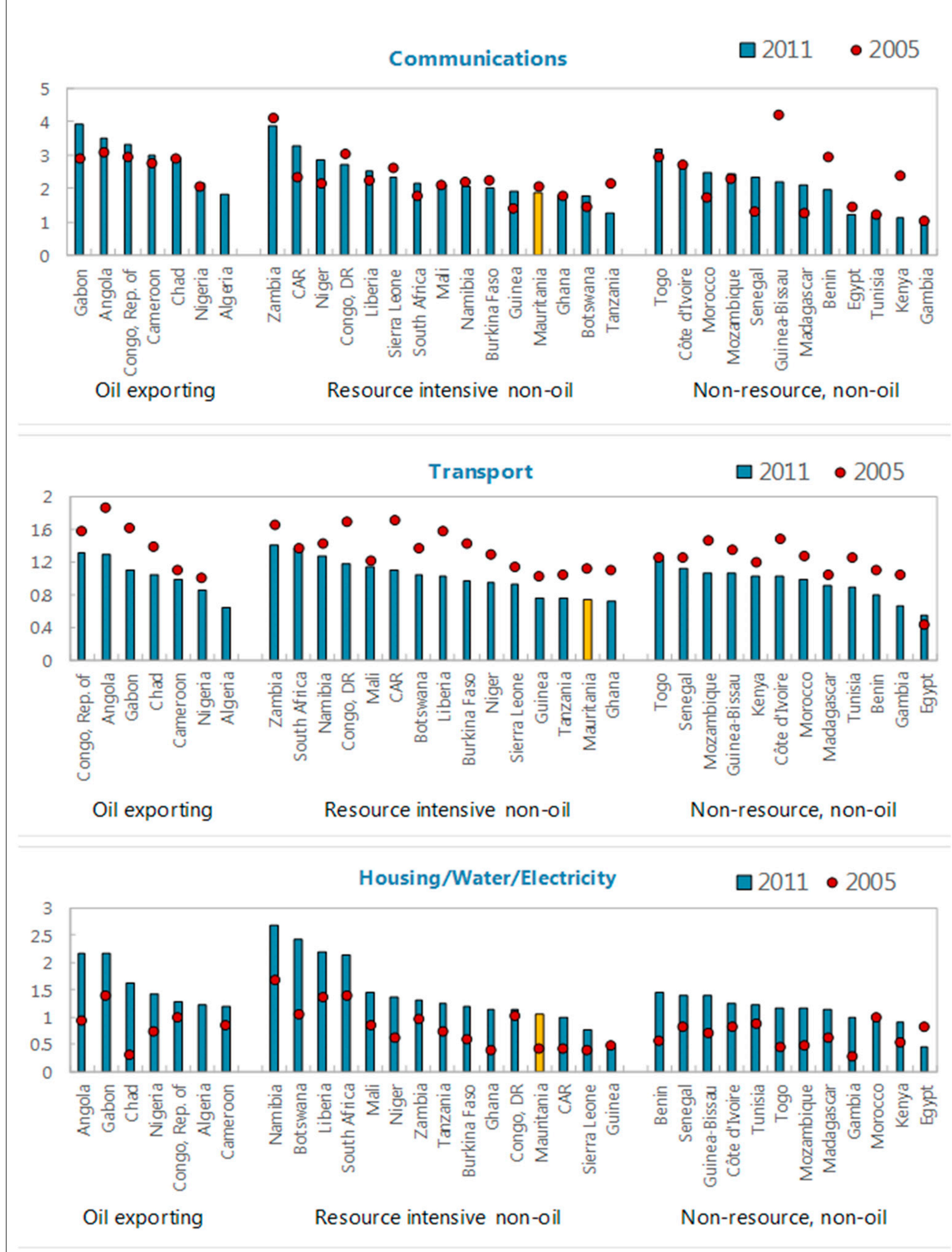
[3] The target of six months of imports is based on ARA metrics estimated for resource-rich low-income countries with a fixed exchange rate (IMF Policy Paper "Assessing Reserve Adequacy—Further Considerations," November 2013). The paper finds that countries with low economic flexibility and high vulnerability to external shocks may need to hold higher precautionary reserves.

African region. These features suggest that Mauritania is well placed to spur domestic production of goods and services.

12. Indicators for governance, competitiveness and doing business in Mauritania improved during 2015. However, Mauritania ranks lower than its resource-based peers in all categories of the global competitiveness indicator. Mauritania's governance has been slightly better than the average of the Low Income countries (LICs), mainly due to better performance in the Rule of Law, Regulatory Quality and Political Stability categories (Figure 2). As for doing business in Mauritania, the findings are mixed. On one hand, Mauritania performed better than the average of the Lower Middle Income countries (LMICs) in starting a business, dealing with construction permits, registering property and enforcing contracts; but it scored worse than the average of the LICs in getting credit, paying taxes, trading across borders and resolving insolvency. Overall, doing business in Mauritania remains more challenging than its peer groups. Competitiveness is also lower, with the exception of Infrastructure, Macroeconomic Environment and Technological readiness, where Mauritania performs better than its LIC peers.

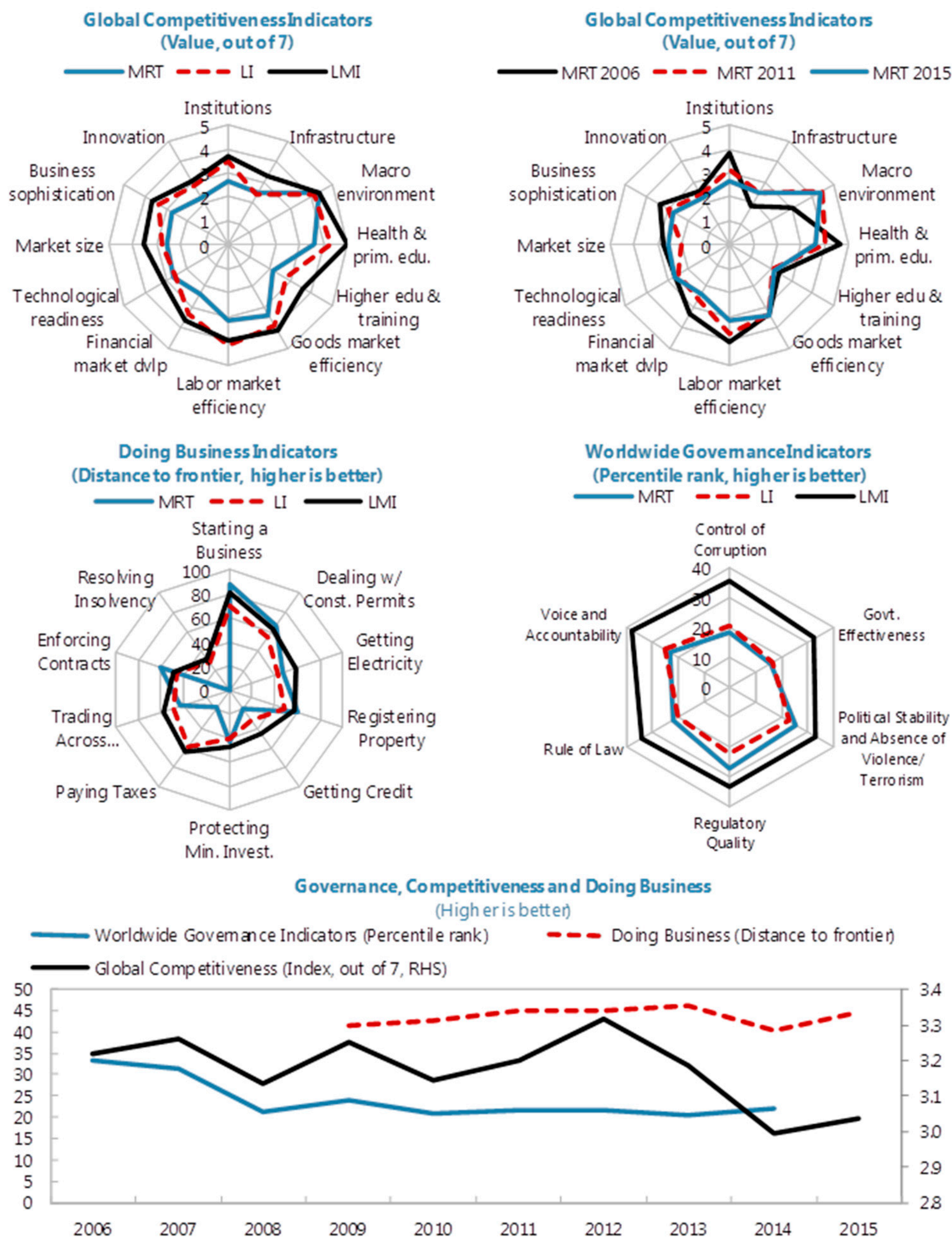
13. Gains from improving competitiveness in Mauritania remain large. The authorities are already addressing deficiencies through their public investment program and reforms to protect investors and enhance investment. Continued well-targeted and effective improvements—as well as better access to finance through—can ease the operating conditions for local business and thereby improve their external competitiveness.

Figure 1: Relative Prices of Key Non-Traded Goods and Services



Sources: World Bank, International Comparison Program; and IMF staff calculations.
Note: Comparators include Bangladesh, Cambodia, Lao PDR, and Vietnam.

Figure 2. Mauritania: Business and Governance Indicators, 2006-15



Sources: World Bank's Worldwide Governance Indicators; World Bank's Doing Business Report; World Economic Forum's Global Competitiveness Report; and IMF staff estimates.

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

April 11, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

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

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FUND RELATIONS

(As of March 17, 2016)

Membership Status: Joined: September 10, 1963 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	128.80	100
Fund holdings of currency (Exchange Rate)	112.68	87.48
Reserve Tranche Position	16.13	12.52

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	61.67	100
Holdings	1.88	3.04

Outstanding Purchases and Loans:	**SDR Million**	**%Quota**
ECF Arrangements	79.40	61.64

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ECF	15-Mar-10	25-Jun-13	77.28	77.28
ECF [1]	18-Dec-06	1-Nov-09	16.1	10.31
ECF [1]	18-Jul-03	7-Nov-04	6.44	0.92

Projected Payments to Fund [2]

(SDR Million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2016	2017	2018	2019	2020
Principal	7.13	10.25	14.55	15.46	14.35
Charges/Interest	0.03	0.04	0.04	0.14	0.10
Total	7.16	10.29	14.58	15.60	14.45

[1] Formerly PRGF.

[2] When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Enhanced Framework
Decision point date	Feb 2000
Assistance committed by all creditors (US$ million)[3]	622
Of which: IMF assistance (US$ million)	46.76
(SDR equivalent in millions)	34.8
Completion point date	Jun 2002

II. Disbursement of IMF assistance (SDR Million)	
Assistance disbursed to the member	34.80
Interim assistance	16.88
Completion point balance	17.92
Additional disbursement of interest income[4]	3.63
Total disbursements	38.43

Implementation of Multilateral Debt Relief Initiative (MDRI):

I. MDRI-eligible debt (SDR Million)[5]	32.91
Financed by: MDRI Trust	30.23
Remaining HIPC resources	2.68

II. Debt Relief by Facility (SDR Million)

	Eligible Debt		
Delivery Date	GRA	PRGT	Total
June 2006	N/A	32.91	32.91

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

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

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

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

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

[5] The MDRI provides 100 percent debt relief to eligible member countries that qualified for the assistance. Grant assistance from the MDRI Trust and HIPC resources provide debt relief to cover the full stock of debt owed to the Fund as of end-2004 that remains outstanding at the time the member qualifies for such debt relief.

Completion point—point at which a country receives the remaining balance of its assistance committed at the decision point, together with an additional disbursement of interest income as defined in footnote 2 above. The timing of the completion point is linked to the implementation of pre-agreed key structural reforms (i.e., floating completion point).

Safeguards Assessments

The 2010 safeguards assessment of the CBM found significant risks in the central bank's safeguards framework. The assessment noted that action was needed to develop the CBM's financial reporting, which lagged behind international standards and the practices of other central banks in the region. Legal reforms were also recommended to strengthen the central bank's autonomy and governance. The assessment further noted that capacity building was needed in the areas of information systems and internal audit. Progress in implementing safeguards recommendations has been protracted. Some steps have been taken to strengthen the internal audit function and the audited financial statements for 2013 and 2014 have been published in full, albeit with delay. Other important recommendations remain outstanding, including the implementation of IFRS and legal reforms to strengthen the CBM's autonomy and establish adequate oversight arrangements.

AML/CFT

The Middle East and North Africa Financial Action Task Force (MENAFATF) adopted the mutual evaluation report for Mauritania in November 2006, where it recommended corrective measures to address the deficiencies in the country's AML/CFT framework. In the ninth follow-up report last November 2014, the MENAFATF noted the positive steps taken by the authorities, such as Senate approval of the amended AML/CFT draft law. However they concluded that some core and key recommendations remain unaddressed, in particular, (a) shortcomings in the legal definition of the act of terrorist financing; and (b) lack of sufficient procedures to implement United Nations Security Council Resolutions (UNSCRs) 1267 and 1373 on listing and freezing of terrorist assets. Mauritania was thus kept under the enhanced follow-up procedures and is expected to report back on new actions taken at the next Plenary scheduled for end-April 2015. Authorities are committed to improving the AML/CFT laws to address the identified deficiencies, and have undertaken measures to expedite procedures for joining the Egmont Group of Financial Intelligence Units as recommended by the 2012 FATF. MENAFATF is also scheduled to assess the country's AML/CFT regime under the revised FATF methodology with an onsite visit in late 2016.

Exchange Arrangement

Mauritania's de jure exchange rate arrangement is floating. The de facto exchange rate arrangement has been reclassified to a crawl-like arrangement effective September 9, 2014. Since the, the nominal exchange rate against the U.S. dollar has followed a 9-percent annual crawl within a 2 percent band. Mauritania maintains one exchange restriction subject to IMF approval under Article VIII of the Fund's Articles of Agreement. The exchange restriction arises from the insufficient foreign exchange availability at the fixing sessions (auctions) organized by the Central Bank of Mauritania (CBM) for those transactions which are required to be submitted to the auctions. The authorities have requested, and staff recommends, Board approval for the temporary retention of this restriction.

Last Article IV Consultation

Previous Article IV discussions were held in Nouakchott during October 20–30, 2014. The Country Report No. 15/35 was completed on January 14, 2015 and was considered by the Executive Board on January 28, 2015.

Technical Assistance

Department	Type	Topic	Date
MCM			
	TA mission	Foreign exchange market issues	Jan. 9–23, 2005
	Peripatetic TA missions by panel expert	Foreign exchange reserves management	Jul.13–26, 2005
	TA mission	Money market instruments	Mar. 7–19, 2006
	TA mission	Foreign exchange market	Dec. 17–19, 2006
	TA mission	Central Bank accounting	Mar. 6–May 4, 2007
	TA mission	Securitization of government debt	Sept. 9–21, 2007
	TA mission	Central Bank accounting	Oct. 2007–Oct. 2008
	TA mission	Foreign exchange market	Apr. 28–May 6, 2010
	TA mission	Central bank accounting	Jun 6–16, 2011
	TA mission	Liquidity management	Feb. 5–15, 2012
	TA mission	Bank Supervision	Jun. 20–Jul. 4, 2012
	Joint WB-IMF TA mission	Debt strategy	Jun. 3–10, 2012
	TA mission	FX and monetary operations	Mar. 24–Apr. 1, 2013
FAD			
	TA mission	Public expenditure management	Apr.3–19, 2005
	TA mission	Fiscal administration reform	Jun. 14–18, 2005
	TA mission	Tax policy	May 25–Jun. 8, 2006
	TA mission	Customs administration	Jun. 5–16, 2006
	TA mission	Oil revenue management	Oct. 24–Nov. 7, 2006
	TA mission	Tax administration	Mar. 12–23, 2007
	TA mission	Tax policy	Feb. 27–Mar. 11, 2008
	TA mission	Single treasury account, cash management plan	May 16–30, 2010
	TA mission	Tax and customs administration	Jul. 30–Aug. 12, 2010
	TA mission	Tax policy	Sept. 19–30, 2010
	TA mission	Fiscal and trade tariff systems	Feb. 8–22, 2011
	TA mission	TSA/cash management (3/3)	Jul. 11–25, 2011
	TA mission	Subsidy reform and Expenditure rationalization	Oct. 4–17, 2011
	TA mission	Tax administration - TPA TTF Module 4 and 5	Jan. 15–26, 2012
	TA mission	Taxation of the mining sector - MNRW Module 1	Apr. 2–16, 2012

	TA mission	Tax administration TTF - Module 4	Apr. 10–30, 2012
	TA mission	Tax administration TTF - Module 5	Apr. 10–30, 2012
	TA mission	Tax Policy TPA TTF 2013 (BTB w/ FRA 13FAZD9)	Jun. 22–28, 2012
	TA mission	Customs administration Diagnostic	Jun. 26–Jul. 9, 2012
	TA mission	TPA-TTF (Module 4 - tax administration)	Oct. 21–Nov. 8, 2012
	TA mission	TPA-TTF (Module 8 - support functions)	Oct. 21–Nov. 8, 2012
	TA mission	PFM Reform	Nov. 11–24, 2012
	TA mission	Customs Administration	Jan. 13–24, 2013
	TA mission	Resources TTF	Jan. 22–29, 2013
	TA mission	TPA TTF Modules 4, 5, and 8 Follow-Up	Feb. 16–28, 2013
	TA mission	TPA-TTF (Module 5 - tax procedures)	Apr. 14–29, 2013
	TA mission	Support Functions of the Tax Department (Module 8 TPA TTF)	Sept. 10–30, 2013
	TA mission	Tax Department Organization (Module 4 TPA TTF)	Sept. 1–30, 2013
	TA mission	Follow-up under NRW TTF	Oct. 9–21, 2013
	TA mission	Provide advice to support the authorities with implementation (Module 5&6 TPA TTF) [1/2]	Jan. 13–24, 2014
	TA mission	Tax Procedures (Module 5)	Jan. 13–Feb. 1, 2014
	TA mission	Tax Procedures (Module 5)	Jan. 28, 2014
	TA mission	Customs Administration	Mar. 20–Apr. 2, 2014
	TA mission	Customs Administration	Mar. 22–25, 2014
	Follow-Up Mission	TPA TTF Module 4 and 5	Apr. 16–29, 2014
	TA mission	Further implementation of enforcement strengthening (module 6 of the TPA-TTF)	Nov. 17–30, 2014
	TA mission	Further implementation of enforcement strengthening (module 6 of the TPA-TTF)	Nov. 17–30, 2014
	TA mission	Tax Administration	Dec. 1–14, 2014
	TA mission	Technical assistance mission on Tax administration (Gregoire Rota-Grazioz and Mrs. Oana Luca)	Mar. 03-09, 2015
	TA mission	Technical assistance mission on Tax Administration (Goanvic Rodolphe)	Apr. 27-May 8, 2015
	TA mission	Technical assistance mission on LOLF (B. Chevauchez)	May 01-07, 2015
	TA mission	Technical assistance mission on Tax administration (Vincent de Paul, GOANVIC Rodolph)	July 21-Aug. 3, 2015
	TA mission	Technical assistance mission on LOLF (B. Chevauchez, B. Taiclet, Mme. Boukezia et Mme. Berbach)	Nov. 9-21, 2015

	TA mission	Technical assistance mission on Tax administration (Gregoire Rota-Graziozi)	Feb. 22-28, 2016
LEG			
	TA mission	Jurisdictional assessment of the foreign exchange system (with MCM)	June 22-30, 2014
	TA mission	The drafting of laws to combat money laundering and the financing of terrorism	Feb. 23–Mar. 1, 2005
STA			
	TA consultant	Banking and monetary statistics	Nov. 8–22, 2005
	TA mission	Balance of payments statistics	Apr. 5–18, 2006
	TA mission	Monetary and financial statistics	Jul. 13–26, 2006
	TA mission	National Accounts Statistics	Apr. 16–27, 2007
	TA mission	Monetary and financial statistics	May 11–24, 2010
	TA mission	Balance of payments statistics	Apr. 10–21, 2011
AFRITAC West			
	TA mission	Customs Administration	Jun. 1–14, 2011
	TA mission	Bank Supervision	Jun. 15–28, 2011
	TA mission	Bank Restructuring	Jun. 19–30, 2011
	TA mission	Capacity Building on Tax Administration	Jun. 20–30, 2011
	Joining FAD-Mission and Contribution TA	Cash flow Management	Jul. 18–25, 2011
	TA mission	Public Debt-Support /Issuance of Government Securities	Jul. 24–Aug. 1, 2011
	TA mission	Improvement of customs procedures and streamlining of controls	Sept. 18–29, 2011
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Sept. 18–29, 2011
	TA mission	Public Financial Management	Oct. 10–20, 2011
	TA mission	Bank Supervision and Regulation	Oct. 23–Nov. 3, 2011
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Dec. 6–15, 2011
	TA mission	Customs Administration	Jan. 15–26, 2012
	TA mission	National Accounts Statistics	Jan. 22–Feb. 2, 2012
	TA mission	Public Debt	Jan. 23–Feb. 2, 2012
	TA mission / Review	Bank Financial Supervision (DGSBF) Review	Feb. 1–16, 2012
	TA mission	Banking Supervision and Regulation	Feb. 12–23, 2012
	TA mission	Public Financial Management/Public accounting	Mar. 25–Apr. 5, 2012
	TA mission	Banking Supervision and Regulation	May 7–21, 2012
	TA mission	Bank Supervision	May 8–23, 2012

	TA mission	National Accounts Statistics	May 20–31, 2012
	TA mission	Public Debt Management	Jun. 3–8, 2012
	TA mission	Revenue Administration	Jun. 14–25, 2012
	TA mission	Public Financial Management - Treasury Management	Jul. 8–13, 2012
	TA mission	Public Financial Management - Treasury Management	Jul. 8–19, 2012
	TA mission	Bank Supervision and Regulation	Nov. 10 –23, 2012
	TA mission	Public Financial Management	Nov. 11–23, 2012
	TA mission	Bank Supervision	Nov. 14–27, 2012
	TA mission	Institutional Support Debt Management Centralization	Dec. 5–14, 2012
	TA mission	Customs Administration	Jan. 13–24, 2013
	TA mission	Strengthening on MTO operations	Feb. 17–28, 2013
	TA mission	Strengthening the MTO operations	Feb. 17–28, 2013
	TA mission	Public Financial Management	Feb. 19–21, 2013
	TA mission	Bank Supervision	Apr. 8–19, 2013
	TA mission		Apr. 18–29, 2013
	TA mission	National Accounts Statistics	Jun. 2–13, 2013
	TA mission	Bank Supervision - Central Bank of Mauritania	Jun. 9–20, 2013
	TA mission	Liability Management/Supervision	Nov. 3–14, 2013
	TA mission		Nov. 4–8, 2013
	TA mission	Public Debt	Jan. 13–26, 2014
	TA mission	Public Debt Management	Jan. 13–24, 2014
	TA mission	Government Finance Statistics	Jan. 27–Feb. 6, 2014
	TA mission	Customs Administration	Feb. 9–13, 2014
	TA mission	Budget Treasury	Feb. 9–20, 2014
	TA mission	Public Expenditure	Feb. 9–20, 2014
	TA mission	Tax Administration	Feb. 10–14, 2014
	TA mission	Tax Administration	Feb. 10–21, 2014
	TA mission	Customs Administration	Mar. 20–Apr. 2, 2014
	TA mission	Multi annual program in banking supervision	Mar. 22–Apr. 3, 2014
	TA mission	Multi annual program in banking supervision	Mar. 22–Apr. 3, 2014
	TA mission	Customs Administration	Mar. 23–Apr. 3, 2014
	TA mission	National Accounts Statistics	Apr. 20–28, 2014
	TA mission	Bank Supervision	May 18–29, 2014
	TA mission	Public Debt Management/Politique d'émission des titres publics	Jul. 15–25, 2014
	TA mission	Banking Supervision	Oct. 5–16, 2014
	TA mission	Bank Supervision / BCM	Nov. 3–14, 2014
	TA mission	National Accounts Statistics	Dec. 15–26, 2014

	TA mission	Technical assistance statistics of Public finances	Jan. 26-30, 2015
	TA mission	Technical assistance mission on bank supervision (R. Bernard)	Jan. 25- Feb. 5, 2015
	TA mission	Technical assistance mission on Tax administration (M. Roland Atanga and René Ossa)	Feb 16-27, 2015
	TA mission	Technical assistance on Management of the public expenditure (M. Guy Cercellier)	Feb 23-March 6, 2015
	TA mission	Technical assistance in the real sector statistics Yankhouba Jacques Badji)	Feb. 23-Mar 06, 2015
	TA mission	Technical assistance mission on Macroeconomic (Severin Yves Kamgna)	Mar. 17-20, 2015
	TA mission	Technical assistance mission on Real Sector statistics (Achille Pegoue)	Mar. 16-27, 2015
	TA mission	Technical assistance mission on Tax administration (M. Roland Atanga and Mme. Bazaica)	Sep. 7-18, 2015
	TA mission	Technical assistance mission on bank supervision (R. Bernard and B. Flanchec)	Nov 2-13, 2015
	TA mission	Technical assistance mission on Public finance statistics (P. Samborski)	Jan 11-22, 2016
	TA mission	Technical assistance mission on public debt management (M. Guissou et Mme. Lemanchec	Jan 11-22, 2016
	TA mission	Technical assistance mission on bank supervision (R. Bernard and B. Flanchec)	Feb. 01-12, 2016

Resident Representative

Mr. Nooman Rebei is the resident representative in Mauritania since January 2015.

JOINT MANAGEMENT ACTION PLAN OF THE WORLD BANK AND IMF

Title	Products	Mission timing	Expected delivery
A. Mutual information on relevant work programs			
World Bank work program (next 12 months	Tax Efficiency Study		February 2016
	Diagnostic Trade Integration		February 2016
	Nouadhibou Free Zone Support and Competitiveness		March 2016
	Public Expenditure Review Update		April 2016
	Poverty and Jobs Technical Assistance Project		Ongoing
	EITI Support		Ongoing
	Public Sector Governance Project		Ongoing
	Banda Gas-to-Power Project		Ongoing
	OMVS Transmission Project		October 2016
	Technical Assistance on Country Policy and Institutional Assessment		Ongoing
	General government accounts and fiscal risks report		June 2017
	Land Policies (Urban and Rural)		June 2017
	Social Inclusion Project		June 2017
	Competitiveness Project		June 2017
	Youth Inclusion Project		June 2017
IMF work program (next 12 months)	**Technical Assistance**		
Monetary and banking sector	Bank Supervision and Capital Account Liberalization	Apr. 1–15, 2015	
	Monetary and FX operations, including Islamic Banking	Apr. 27–May 8, 2015	
	Bank Supervision	Mar. 2–14, 2015	

Fiscal sector	Tax Administration	Feb. 3–16, 2015	
	PFM Reform	Mar. 1–10, 2015	
	Cash Management	Jul. 1–10, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Public Financial Management	Feb. 9–20, 2015	
	Tax Administration	Feb. 9–20, 2015	
National accounts and statistics	Government Finance Statistics	Jan. 25–31, 2015	
	National Accounts Statistics	Feb. 2–13, 2015	
B. Agreement on joint products and missions			
Joint products (next 12 months)	LIC DSA for the 2014 Article IV Consultations	January 2016	April 2016
	Medium-term debt strategy		
	Mining Taxation		
	Financial Sector Strategy	2015	2015

IMF work program (next 12 months)	**Technical Assistance**		
Monetary and banking sector	Bank Supervision and Capital Account Liberalization	Apr. 1–15, 2015	
	Monetary and FX operations, including Islamic Banking	Apr. 27–May 8, 2015	
	Bank Supervision	Mar. 2–14, 2015	
Fiscal sector	Tax Administration	Feb. 3–16, 2015	
	PFM Reform	Mar. 1–10, 2015	
	Cash Management	Jul. 1–10, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Customs ADM	Feb. 2–13, 2015	
	Public Financial Management	Feb. 9–20, 2015	
	Tax Administration	Feb. 9–20, 2015	
National accounts and statistics	Government Finance Statistics	Jan. 25–31, 2015	
	National Accounts Statistics	Feb. 2–13, 2015	
C. Agreement on joint products and missions			
Joint products (next 12 months)	LIC DSA for the 2014 Article IV Consultations	December 2015	April 2016
	Medium-term debt strategy		
	Mining Taxation		
	Financial Sector Strategy	2015	2015

STATISTICAL ISSUES

(As of December 31, 2015)

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

Mauritania is participating in the General Data Dissemination System (GDDS). The metadata has been posted on the Dissemination Standards Bulletin Board (DSBB); and ROSC data for most internationally recognized standards and codes is not available except for fiscal transparency.

Real sector

Under AFRITAC West technical assistance, the National Statistical Office (ONS) released revised national accounts for 1998-2010 based on 2004 prices, and also produced provisional estimates for 2011-12. The revised national accounts are in compliance with the 1993 System of National Accounts (1993 SNA), however the ONS is planning to move to SNA 2008 by 2016 and to develop quarterly national accounts in parallel.

The current consumer price index (CPI), developed with the assistance of AFRISTAT, has been published since May 2004 with a geographical coverage limited to Nouakchott (the capital). The authorities plan to update and broaden the consumer basket by using the 2013 consumer survey titled "Enquete sur la Pauvreté et les Conditions de Vie" (EPCV), and by extending the geographical coverage to four cities.

Government finance statistics

The adoption of systematic compilation practices has improved data comprehensiveness, but there is a need to make operational a data validation process as a quality control measure. In view of ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts. Substantial work is needed to move towards GFS2001 and to broaden the scope of government statistics beyond the central government to generate a comprehensive assessment of public sector statistics.

Monetary and financial statistics

CBM monetary statistics are broadly in line with the statistical methodologies of the Monetary and Financial Statistics Manual and data dissemination recommendations of the GDDS. The CBM developed and implemented bridge tables from source data to the Standardized Report Form (SRFs) and since last year submits SRF 1SR (central bank) and 2SR (other financial institutions) to STA on a preliminary basis. The quality of these data needs to be further enhanced, and the scope of 2SR

should be expanded to cover micro-finance institutions, and the *Caisse de Dépôts et de Développement (CDD)* which is a deposit and development fund created in 2011. The CBM should be moving to prepare its financial reporting system for IFRS implementation, a key safeguards assessment recommendation. The CBM should also publish monetary statistics on its official website in a timely manner.

Balance of payments

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

Mauritania: Common Indicators Required for Surveillance

(As of December 2014)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	March 2016	March 2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec. 2015	Feb. 2016	M	M	NA
Reserve/Base Money	Dec. 2015	Feb. 2016	M	M	NA
Broad Money	Dec. 2015	Feb. 2016	M	M	NA
Central Bank Balance Sheet	Dec. 2014	Jun. 2015	Q	Q	NA
Consolidated Balance Sheet of the Banking System	Dec. 2015	Feb. 2016	Q	Q	NA
Interest Rates[2]	March 2016	March 2016	I	I	I
Consumer Price Index	Jan. 2016	Feb. 2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Dec. 2015	Feb. 2016	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2015	Feb. 2016	M	M	I
External Current Balance	Dec. 2015	Feb. 2016	Q	Q	I
Exports and Imports of Goods and Services	Dec. 2015	Feb. 2016	Q	Q	I
GDP/GNP	2013[7]	Oct. 2014	A	A	I
Gross External Debt	Dec. 2015	Feb. 2016	M	M	I

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

April 11, 2016

Approved By
Daniela Gressani and Peter Allum (IMF) and John Panzer (IDA)

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

Mauritania's risk of debt distress is rated high due to substantial and persistent breaches of all but one threshold under the baseline scenario. The outlook has worsened compared to the debt sustainability analysis prepared at the time of the 2014 Article IV Consultation owing to a worse-than-anticipated terms-of-trade deterioration that has decreased growth and export prospects. Further pressure results from debt disbursements which have been revised upwards over the medium term in line with the public investment plan. Although the PV of debt-to-GDP ratio declines in the long run due to a recovery in growth rates, the ratio remains high because of disbursements linked to public infrastructure projects.

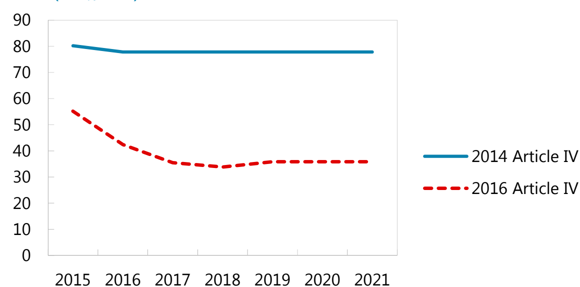
INTRODUCTION

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

BACKGROUND

1. The outlook has worsened since the 2014 Article IV consultation. This is reflected in the deterioration of debt distress indicators. Compared to the 2014 Article IV, iron ore prices were 31 percent lower in 2015 and, based on the latest WEO projections, 45 percent lower for 2016 and around 54 percent onward. Despite lower oil prices, the terms of trade deterioration in 2015 was approximately three times as severe as the projection in the 2014 Article IV. The actual external PPG debt to GDP ratio for 2015 was 7.3 percentage points higher than projected, and projections for 2016–19 have been revised upward. These revisions are due to higher disbursements mainly associated with new public investment projects; the PPG debt-to-GDP ratio has been increased by 16.5 percentage points in 2016 and is 49 percentage points higher in 2021 compared to the levels projected at the time of the 2014 Article IV consultation**.**

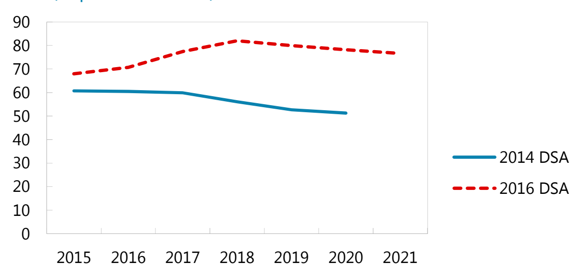
Price of Iron Ore
(US$/Ton)



Source: WEO.

2. Mauritania's external debt is high and largely composed of public debt contracted on concessional terms. PPG debt represents over 90 percent of total external debt and includes debt contracted by the central government, the central bank and SOEs, mainly SOMELEC, the state-owned electricity company. PPG debt excludes SNIM, the public mining company, which is run on a commercial basis and borrows without government guarantees.[1] External PPG debt is exposed to exchange rate risks and mostly linked to U.S. dollar developments: 27 percent of the debt is U.S. dollar denominated and about 32 percent is denominated in Kuwaiti Dinar, Saudi dinar and other currencies pegged to the U.S. dollar.

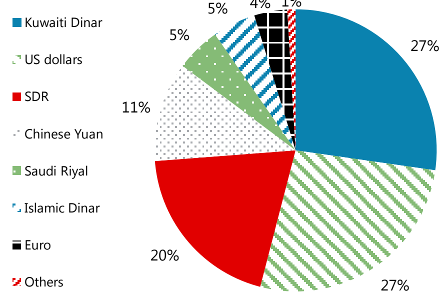
PPG External Debt 1/
(In percent of GDP)



1/ Debt relief from Kuwait under the HIPC-MDRI is assumed.
Sources: Data from authorities; and IMF staff estimates.

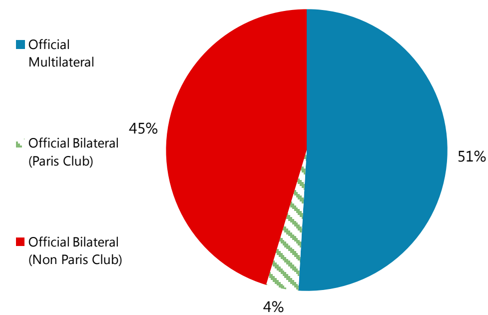
[1] Though SNIM borrows without government guarantees, its debt could become a contingent liability to the central government (See paragraph 11, Annex II).

External Debt of the Central Government: Currency Composition, 2015 (in percent of total)



Sources: Authorities data.

External Debt of the Central Government: Creditor Composition, 2015 (in percent of total)



Sources: Authorities data.

3. External PPG debt-to GDP ratios have increased markedly since 2014. The central government has increased external debt financing for public investment. Although external PPG debt is held predominantly by official creditors and largely on concessional terms, the central bank contracted a loan (6.3 percent of GDP) in 2015 to support the reserve position that is non-concessional because of its relatively short maturity (7 years). This non-concessional loan exposes Mauritania to rollover risks given its short maturity profile. In 2014, external PPG debt rose by 12.6 percentage points to 80.4 percent of GDP and, in 2015, by 12.9 percentage points of to 93.3 percent of GDP. Private external debt is projected to decline to 14.8 percent of GDP in 2016 from 15.6 percent of GDP in 2015. Movements in private external debt are driven by changes in borrowing by SNIM.

4. The authorities are actively seeking debt relief from Kuwait. An agreement has not yet been reached between the Kuwait Investment Authority (KIA) and Mauritania to address this longstanding issue. Both parties are seeking agreement about valuation, including interest in arrears. According to the 2002 Paris Club Agreement, Mauritania was expected to seek debt relief on comparable terms from non-Paris Club Creditors.

UNDERLYING ASSUMPTIONS

5. This debt sustainability analysis updates the joint IMF-World Bank DSA produced in January 2014 for the Article VI consultation. Key changes to the DSA assumptions since the previous exercise are as follows:

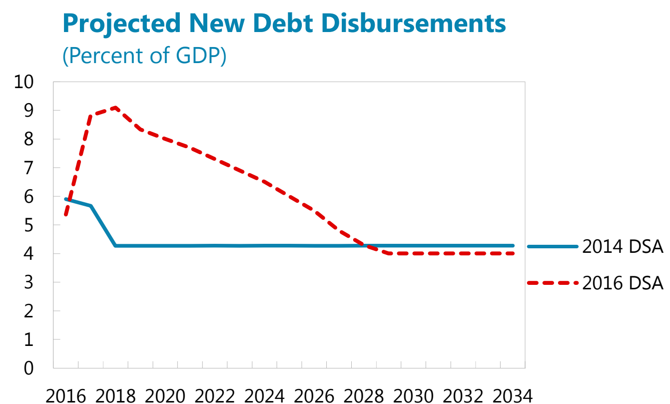
- **Real GDP growth rates** are between 1 and 6 percentage points lower over the medium term, as a result of lower iron ore prices putting the mining expansion envisaged under the 2014 Article IV consultation on hold.

- **Metal prices** have significantly declined and are projected to remain low over the medium term. Compared to the 2014 Article IV consultation, on average over the medium term iron ore prices are projected to be 54 percent lower, gold prices about 2 percent lower and copper prices about 24 percent lower.

- **Current account deficits** are projected to decline by 5.7 percentage points of GDP in 2016 led by lower oil prices, only to increase by 2.2 percentage points of GDP in 2017 because of an increase in imports related to investment projects needed to bolster production in the context of lower iron ore prices. Over the medium term, the current account deficit is envisaged to narrow to 10.5 percent of GDP driven by lower imports associated with the extractive industry and increased volumes of iron ore exports.

- **Public financing needs** are set to remain elevated over the medium term. This is caused by declines in revenues (around 3percentage points of GDP by 2021) and a large public investment program that sets average capital expenditure to 14 percent of GDP. Beyond 2028, debt disbursements are projected to stabilize at around 4 percent of GDP. Annual external financing requirements, although declining, are projected at an average 18 percent of GDP over the medium term, maintaining rollover risks elevated.

Projected New Debt Disbursements
(Percent of GDP)



Source: IMF staff estimates.

- **The average grant element** of new disbursements is assumed to be constant over time. It is envisaged that most of the new borrowing will be on concessional terms. Some loans are assumed to be non-concessional making the average grant element just short of the 35 percent benchmark for concessionality. A lower grant element will increase debt service due to higher borrowing costs.

- **CPIA** scores determine a country's quality of policies and institutions which, in turn, affect debt thresholds against which the various debt ratios calculated in the DSA are compared. The CPIA score of Mauritania has reflected significant gains in the institutional environment since 2011, and stands at 3.4 for 2014 (latest available), bringing the 3-year moving average to 3.3. As such, the 30 percentage point threshold for the ratio of the present value of PPG external debt to GDP remains valid.

- **KIA debt relief** is assumed to take place in 2016 and incorporated into the analysis since Mauritania had reached the HIPC completion point. According to the authorities' latest data, the KIA passive debt is evaluated according to the authorities at US$977 million (21.5 percent of GDP—driving the large reduction in the public and external debt-to-GDP ratios in 2016).[2] The previous DSA assumed the debt relief to take place in 2015.

[2] Estimates of the passive debt vary widely depending on underlying assumptions regarding the (non-) capitalization of interest arrears and the interest rate used for calculating the current value of arrears.

EXTERNAL DEBT SUSTAINABILITY ASSESSMENT

6. The baseline projections breach their respective thresholds for all indicators except one. Improvements in the path of the PV of debt-to GDP ratio over the projection period are driven by a pickup in GDP as disbursements are projected to remain on an increasing path. The debt service-to-revenue ratio peaks at 23.8 percent in 2020. Staff project the ratio to decline gradually after 2023 because of pickup in growth dynamics and hence government revenues.

7. Standardized stress tests lead to breaches of thresholds for all indicators. Stress tests highlight vulnerabilities to shocks to exports and to exchange rate depreciation.

8. Debt distress indicators decline over the long run because of improved growth. Over the medium term, the PPG debt-to-GDP ratio increases by 5 percentage points, peaking at 82 percent of GDP by 2018, to later decline to its 2016 level. The hump-shaped medium-term dynamics are due to increasing disbursements in the context of subdued growth dynamics. Debt disbursements are driven by project-financing to address Mauritania's infrastructure gap and increasing growth potential over the long run. Stronger growth over the long run puts the debt-to-GDP ratio on a declining path.

9. The historical scenario produces unrealistically large swings in projected external debt. This scenario involves a substantial change in the current account balance due to structural changes of the economy, namely shifting from a large FDI-financed deficit—while the mining capacity was being expanded— to a reduced CA deficit once mining exports increase over the medium term.

10. The outlook for external debt has worsened compared to the DSA prepared in 2014. A more persistent terms-of-trade shock than originally envisaged and slower growth are major contributing factors to the deterioration in Mauritania's debt profile. As no major deceleration in debt accumulation is envisaged, existing policies do not provide a counterforce to the ToT deterioration. While in the 2014 DSA only the baseline PV to debt-to GDP ratio breached its threshold and large breaches for baseline projections were short-lived, breaches for baseline projections in the current DSA exercise are large and sustained over the long run.

PUBLIC DEBT SUSTAINABILITY ASSESSMENT

11. Indicators of public debt sustainability mirror those of external debt. The public debt stock is largely composed of external debt. Public domestic debt is about 5 percent of total PPG debt, largely short-term (up to 6 months) and denominated in local currency.

CONCLUSIONS

12. A deteriorated global outlook and significant downward revisions in metal prices have resulted in Mauritania facing significant debt vulnerabilities, the risk of debt distress remains high. Improvements to debt sustainability hinge on improvements in growth dynamics and restrain in contracting new debt.

- **Sustained structural reforms are needed** to promote economic diversification through private sector development and enhance potential economic growth. Allowing the private sector to take a more proactive role in investment and economic diversification could help ease the role of public sector in development and improve debt dynamics.
- **Debt dynamics require closer monitoring and enhanced governance of the public investment program**. In addressing infrastructure gaps, the authorities should also enhance the efficiency of public investment; increase debt management capacity; and limit contracting new debt to priority projects that support potential growth.

13. Authorities broadly agree with the assessment of the DSA and acknowledge the need for prudent debt management while sustaining priority investment. Recent technical assistance from AFRITAC-West provided advice on centralizing the recording of debt for more efficient monitoring; and the authorities are working on a centralized registry of public guarantees and public debt. The recent merger of the Ministry of Finance with the Ministry of Economic Affairs and Development helps in aligning incentives and centralizing decisions on the consolidated public investment program and its financing—a key factor for more efficient debt management practices.

Table 1. Mauritania: External Debt Sustainability Framework, Baseline Scenario 2012–36 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**76.8**	**89.2**	**103.2**			**85.0**	**89.7**	**91.0**	**87.1**	**83.6**	**81.0**		**63.5**	**41.1**	
of which: public and publicly guaranteed (PPG)	63.5	74.0	87.6			70.2	76.3	79.3	77.5	75.6	74.6		63.5	41.1	
Change in external debt	-5.6	12.5	13.9			-18.2	4.7	1.3	-3.9	-3.6	-2.6		-2.3	-1.4	
Identified net debt-creating flows	-2.9	22.5	18.7			3.2	5.9	4.1	0.1	-0.2	0.2		-7.3	-12.4	
Non-interest current account deficit 2/	**20.2**	**26.1**	**17.5**	**15.4**	**7.5**	**11.6**	**13.7**	**11.0**	**9.0**	**9.3**	**8.6**		**1.1**	**-4.4**	-0.4
Deficit in balance of goods and services	22.1	27.2	18.9			15.3	16.8	14.8	12.6	13.0	13.3		5.2	-2.4	
Exports	50.3	39.7	33.6			32.3	33.4	31.9	30.6	28.6	25.5		23.9	18.8	
Imports	72.4	66.9	52.5			47.6	50.2	46.7	43.2	41.6	38.8		29.1	16.4	
Net current transfers (negative = inflow)	-2.5	-2.1	-3.1	-3.6	1.2	-3.0	-2.6	-2.6	-2.1	-2.0	-2.2		-2.9	-1.5	-2.3
of which: official	-1.5	-1.2	-1.7			-1.5	-1.1	-1.0	-0.5	-0.5	-0.5		-0.3	-0.1	
Other current account flows (negative = net inflow)	0.6	1.0	1.7			-0.7	-0.5	-1.2	-1.5	-1.8	-2.5		-1.2	-0.6	
Net FDI (negative = inflow)	**-20.1**	**-9.5**	**-11.0**	**-8.8**	**8.9**	**-6.0**	**-6.7**	**-7.6**	**-7.8**	**-8.3**	**-7.8**		**-7.0**	**-7.0**	-7.1
Endogenous debt dynamics 3/	**-2.9**	**5.9**	**12.2**			**-2.4**	**-1.2**	**0.7**	**-1.1**	**-1.2**	**-0.6**		**-1.4**	**-1.0**	
Contribution from nominal interest rate	2.4	1.7	1.9			2.1	2.1	2.2	2.1	2.0	1.9		1.1	0.7	
Contribution from real GDP growth	-5.0	-5.3	-1.9			-4.5	-3.3	-1.5	-3.3	-3.2	-2.5		-2.5	-1.7	
Contribution from price and exchange rate changes	-0.4	9.5	12.2			...	...	...	...	...	...		...	...	
Residual (3-4) 4/	**-2.7**	**-10.0**	**-4.7**			**-21.4**	**-1.1**	**-2.8**	**-4.0**	**-3.4**	**-2.8**		**5.0**	**11.0**	
of which: exceptional financing	-0.2	-0.2	-0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 5/	...	...	85.4			66.5	69.6	69.6	65.7	62.0	59.2		44.4	28.8	
In percent of exports	...	...	254.6			205.6	208.2	218.2	214.8	217.0	232.1		186.3	153.6	
PV of PPG external debt	**...**	**...**	**69.8**			**51.7**	**56.2**	**57.9**	**56.0**	**54.1**	**52.8**		**44.4**	**28.8**	
In percent of exports	**...**	**...**	**208.1**			**159.8**	**168.1**	**181.5**	**183.1**	**189.3**	**207.0**		**186.3**	**153.6**	
In percent of government revenues	**...**	**...**	**248.9**			**175.2**	**187.4**	**199.8**	**197.1**	**196.1**	**190.8**		**165.5**	**110.1**	
Debt service-to-exports ratio (in percent)	**10.6**	**11.9**	**15.6**			**18.7**	**20.1**	**26.6**	**27.4**	**29.0**	**30.6**		**17.2**	**15.7**	
PPG debt service-to-exports ratio (in percent)	**5.9**	**6.4**	**8.6**			**11.3**	**13.1**	**19.6**	**21.2**	**23.0**	**24.5**		**17.2**	**15.7**	
PPG debt service-to-revenue ratio (in percent)	**12.0**	**9.6**	**10.3**			**12.4**	**14.7**	**21.6**	**22.8**	**23.8**	**22.6**		**15.3**	**11.3**	
Total gross financing need (Billions of U.S. dollars)	0.5	1.3	0.7			0.7	0.8	0.7	0.7	0.7	0.7		-0.1	-1.4	
Non-interest current account deficit that stabilizes debt ratio	25.8	13.6	3.6			29.8	9.0	9.7	12.9	12.8	11.2		3.4	-3.0	
Key macroeconomic assumptions															
Real GDP growth (in percent)	6.4	6.6	1.9	5.2	5.4	4.1	3.9	1.7	3.8	3.9	3.2	3.4	4.1	4.3	4.2
GDP deflator in US dollar terms (change in percent)	0.5	-11.0	-12.0	3.5	12.0	-8.2	-4.2	0.1	1.7	2.4	2.3	-1.0	3.6	3.4	3.6
Effective interest rate (percent) 6/	3.2	2.1	1.9	1.5	0.9	1.9	2.5	2.5	2.5	2.5	2.4	2.4	1.8	1.7	1.8
Growth of exports of G&S (US dollar terms, in percent)	0.7	-25.1	-24.2	13.8	39.3	-7.9	2.8	-2.9	1.3	-0.5	-5.8	-2.2	7.5	5.3	5.7
Growth of imports of G&S (US dollar terms, in percent)	-3.6	-12.3	-29.7	6.5	27.5	-13.2	4.9	-5.4	-2.4	2.6	-1.5	-2.5	1.4	1.8	1.9
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8
Government revenues (excluding grants, in percent of GDP)	24.8	26.4	28.1			29.5	30.0	29.0	28.4	27.6	27.7		26.9	26.2	26.7
Aid flows (in Billions of US dollars) 7/	0.0	0.0	0.1			0.2	0.3	0.3	0.3	0.3	0.3		0.3	0.5	
of which: Grants	0.0	0.0	0.1			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.1	
of which: Concessional loans	0.0	0.0	0.0			0.2	0.3	0.3	0.3	0.3	0.3		0.3	0.5	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.8	3.5	3.6	3.2	3.1	2.9		2.2	1.7	2.0
Grant-equivalent financing (in percent of external financing) 9/	...	...	...			43.3	36.7	36.5	36.2	36.0	35.8		36.5	38.2	37.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	5.6	5.3	4.8			4.5	4.5	4.6	4.9	5.2	5.5		8.0	17.1	
Nominal dollar GDP growth	6.9	-5.2	-10.3			-4.4	-0.5	1.7	5.6	6.4	5.5	2.4	7.9	7.8	7.9
PV of PPG external debt (in Billions of US dollars)			3.2			2.3	2.5	2.6	2.7	2.8	2.9		3.5	4.9	
(PVt-PVt-1)/GDPt-1 (in percent)						-18.6	4.1	2.7	2.0	1.6	1.6	-1.1	1.9	1.2	1.5
Gross workers' remittances (Billions of US dollars)	0.1	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.2	0.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	68.9			50.9	55.3	57.0	55.2	53.3	51.9		43.3	28.4	
PV of PPG external debt (in percent of exports + remittances)	...	...	200.0			152.8	160.7	173.0	174.3	179.8	193.5		167.9	143.5	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	8.3			10.8	12.6	18.7	20.1	21.8	22.9		15.5	14.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Over the long term, the current account is assumed to reach a surplus of around 4 percent of GDP based on efforts of economic diversification.

3/ 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.

4/ 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.

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

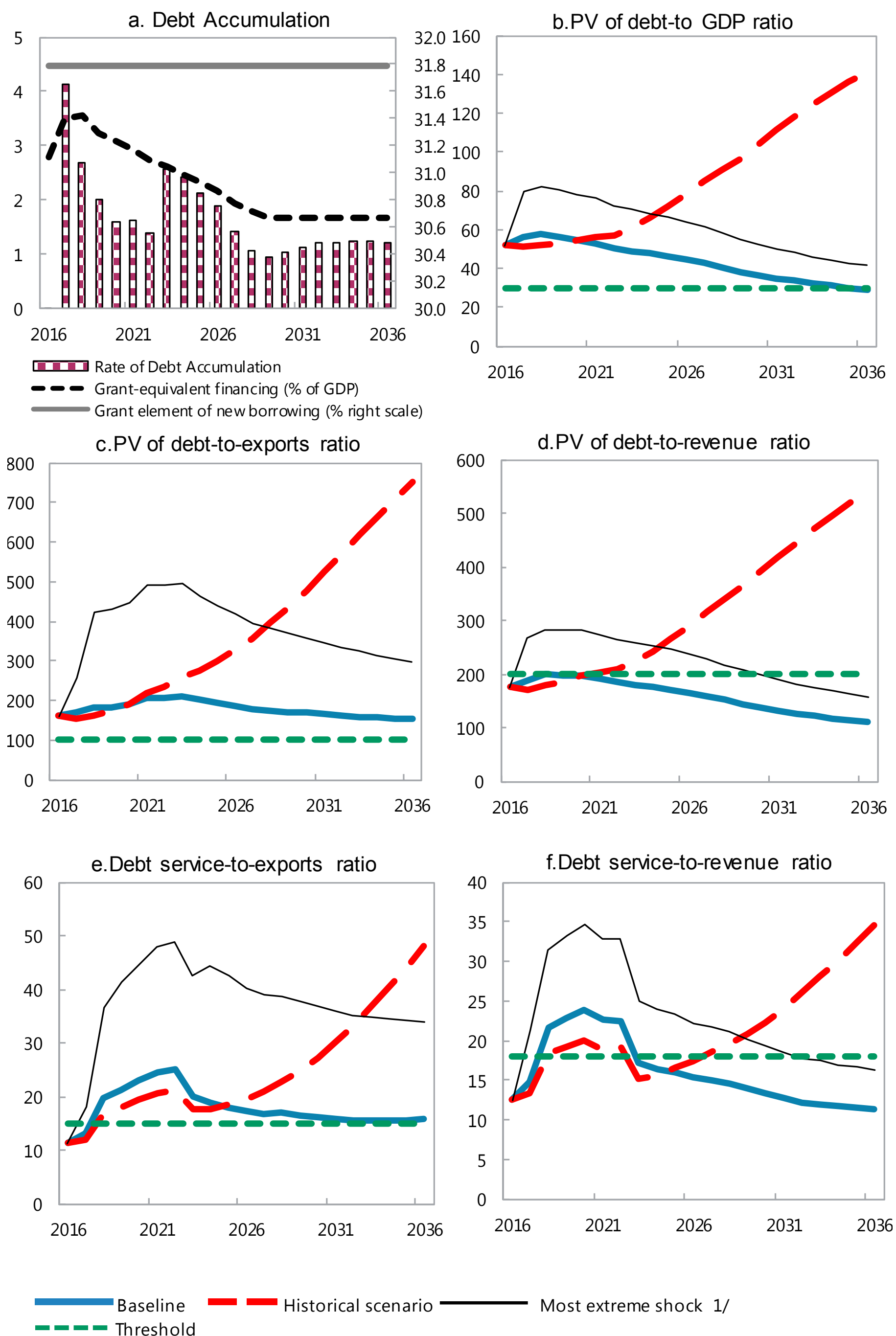
6/ Current-year interest payments divided by previous period debt stock.

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

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

9/ 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).

Figure 1. Mauritania: Indicators of Public and Publicly Guaranteed External Debt under Alternative Scenarios. 2016–36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

(In percent)

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	52	56	58	56	54	53	**44**	29
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	52	51	52	53	54	56	**78**	141
A2. New public sector loans on less favorable terms in 2016-2036 2	52	57	62	63	63	64	**63**	52
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	52	57	60	59	57	55	**47**	30
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	52	62	75	73	71	70	**55**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	52	57	65	63	61	60	**50**	33
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	52	60	68	67	65	63	**51**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	52	58	66	65	63	61	**50**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	52	80	82	81	78	76	**64**	41
PV of debt-to-exports ratio								
Baseline	160	168	182	183	189	207	**186**	154
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	160	153	163	172	189	219	**328**	752
A2. New public sector loans on less favorable terms in 2016-2036 2	160	172	193	206	221	251	**263**	279
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	160	164	177	181	187	204	**184**	151
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	160	256	421	431	447	490	**418**	297
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	160	164	177	181	187	204	**184**	151
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	160	180	213	218	226	248	**215**	160
B5. Combination of B1-B4 using one-half standard deviation shocks	160	191	230	235	244	267	**233**	178
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	160	164	177	181	187	204	**184**	151
PV of debt-to-revenue ratio								
Baseline	175	187	200	197	196	191	**165**	110
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	175	171	179	185	196	202	**291**	539
A2. New public sector loans on less favorable terms in 2016-2036 2	175	191	213	221	229	231	**233**	200
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	175	190	207	206	205	200	**173**	115
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	175	207	258	258	258	251	**206**	118
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	175	191	223	223	222	216	**187**	124
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	175	201	235	235	234	228	**191**	115
B5. Combination of B1-B4 using one-half standard deviation shocks	175	194	228	228	228	222	**187**	115
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	175	266	284	283	282	274	**238**	158

Table 2. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

(In percent)

Debt service-to-exports ratio								
Baseline	11	13	20	21	23	25	**17**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	11	12	17	18	19	20	**20**	48
A2. New public sector loans on less favorable terms in 2016-2036 2	11	13	19	20	21	22	**22**	27
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	11	13	20	21	23	25	**17**	16
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	11	18	37	41	45	48	**40**	34
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	11	13	20	21	23	25	**17**	16
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	11	13	20	22	24	26	**20**	18
B5. Combination of B1-B4 using one-half standard deviation shocks	11	14	22	25	27	29	**22**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	11	13	20	21	23	25	**17**	16
Debt service-to-revenue ratio								
Baseline	12	15	22	23	24	23	**15**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	12	13	18	19	20	19	**17**	35
A2. New public sector loans on less favorable terms in 2016-2036 2	12	15	21	21	22	21	**19**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	12	15	23	24	25	24	**16**	12
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	12	15	22	25	26	25	**20**	14
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	12	15	25	26	27	26	**17**	13
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	12	15	22	24	25	24	**18**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	12	15	22	24	25	24	**18**	13
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	12	21	31	33	35	33	**22**	16
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	23	23	23	23	23	23	**23**	23

Sources: Country authorities; and staff estimates and projections.

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

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

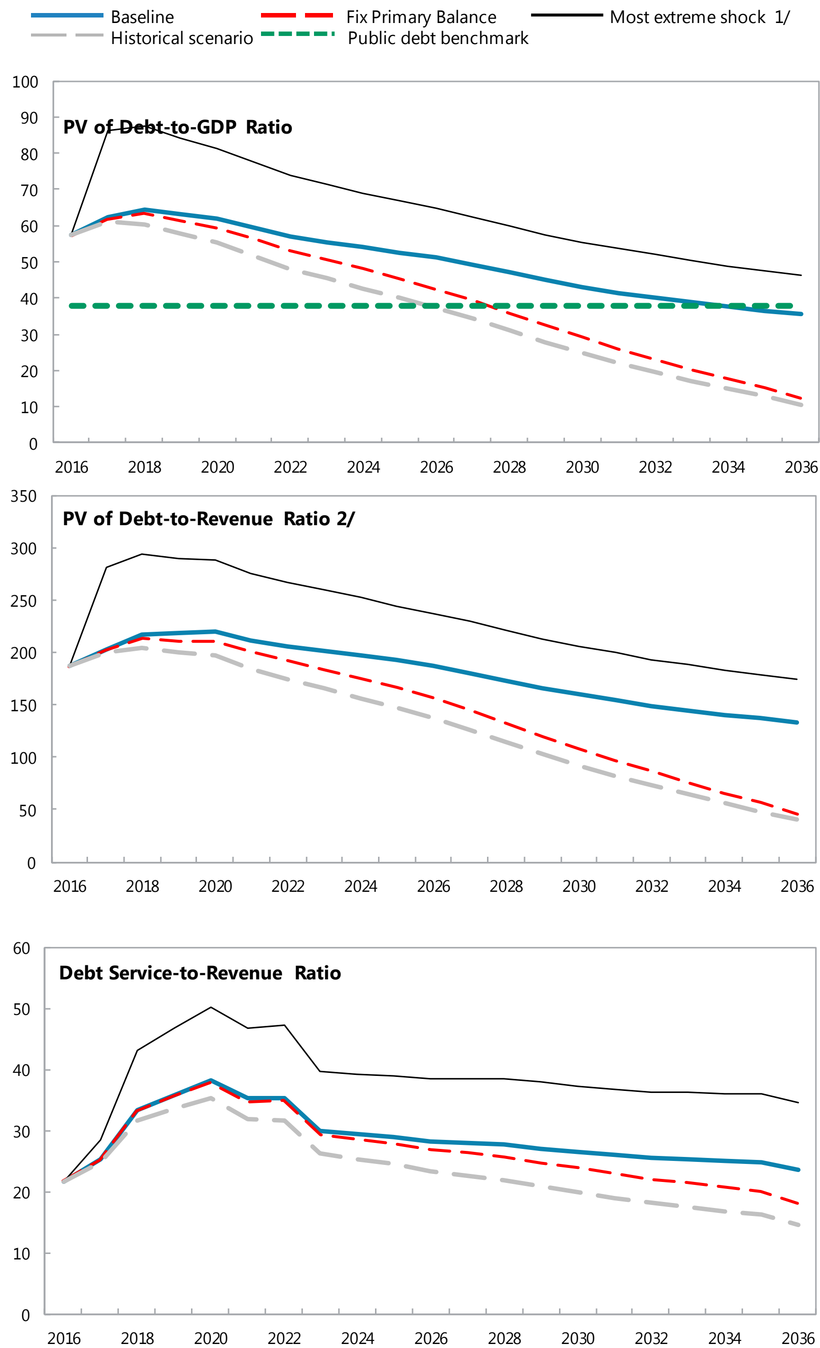
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

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

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

Figure 2. Mauritania: Indicators of Public Debt under Alternative Scenarios, 2016–36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table 3. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario 2013–36

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	67.8	80.4	93.3			75.7	82.4	85.9	84.6	83.3	81.1		70.1	47.7	
of which: foreign-currency denominated	63.5	74.0	87.6			70.2	76.3	79.3	77.5	75.6	74.6		63.5	41.1	
Change in public sector debt	-5.8	12.6	12.9			-17.6	6.7	3.5	-1.3	-1.3	-2.1		-2.3	-1.4	
Identified debt-creating flows	-4.4	8.9	13.1			4.0	2.8	1.8	-2.4	-2.0	-1.4		-1.3	1.1	
Primary deficit	-1.0	2.4	2.3	0.7	2.1	0.7	1.2	1.7	1.6	1.4	1.4	1.3	2.6	4.1	3.0
Revenue and grants	25.5	26.5	29.9			30.6	30.7	29.7	29.0	28.1	28.2		27.3	26.6	
of which: grants	0.7	0.1	1.8			1.1	0.7	0.7	0.6	0.5	0.5		0.4	0.4	
Primary (noninterest) expenditure	24.5	28.9	32.2			31.2	31.9	31.4	30.6	29.6	29.5		29.9	30.6	
Automatic debt dynamics	-3.4	6.5	10.8			3.3	1.6	0.1	-4.0	-3.4	-2.7		-4.0	-3.0	
Contribution from interest rate/growth differential	-3.6	-3.8	-0.7			-3.4	-2.5	-1.4	-3.3	-3.3	-1.1		-1.7	-1.6	
of which: contribution from average real interest rate	0.8	0.4	0.8			0.3	0.3	-0.1	-0.1	-0.1	1.5		1.2	0.4	
of which: contribution from real GDP growth	-4.4	-4.2	-1.5			-3.7	-2.8	-1.3	-3.2	-3.2	-2.6		-2.9	-2.0	
Contribution from real exchange rate depreciation	0.2	10.3	11.6			6.7	4.2	1.5	-0.7	-0.2	-1.6		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	-1.3	3.7	-0.2			-21.6	3.8	1.7	1.1	0.7	-0.7		-1.0	-2.5	
Other Sustainability Indicators															
PV of public sector debt	...	...	75.5			57.2	62.2	64.5	63.1	61.7	59.4		51.0	35.4	
of which: foreign-currency denominated	...	...	69.8			51.7	56.2	57.9	56.0	54.1	52.8		44.4	28.8	
of which: external	...	...	69.8			51.7	56.2	57.9	56.0	54.1	52.8		44.4	28.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	9.4	12.7	14.9			12.8	14.2	17.2	18.0	18.8	18.3		16.4	16.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	252.5			187.1	203.1	217.3	217.8	219.5	210.9		187.1	133.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	269.1			194.0	207.7	222.4	222.2	223.7	214.6		190.0	135.3	
of which: external 3/	...	...	248.9			175.2	187.4	199.8	197.1	196.1	190.8		165.5	110.1	
Debt service-to-revenue and grants ratio (in percent) 4/	20.8	22.4	20.2			21.7	25.2	33.2	35.9	38.2	35.2		28.3	23.5	
Debt service-to-revenue ratio (in percent) 4/	21.3	22.5	21.6			22.5	25.8	34.0	36.6	38.9	35.8		28.8	23.8	
Primary deficit that stabilizes the debt-to-GDP ratio	4.8	-10.2	-10.7			18.2	-5.5	-1.8	2.9	2.8	3.5		4.9	5.5	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	6.4	6.6	1.9	5.2	5.4	4.1	3.9	1.7	3.8	3.9	3.2	3.4	4.1	4.3	4.2
Average nominal interest rate on forex debt (in percent)	2.6	1.2	1.1	0.7	0.9	1.2	1.8	1.9	2.0	2.0	2.0	1.8	1.8	1.7	1.8
Average real interest rate on domestic debt (in percent)	4.0	16.3	11.0	4.9	8.9	5.6	4.7	0.6	0.6	1.0	0.6	2.2	0.7	...	0.8
Real exchange rate depreciation (in percent, + indicates depreciation	0.3	17.3	15.9	-0.2	10.5	8.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.3	-9.4	-5.5	5.3	9.9	-1.6	0.6	5.1	5.3	4.6	4.5	3.1	4.8	4.5	4.7
Growth of real primary spending (deflated by GDP deflator, in percer	-3.0	25.6	13.4	5.2	10.5	1.2	5.9	0.1	1.2	0.6	3.1	2.0	4.3	5.5	4.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	31.8	...

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Revenues excluding grants.

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

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

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	57	62	64	63	62	59	51	35
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	57	61	60	58	55	52	37	11
A2. Primary balance is unchanged from 2016	57	62	63	61	59	56	43	12
A3. Permanently lower GDP growth 1/	57	63	67	67	67	67	70	90
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	57	66	71	71	70	69	65	55
B2. Primary balance is at historical average minus one standard deviations in 2017-201	57	63	67	65	64	61	53	36
B3. Combination of B1-B2 using one half standard deviation shocks	57	63	65	64	63	60	52	37
B4. One-time 30 percent real depreciation in 2017	57	86	87	84	81	78	65	46
B5. 10 percent of GDP increase in other debt-creating flows in 2017	57	70	72	71	69	67	57	39
PV of Debt-to-Revenue Ratio 2/								
Baseline	187	203	217	218	219	211	187	133
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	187	199	204	199	197	184	137	40
A2. Primary balance is unchanged from 2016	187	202	213	211	211	200	156	46
A3. Permanently lower GDP growth 1/	187	206	225	231	239	237	257	336
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	187	214	238	243	250	245	238	207
B2. Primary balance is at historical average minus one standard deviations in 2017-201	187	207	224	225	227	218	193	137
B3. Combination of B1-B2 using one half standard deviation shocks	187	207	220	221	223	215	192	140
B4. One-time 30 percent real depreciation in 2017	187	281	295	290	289	276	237	174
B5. 10 percent of GDP increase in other debt-creating flows in 2017	187	228	244	244	246	237	209	147
Debt Service-to-Revenue Ratio 2/								
Baseline	22	25	33	36	38	35	28	23
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	22	25	32	34	35	32	23	15
A2. Primary balance is unchanged from 2016	22	25	33	36	38	35	27	18
A3. Permanently lower GDP growth 1/	22	25	34	37	40	38	34	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	22	26	35	38	41	38	32	30
B2. Primary balance is at historical average minus one standard deviations in 2017-201	22	25	33	36	39	35	29	24
B3. Combination of B1-B2 using one half standard deviation shocks	22	26	33	36	38	35	29	24
B4. One-time 30 percent real depreciation in 2017	22	29	43	47	50	47	38	35
B5. 10 percent of GDP increase in other debt-creating flows in 2017	22	25	34	38	39	36	30	25

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Islamic Republic of Mauritania, and Mr. Mohamed Sidi Bouna, Senior Advisor to Executive Director
April 25, 2016

1. Introduction

My Mauritanian authorities express their deep appreciation to staff for the candid discussions and the helpful policy advice provided during the Article IV Consultation.

The decline in international iron ore prices —Mauritania's main export commodity— has had a severe impact on the country with strong negative spillover effects on the rest of the economy. The sizeable terms-of-trade shock slowed economic growth and contributed to an increase in debt levels. The current account deficit (although on a declining path) remains elevated. While lower international oil prices will help mitigate the impact of the shock on the external position, Mauritania's overall performance and the country's outlook have been adversely affected by the commodity shock.

The authorities have adjusted their policies to the new economic environment. They introduced more flexibility to the exchange rate and let the currency to depreciate gradually —a policy initiated as early as October 2014 and which is still ongoing— while pursuing their fiscal consolidation efforts. They feel that that their policy adjustment efforts are starting to have the intended effects on the economy.

The authorities share some of the concerns expressed in the report over debt levels and acknowledge that the current account deficit remains elevated which poses financing risks. While they recognize that 2015 has been a difficult year and that the period ahead remains challenging, due in part to the fact that iron ore prices will likely remain subdued for the foreseeable future, they are of the view that the impact of the shock has somehow stabilized from the "lows" reached in 2015.

Overall, my Mauritanian authorities feel that the tone of the report and the staff's assessment of the economy and the country's economic prospects are more pessimistic than their own assessment, especially with regard to the exchange rate policy and fiscal consolidation efforts. They also believe that the report could have been more balanced, emphasizing areas of difficulty (debt levels, current account deficit) but also giving more prominence to areas of relative resilience.

2. Recent economic developments show signs of resilience

Following the 2014 severe terms-of-trade shock, the policies implemented by the authorities have been effective in improving the resilience of the economy. This is shown by the growth

performance. Economic growth is projected to rebound in 2016 to 4.1 percent up from 1.9 percent in 2015 and should stabilize at around 3.5-4 percent over the medium-term. Importantly, economic growth will be driven increasingly by non-extractive sectors. Inflation remains moderate at an estimated 3.8 percent in 2016 and is projected to stabilize at around 5 percent over the medium-term as growth resumes.

In assessing Mauritania's economic performance, the report would have benefited from comparisons with LICs and Sub-Saharan Africa given that many economies in Africa and in developing countries more generally are being affected by similar shocks. Putting things into perspective, we would note that while Mauritania's performance may have weakened in some areas compared to other LICs (debt/GDP is an example) in other areas, the performance has been relatively strong.

In the fiscal area, the fiscal revenue-to-GDP ratio of Mauritania at 28.1 percent in 2015 (as indicated in the DSA report) is not only high in absolute terms but has increased despite the drop in mining revenues. This compares favorably to the average for Sub-Saharan Africa which stands at 18.5 percent in 2015 (April 2016 WEO). Moreover, the primary fiscal deficit for Mauritania (excluding interest payment) is projected to improve from -2.8 percent of GDP in 2014 to -0.9 percent in 2016, which in the context of a high debt/GDP ratio such as for Mauritania, is crucial and indicative of the efforts being made.

As regards the external sector, the authorities have adopted a prudent and gradual depreciation of the exchange rate, to address the impact of the shock on the external position. The central bank also contracted a bilateral loan to strengthen foreign exchange reserves which is contributing to the stability of the foreign exchange market and further reassuring markets of the central bank's ability to defend the currency.

The current account deficit narrowed significantly from 27 percent of GDP in 2014 to 13 percent projected in 2016 —in just two years. Part of this improvement is the result of lower international oil prices but part is also due to the exchange rate adjustment, as other imports have dropped, affected by the depreciation of the currency (as shown, for example, by the decline in imports of capital goods.) International reserves buffers are estimated to have remained elevated at almost 6 months of imports in 2016, and are projected to remain above 3 months of imports until 2019.

The authorities disagree with the staff's assessment in paragraph 12 of the main report that the currency is significantly overvalued. They see no evidence of imbalance in the official market, nor do they see any meaningful premium on the parallel market. The absence of premium on the parallel market can be explained in part by the size of the foreign exchange reserves, and in part by the ongoing policy of gradual depreciation of the currency. Furthermore, as a matter of consistency with previous IMF reports, the authorities believe that the present report should have addressed the significant divergence between the results of the methodology used to assess the

exchange rate misalignment (concluding to an overvaluation of the currency) and the lack of meaningful premium on the parallel market (Annex V).[1]

On debt, the authorities share some of the concerns over the increase in debt levels. They would like to indicate, however, that part of the increase reflects the need to adjust to the severity of the terms-of-trade shock (including the need to build up foreign exchange reserves through a bilateral loan). The increase in debt levels also reflects the need to sustain efforts to close the country's vast infrastructure gap, essential for raising Mauritania's potential growth and fighting poverty.

They would also like to emphasize that the overall debt situation is more nuanced than it appears. First, the elevated debt levels referred to in the report (and in all IMF staff reports on Mauritania since the HIPC completion point) include a sizeable Kuwaiti debt which has been passive for many decades. If the Kuwaiti debt is excluded, the level of debt drops to 70 percent of GDP in 2016 —which is still high but much lower than the level of 93% discussed in the report. Second, the additional recent borrowing is mostly on concessional terms (see the report on the DSA). Third, the ratio of "external debt service-to-GDP" remains low and manageable at 0.9 percent in 2015 and 2016.

3. Medium-term policies and outlook

The authorities have made difficult policy choices in the wake of the severe terms-of-trade shock to adapt to the new challenging environment. They are determined to pursue their policies and are confident that their policy choices will enable them to make progress towards macroeconomic stability and higher growth. They believe that given Mauritania's economic circumstances, the gradual approach to exchange rate adjustment is the right approach to strengthen the country's external position (as opposed to an abrupt depreciation which would do nothing to revive exports given the extremely narrow export base and which would instead exacerbate the already difficult economic situation by considerably slowing growth and significantly increasing inflation.)

According to the staff projections, the current account is forecast to remain elevated over the medium-term, posing financing risks. In response, the authorities will continue to introduce further flexibility of the exchange rate. They are confident that the continued gradual depreciation of the exchange rate (as long as the fundamentals require it) will help narrow the current account deficit and will also likely have a lesser impact on the foreign exchange reserves than currently assumed in the report. This is due in part to the fact that the import-to-GDP ratio would further adjust to a continued depreciation of the currency.
The authorities are also determined to continue their fiscal consolidation efforts. While the slowdown in economic activity and in the mining sector has had a severe impact on fiscal revenues, the authorities will continue to adjust to the decline in extractive industries' revenues by reigning in expenditures while preserving essential social expenditures, with the objective to

lower further the primary fiscal deficit to a level that would stabilize debt levels as a share of GDP. The authorities will also pursue important reforms which will support their fiscal consolidation efforts to reduce debt. In this regard, they intend to improve the code of tax procedures, the Organic Law of Finance (LOF) and the new customs code. Other important reforms will improve cash management through a second-generation single treasury account and strengthen the supervision of public enterprises.

Over the longer-term, the recent gas discoveries offshore Mauritania by the U.S. company Kosmos, could significantly improve the outlook beyond 2019. However, the authorities rely primarily on a dynamic and competitive private sector to diversify the economy and boost growth in the medium-term. As noted in the report, Mauritania was one of the top 10 reformers appearing in the 2016 Doing Business ranking. The authorities will pursue their efforts to improve the business environment by simplifying administrative procedures and taxation, modernize the judicial system, protect investors' rights and implement the AML/CFT framework. These efforts will need to be supported by a sound financial system to support growth. In this regard, the authorities are committed to strengthen banking supervision and promote a more competitive financial system to improve financial intermediation and inclusion in support of their development agenda.

4. Conclusion

The recent terms of trade shocks have impacted negatively on Mauritania's economy. However, the authorities are taking steps to address them, such that the economic outlook envisages a recovery in economic activity for 2016. The focus of their efforts will be to address the current account deficit and debt levels as they pursue their adjustment efforts. In doing so, they will continue to work closely with Fund staff and other development partners to put in place the appropriate policies that will help mitigate the impact of the shocks. With the help of the Fund and the donor community, they will also continue their efforts to further diversify the economy away from mineral commodities with the objective to raising growth to more sustainable and inclusive levels.

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[1] In the past, the IMF has always used the parallel market to assess potential imbalances on the official market and possible misalignment of the currency. For example, in the 2008 the Article IV Consultation report, staff note that the "results from the implementation of the CGER-type methodologies indicate that misalignment estimates lie within the range of statistical error. These results are confirmed by the absence of a significant premium on the parallel exchange rate market". In the July 2013 report on the sixth revue of the ECF, they note that "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".