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Islamic Republic of Mauritania: 2009 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; 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 a combined discussion of the 2009 Article IV consultation with the Islamic Republic of Mauritania and Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- The staff report for the combined 2009 Article IV consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on December 17, 2009, 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 February 26, 2010. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its March 15, 2010 discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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

The documents listed below will be separately released.

Letter of Intent sent to the IMF by the authorities of the Islamic Republic of Mauritania*
Memorandum of Economic and Financial Policies by the authorities of the Islamic Republic of Mauritania*
Technical Memorandum of Understanding
*Also included in Staff Report

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

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ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2009 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility

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

Approved by Alan MacArthur and Dhaneshwar Ghura

February 26, 2010

- Discussions for the 2009 Article IV consultation and the authorities' request for a new three-year arrangement under the Extended Credit Facility (ECF) were held in Nouakchott during December 2–17, 2009.
- The mission met with the Prime Minister, the Minister of Finance, the Minister of Economic Affairs and Development, other members of government, and the Governor of the Central Bank. In addition, the mission met with members of parliament, several senior economic and financial policymakers, and representatives of the diplomatic, banking, and business communities.
- The mission comprised Mr. Loko (head), Mr. Bessaha, Mr. Zouhar (all MCD), and Ms. Dobrescu (FAD). Mr. Sidi Bouna (Advisor, OED) joined the discussions.
- At the time of the 2008 Article IV consultation, Directors emphasized the importance of (i) accelerating structural reforms to foster private sector development, including in sectors with a potential for high value added and job creation; (ii) further modernizing the tax and customs administrations with Fund technical assistance: (iii) intensifying efforts to restructure key public enterprises, including the electricity company; and (iv) implementing a multi-pronged banking sector reform strategy, in line with the Financial Sector Assessment Program recommendations, which is critical to creating the conditions for higher private sector-led growth.
- The authorities are requesting a three-year arrangement under the ECF. Proposed access is 120 percent of quota (SDR 77.28 millions). The ECF-supported program aims at maintaining macroeconomic stability, restoring and sustaining strong growth, ensuring external and fiscal sustainability, and making inroads in the fight against poverty.
- Mauritania has accepted the obligations of Article VIII, Sections 2 (a), 3, and 4 of the Fund's Articles of Agreement. The exchange rate is de facto classified as a managed float with no-preannounced path. Mauritania maintains an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.

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EXECUTIVE SUMMARY

Discussions focused on medium-term challenges and policies to achieve high, diversified, and sustainable growth in order to create jobs and reduce poverty.

Background

The food and fuel price increases and the global economic slowdown, combined with the domestic political crisis resulted in an output contraction and a significant deterioration in the fiscal position. In contrast, the current account deficit has narrowed, international reserves have slightly increased, and domestic inflation remained in the low single digits.

Authorities' views

Fiscal consolidation is a top priority to restore medium-term fiscal sustainability. The 2010 budget targets a 3.8 percent of non-oil GDP deficit, down from 5.3 percent in 2009 through a combination of revenue and spending measures. The budget increases poverty-related and infrastructure spending.

The central bank has started to ease monetary policy through a reduction in its policy rates. Further easing should be gradual, with an eye on inflationary pressures and on external accounts. The authorities see merit in pursuing a more flexible exchange rate policy and have reestablished the foreign exchange auction system.

For the medium term, lessening the economy's vulnerability to external shocks, and achieving a high and sustainable growth to further reduce poverty will require creating fiscal space to increase social and infrastructure spending, strengthening monetary policy operations, deepening the financial sector, and improving the business environment.

Staff recommendations

Decisive measures are needed to bolster revenues, slow recurrent expenditure growth, and adequately fund poverty-related and infrastructure spending, while containing inflation and strengthening the external position.

The central bank should stand ready to increase its policy rates as soon as signs of pressures on inflation or in the foreign exchange market emerge. It is also critical to strengthen coordination between monetary and fiscal policies to enhance liquidity management.

The authorities should pursue their multi-pronged banking sector reform strategy. Reducing the cost of doing business and improving competitiveness are also needed. The range of reforms is wide and should be carefully sequenced and prioritized to take into account administrative capacity, and the need for social consensus.

The authorities have requested a three-year arrangement under the Extended Credit Facility (ECF) with access of 120 percent of quota. The arrangement would continue to support Mauritania's efforts to maintain macroeconomic stability, restore and sustain strong pro-poor growth, protect the poor and accelerate the pace of progress toward the MDGs, ensure debt sustainability, and reduce the country's vulnerability to external shocks. Staff supports this request.

I. Background

1. **The July 2009 presidential election, won by Mohamed Ould Abdel Aziz, enabled Mauritania's return to constitutional order**. The August 2008 military coup triggered a domestic political crisis and many bilateral and multilateral donors, including the World Bank, discontinued their assistance. The PRGF arrangement was interrupted in October 2008 after the third review was successfully completed in May 2008. The international community, including the Fund, has now resumed normal relations with Mauritania. The authorities have requested Fund reengagement through a new ECF arrangement.

2. **The authorities' ambitious reform agenda, supported by several Fund arrangements, had started to bear fruits**. Economic growth was robust, reflecting prudent economic management, sustained donor support and the beginning of oil production. Inflation was low, and both external and fiscal positions strengthened (Figure 1). Additional debt relief under the Multilateral Debt Relief Initiative (MDR-I) in 2006[1] contributed to firm up the country's debt sustainability, and create fiscal space for infrastructure and poverty reducing spending. Although, some progress has been made on the structural reform agenda, notably in the areas of public finance management, foreign exchange market liberalization, banking sector, and governance (Box 1), significant weaknesses remain. Private investment is still low, the economy remains vulnerable to commodity shocks, and limited infrastructure and an unfavorable business environment continue to hamper economic growth. The new program will help address these challenges.

3. **Economic performance deteriorated sharply in 2008-09 on the back of both domestic and external shocks** (Box 2)**.** The global food and fuel price increases weakened the fiscal and external positions and pushed up inflation. The domestic political crisis led to a significant reduction in external assistance. The global economic slowdown contributed to further fiscal and balance of payments pressures mainly through the decline in the prices of and the demand for Mauritania's main export commodity (iron, copper, and fish). Moreover, the anticipated shift to an oil economy did not materialize.

4. **Though it has been reduced, poverty remains high.** Poverty incidence has declined from 47.6 percent in 2004 to about 42 percent in 2008. Progress has been made in the social sectors, but the achievement of the Millennium Development Goals (MDGs) remains a key challenge. Mauritania ranked 154 out of 182 countries according to the Human Development Index in 2009. Recent domestic and external shocks have likely slowed progress on poverty reduction, highlighting the need to protect social spending and develop appropriate safety nets for the most vulnerable segments of the population.

[1] The country reached the HIPC completion point in 2002.

Box 1. Mauritania and the IMF

Mauritania has had a long-standing relationship with the Fund, with ten arrangements over the last twenty five years (three StandBy arrangements, one Enhanced Structural Adjustment Facility arrangement, and six Poverty Reduction and Growth Facility (PRGF) arrangements).

All but the last two Fund-supported programs have been completed. The 2003-05 PRGF arrangement was cancelled at the request of the authorities just after one year because of long standing practice of providing inaccurate data to the Fund. The revised data suggest that significant imbalances and low levels of foreign reserves persisted over many years. After the successful implementation of a six-month staff-monitored program (SMP) covering January–June 2006, a new PRGF arrangement (2006-09) was approved in December 2006. It was interrupted in October 2008 due to a military coup, and then cancelled, at the request of the authorities, in November 2009.

Key objectives of past arrangements. All Fund-supported programs aimed at maintaining macroeconomic stability; achieving high and sustainable growth; diversifying the economy and reducing vulnerability to shocks; and improving social indicators and reducing poverty.

Significant progress was made in several areas. On the macroeconomic side, these arrangements contributed to sustain non-oil GDP growth at an average of 4.5 percent, and keep inflation relatively low. On the structural side, the arrangements were instrumental in:

- Establishing an auction system in the foreign exchange market and a more flexible exchange rate that reduced significantly the premium in the parallel market.
- Increasing tax revenue thanks to tax policy and administration reform.
- Liberalizing trade policy.
- Strengthening the central bank operational, supervision, and regulatory capacity.
- Improving some social indicators and making indent in the poverty incidence (which declined from about 51 percent in 2000 to 42 percent in 2008).

In contrast, weaknesses remain in several areas, as evidenced by:

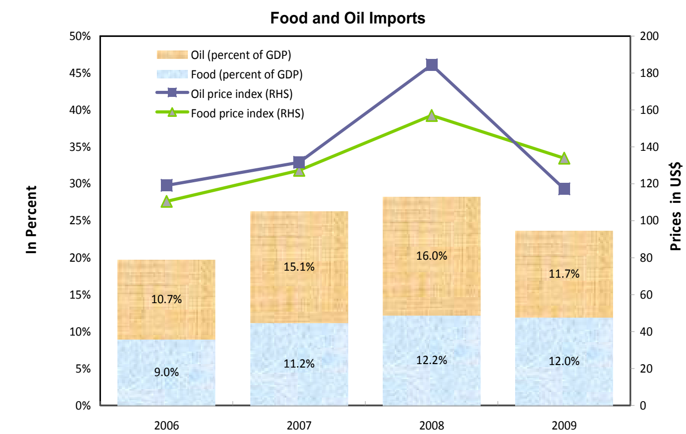
- External vulnerabilities: exports still heavily depend on the mining sector, and international reserves are below the targeted 3 months of imports.
- Rigidities in some areas of public financial management.
- Large transfers to state-owned enterprises.
- Weak financial intermediation.
- Unfriendly business environment.
- Slow progress in improving several development goals and lack of coherent and comprehensive social protection and safety nets.

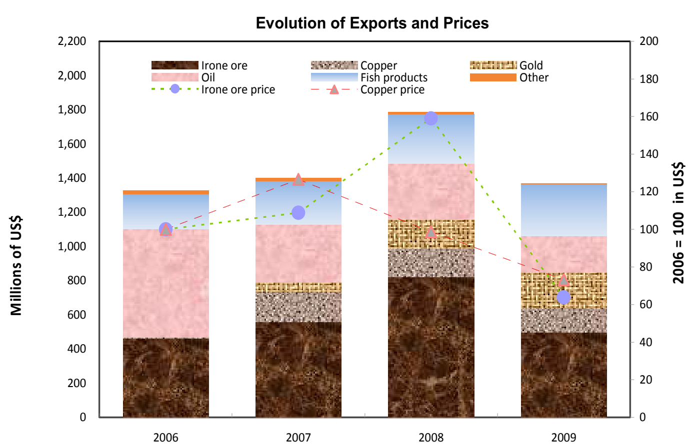
Performance under the two recent PRGF arrangements was largely affected by exogenous factors. This includes political instability with two military coups (2005, 2008), unfavorable weather conditions (particularly in 2002), and the sharp decline in oil production in 2006. But, it also highlights the need to build capacity, notably through appropriate and well designed technical assistance.

Box 2. Weathering Multiple Exogenous Shocks in 2008-09

Mauritania was hard hit by the fuel and food crisis nearly two years ago and the subsequent financial crisis and global recession in 2008-09. The consequences of these external shocks have been exacerbated by a domestic political crisis triggered by the military coup of August 2008 and the unexpected significant drop in oil production. These shocks have taken a toll on the economy and its growth prospects.

Fuel and food crisis: The significant fuel and food price increases were exacerbated by a structurally precarious food situation affecting mainly poor people. In response, the government adopted a Special Intervention Program (SPI) amounting to about US$161 million (4.9 percent of non-oil GDP). The SPI contributed to a wider fiscal deficit but helped avoid social unrest. Reflecting measures to contain the prices of several goods, inflation was kept at 3.9 percent (y/y) through end-December 2008 compared to 7.4 percent in 2007.





Sources: Mauritanian authorities; and IMF *World Economic Outlook*.

Global economic slowdown: Direct contagion from the global financial crisis has been insignificant because the country's financial sector is small and insulated from international markets. In contrast, the country has been affected through the trade channel. The decline in demand and prices for Mauritania's main exports (iron ore, copper, and fish products) resulted in a sharp drop of exports. Remittances (although relatively low) have likely declined and some large investments projects delayed.

The oil economy: Production in the main oil field Chinguetti (declared commercially viable in 2004) started in 2006 and immediately ran into major technical difficulties which led output to fall from close to 75,000 barrels per day (bpd) in early 2006 to 30,000 barrels by end-2006 and steadily declining to reach only 10,000 bpd in 2009. Projected output for 2011 could be as low as 7,500 bpd. This drastic shift in production has led to a significant revision in the macroeconomic outlook of the country, the downsizing of the public investment program, and the need for more external aid which was curtailed at the onset of the oil economy.

The domestic political crisis: The August 2008 coup d'état staged by a military junta, led many bilateral and multilateral donors to suspend their aid flows, complicating policy responses to the global economic slowdown. The drop in external assistance and delays in foreign-financed projects contributed to slower economic activity, mainly in construction and services, and reduced foreign exchange availability.

II. Recent Developments

5. **The global economic downturn and the drop in donor financing have weakened economic activity**, through slower activity in the mining, fishing, and the construction sectors. Non-oil real GDP growth is estimated at -0.9 percent in 2009, down from 4.1 percent in 2008. Oil output continued to decline in 2009 and total GDP would contract by about 1 percent (Table 1 and Figure 2).

6. **Fiscal position has deteriorated.** The basic non-oil fiscal deficit increased to 7.7 percent of non-oil GDP in 2008, up from 2.2 percent in 2007 (Table 2 and Figure 3). Preliminary data suggest that spending adjustment efforts have not kept pace with declining revenue and the basic non-oil fiscal deficit, although lower, would still be high in 2009, reaching 5.3 percent of non-oil GDP. Faced with limited resources, the authorities have used the recent SDR allocation to help close the fiscal financing gap.

7. **Lower food and fuel prices and the normalization of relations with the international community have helped cushion the impact of the global economic slowdown on the external position**. The current account deficit is estimated at 12.7 percent in 2009, down from 15.7 percent in 2008 (Table 3). The decline in exports values is expected to be more than offset by a marked reduction in imports, reflecting the contraction in economic activity, lower world food and fuel prices, and the foreign exchange rationing. The resumption of donor financing after the July 2009 election and the disbursement of financial compensation under the European Union (EU) fishing convention helped maintain the level of gross international reserves at 2.2 months of imports[2] at end-December 2009. The Central Bank of Mauritania (BCM) restored the foreign exchange auction system in mid-December 2009.

8. **Inflation has remained in the low single digits** (5 percent in 2009). Inflation fell rapidly to 0.9 percent (y/y) in September, reflecting lower international fuel and food prices and a somewhat prudent monetary policy stance. However, international fuel and food prices are rising again, pushing up inflation to 5 percent (y/y) at end-December (Figure 2). With slumping economic activity and a benign inflation outlook, the BCM lowered its policy rate from 12 to 9 percent in November 2009 but real interest rates remained positive. Broad money grew at 15.2 percent, reflecting the monetization of recent additional SDRs allocation, while private sector credit growth slowed down to about 4 percent in 2009 (Table 1 and Figure 4). The effective exchange rate depreciated by 3 percent in nominal terms and 2 percent in real terms.

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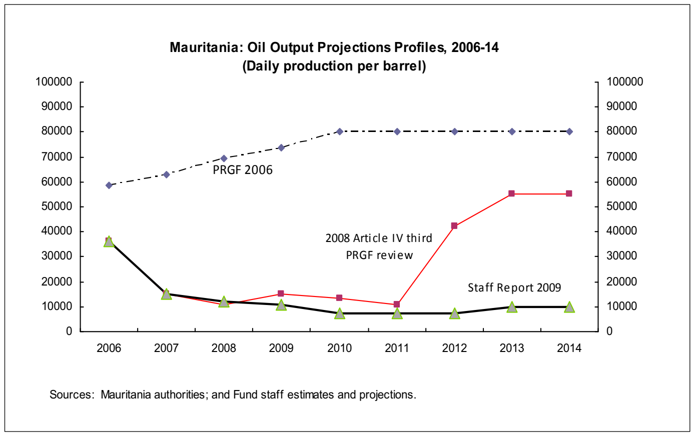
[2] Excluding oil exploration/production and other mining-related activities, and imports financed by FDI and aid.

III. Macroeconomic Outlook and Risks

9. **Medium-term growth prospects remain strong provided steady implementation of the reform agenda**. While medium-term oil production perspectives have been substantially revised downward, staff and the authorities are of the view that the resumption of donor support, the projected partial recovery of iron ore and copper prices, and reforms underway would improve the macroeconomic outlook. Accordingly,



- Overall real GDP is projected to grow by 5.2 percent on average over the next five years, supported by strong activity in the non-oil sector, including the launching of a major project (estimated at US$1.1 billion) by the national iron ore company.[3]

- Inflation is expected to remain in the low single digits at around 5 percent.

- The basic non-oil deficit would fall to about 1 percent on non-oil GDP, thus helping limit inflationary pressures, free resources for public and private investment, and ensure public debt sustainability.

- The external position would strengthen gradually. On one hand, the country's export outlook should gradually improve as the global economy recovers and domestic capacity expands. On the other hand, imports associated with major oil, mining, water, and infrastructure projects will decline as the projects are being phased out over the next 5 years. On balance, the current account deficit would peak in 2011, and thereafter decline gradually below10 percent by 2014.

[3] The project includes 4 components: (a) expanding capacity; (b) building a new mineral seaport; (c) modernizing the railway connection from the mine to the seaport; and (d) building a maintenance base. The financing is provided by several financial institutions, including the African Development Bank, the European Investment Bank, the French Development Agency (AFD), and the Islamic Development Bank.

Mauritania: Medium-Term Macroeconomic Objectives, 2009-14

	2007	2008	2009	2010	2011	2012	2013	2014
Real non-oil GDP growth	5.9	4.1	-0.9	5.2	5.3	5.5	5.8	5.6
CPI inflation (period average)	7.3	7.3	2.2	4.8	4.8	5.1	5.0	5.0
Revenue/non-oil GDP	24.9	22.9	24.0	23.5	23.4	23.3	23.2	23.2
Tax revenue/non-oil GDP	15.8	14.4	14.1	14.8	15.3	15.5	15.7	15.9
Nontax revenue/non-oil GDP	9.2	8.5	10.0	8.7	8.1	7.8	7.5	7.3
Expenditures and net lending/non-oil GDP	32.0	32.8	32.0	32.8	30.2	28.9	28.3	28.0
Current expenditures/non-oil GDP	23.4	25.9	24.6	21.2	20.4	20.0	19.8	19.8
Capital expenditures/non-oil GDP	8.6	7.0	6.8	11.2	9.6	8.8	8.4	8.2
Basic Non-oil balance (in percent of non-oil GDP)	-2.2	-7.7	-5.3	-3.8	-1.6	-1.1	-1.0	-1.0
Current account balance (in percent of GDP)	-18.3	-15.7	-12.7	-11.9	-16.5	-15.1	-10.0	-8.6
Gross official reserves								
In millions of US dollars, end of period	208.8	194.9	237.9	247.6	288.6	335.4	386.5	437.0
In months of following year's imports excluding extractive industries	2.0	2.2	2.2	2.5	2.7	3.0	3.3	3.5
Public debt to GDP	94.0	90.2	103.0	68.3	66.0	66.0	64.8	64.0

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

10. **There are several risks to the outlook.** The risks to the 2010 outlook remain tilted to the downside given continued uncertainty in the global environment. Looking forward, other risks include (a) volatility in the commodity market, notably a large drop in iron ore and copper prices; and (b) a prolonged shortfall in power supply. On the upside, an acceleration of reforms and donor support could spur growth.

IV. Policy Discussions and Program Objectives

11. **Mauritania's immediate challenge is to limit the fallout from recent shocks, including the global economic slowdown and restore growth while ensuring macroeconomic stability**. The peaceful completion of the presidential election has established a strong basis for resumption of the reform agenda and of the financial support from the international community. An appropriate macroeconomic policy mix will support the recovery while containing inflationary pressures.

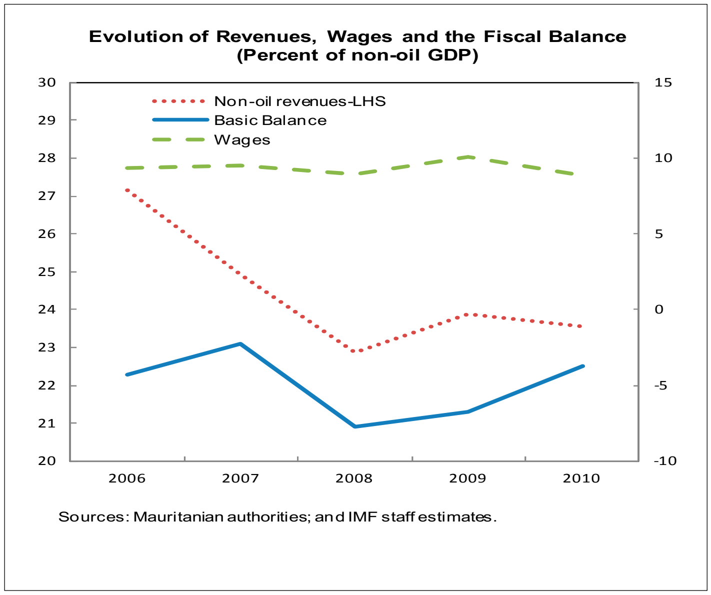
12. **Turning to the medium term, the key challenge is to achieve high and sustainable growth in order to boost employment and further reduce poverty**. Meeting these challenges requires fiscal consolidation, prudent monetary policy, and accelerated structural reforms, particularly in public financial management (PFM) and in the financial sector. Another crucial objective is to lessen the economy's vulnerability to external shocks. Improving the business climate and strengthening social policies are also important.

13. **To address these challenges, the authorities have launched a comprehensive reform agenda in support of which they have requested an arrangement under the**

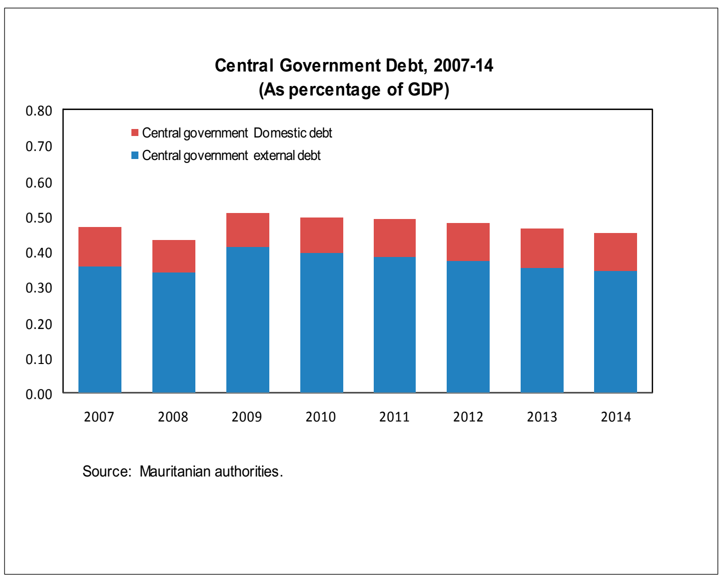
ECF. The arrangement (2010-12) would support Mauritania's efforts to sustain high growth and reduce poverty while safeguarding macroeconomic stability. To achieve these goals, the program and policy discussions focus on (a) fiscal consolidation to reduce public debt while creating more fiscal space for social and infrastructure spending; (b) further enhancing the monetary policy framework to maintain low inflation and rebuild reserves to about 3 months of imports; (c) deepening financial intermediation and enhancing the business environment in support of a broad-based private sector led-growth; and (d) strengthening social protection and safety nets.

A. Furthering Economic Growth and Equity Through Fiscal Reform

Fiscal consolidation was brought to a halt in 2008 by lower revenues, and weak spending control. Furthermore, the rigid expenditure framework constrained fiscal adjustment (Box 3). With limited external financing, the deficit has been financed, inter alia, by a significant increase in domestic debt. Reforms to restrain expenditure and bolster revenues are needed to put public finances back on a sustainable path, while increasing poverty-related and infrastructure spending.



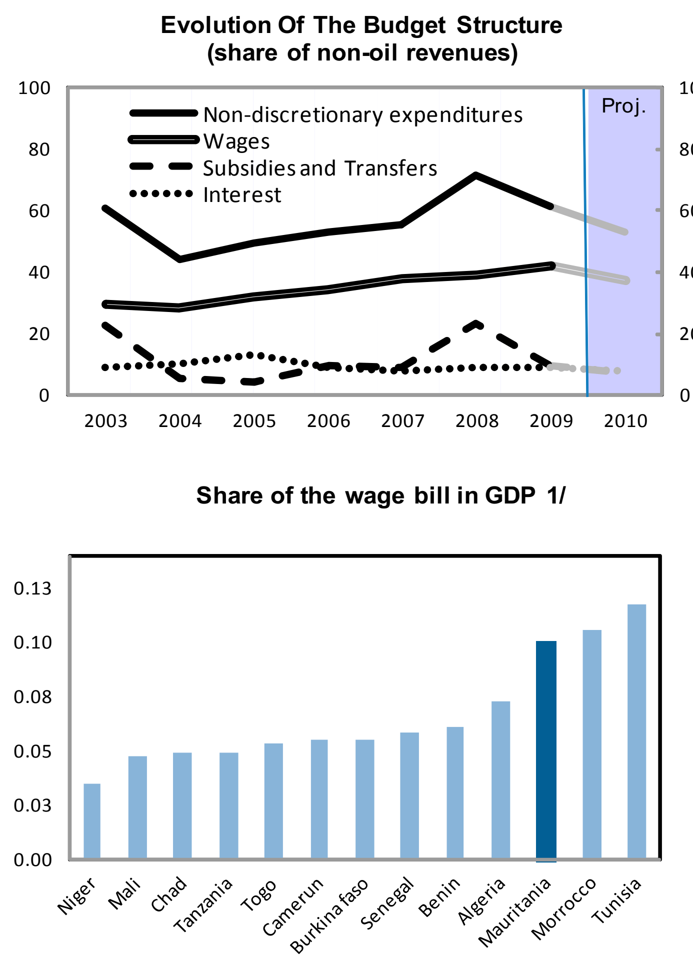
14. **The authorities recognized that fiscal consolidation is necessary to put public finances on a sustainable footing**, while also creating space for additional social and infrastructure spending. This hinges on further broadening the revenue base, strengthening tax and customs administration, closely managing the civil service wage bill, rolling back nonpriority spending, and improving the quality of public investment and of budget execution. Fiscal consolidation and the recourse to highly concessional loans would help ensuring debt sustainability and the return of the government debt-to-GDP ratio to a declining path.



Box 3. Budget Composition and Fiscal Flexibility

Budget flexibility in Mauritania is constrained by the large share of non-discretionary spending which exceeds 60 percent of non-oil revenues. The main source of fiscal rigidity in Mauritania is the large wage bill. Short-term adjustment in the wage bill is generally difficult and limited either because of the large implied social costs or because of institutional constraints. The wage bill has led the increase in non-discretionary expenditures, rising significantly since 2006 and becoming one of the highest in the region by 2009. Subsidies and transfers to state-owned enterprises (SOEs), although relatively low, also hinder fiscal flexibility. Most SOEs are in financial distress and rely essentially on budgetary transfers to continue operating.

Mauritania: Fiscal Development, 2003-09



Sources: Mauritanian authorities; and MF staff estimates and projection.

1/ For Mauritania, data represents 2009 projections. For other countries, the most recent available data is presented. Non-oil GDP was used when applicable.

The government's program to lower the wage bill and transfers to SOEs will improve short-term fiscal flexibility and create space for social and development-related spending. In collaboration with the World Bank, the update of the census of civil servants and the ensuing reconciliation of the payroll file with the civil service roster will be completed. This would lead to significant savings in the wage bill in 2010 while creating room for recruitment of personnel in strategic development sectors. In the medium term, the government intends to address the size, effectiveness and remuneration system of the public service. Possible measures include decompressing the wage structure, shifting towards performance-based compensation, enhancing recruitment policies, and introducing additional PFM measures. Transfers to SOEs are to decline as well, by revising tariff structures and introducing better-targeted subsidies.

15. **Efforts to strengthen revenues by broadening the tax base, curtailing the use of exemptions, and improving tax and customs administration** (MEFP, ¶33) will ensure a sustainable fiscal consolidation. The medium-term direct tax policy reform, in line with the 2008 FAD technical assistance report, aims at simplifying the tax system, making it easier to administer, and lowering the burden on businesses. In this regard, it is important to conduct a new census of tax payers and complete the computerization of the tax revenue agencies. On customs administration, in addition to further reductions in discretionary exemptions, ongoing projects aim at strengthening valuation and inspection procedures.

16. **The authorities intend to restrain the wage bill and other nonpriority spending while giving priority to pro-poor spending, and shifting gradually the balance from recurrent spending to capital spending.** They are committed to speed up the civil service reform to contain the wage bill while improving the quality of public service (MEFP, ¶36). Efforts are also needed to eliminate inefficient spending, including untargeted subsidies.

17. **The authorities program for 2010 targets a reduction of the basic fiscal non-oil deficit to 3.8 percent of non-oil GDP** through revenue-enhancing measures and expenditure restraint. Non-oil revenue would increase on account of new revenue measures (MEFP, ¶24), improved economic situation, as well as the authorities' determination to improve tax compliance. At the same time, current expenditure would be reduced by 3.4 percentage points, reflecting measures to contain nonpoverty-related current spending, the unwinding of one-time spending (presidential elections), and other savings. The completion of the census of civil servants and the subsequent reconciliation of the payroll file with the civil service roster (to eliminate double pay and ghost employees), and the computerization and automation of the payroll would free resources and lower the wage bill by 1 percent of GDP, while allowing new recruitment in the education, health, judiciary and security sectors (MEFP, ¶36). The authorities agreed on the need for contingency plans in case revenues are much lower than expected (MEFP, ¶26). Such measures would imply further cuts in nonpriority spending, in particular in common reserves, while minimizing economic distortions and adverse effects on the poor.

18. **A durable reduction in the fiscal deficit will also require clarifying the relationship between the government and public enterprises**. The authorities are aware that management of SOEs, in general, needs to be improved, given the drain on budget resources. In this respect, they intend to launch, in collaboration with the World Bank, a comprehensive study to review the financial status of all SOEs and propose a restructuring and recovery program that will ensure their long-term viability (MEFP, ¶14). The authorities are discussing with their multilateral and bilateral development partners to secure additional grants and concessional loans to fund these restructuring plans.

19. **Efforts will be geared towards further improving the quality of public investment**. The increase in capital expenditure is ambitious, putting pressure on the

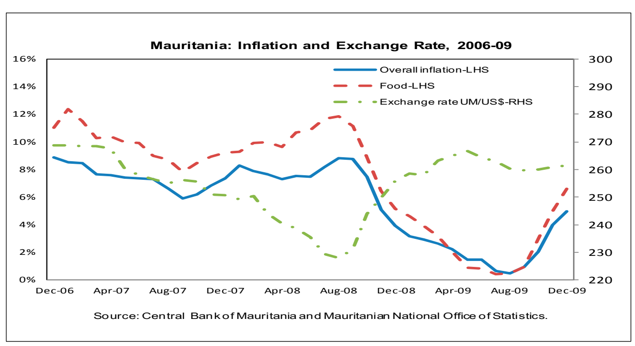
absorption and implementation capacities of the Mauritanian economy. However, the authorities stressed the importance of small projects (in the areas of water, health, habitat), easily implementable and with high impact on poverty reduction (MEFP, ¶25). They are aware of the need to further strengthen implementation capacity and indicated that the recently-established Agency for Project Monitoring will help improve the quality of investment spending, coordinate projects management, and increase transparency and value for money on public investment.

20. **Public financial management (PFM) reforms would ensure greater transparency, accountability, and efficiency in the use of public resources**. Streamlining and strengthening budget preparation, execution, and monitoring are important. One of the key measures is the creation of a treasury single account by 2011 (MEFP, ¶15), in line with the recent FAD/West AFRITAC technical assistance report. To improve medium-term budget planning and better inform discussions on expenditure priorities, the authorities intend to improve the medium-term expenditure framework, move to programmatic budgeting, and put in place a cash management plan with Fund and World Bank TA.

21. **The authorities concurred with the conclusion of the debt sustainability analysis (DSA) carried out jointly with World Bank staff**. This assessment is broadly unchanged from the 2008 DSA[4]. Mauritania remains at moderate risk of distress, although the country's debt indicators have deteriorated, mainly reflecting both the new loan contracted by the national mining company to expand its productive capacity as well as lower projected oil output. Looking forward, the authorities are committed to develop an appropriate debt strategy and improve the country's debt management capacity to preserve external debt sustainability. For that purpose, they intend to request World Bank support to assess debt management capacity and needs in the context of the management performance assessment (MPA) and medium-term debt strategy (MTDS) TA programs (MEFP, ¶30).

B. Greater Flexibility of Monetary and Exchange Rate Policy

The economic downturn and slowing down of private sector credit may warrant further monetary easing. But, there is some concern that inflationary pressures could reemerge rapidly given the recent increases in food prices—which have a large



Source: Central Bank of Mauritania and Mauritanian National Office of Statistics.

[4] Regarding arrears to Kuwait and Libya, the authorities indicated that the technical groundwork was completed but final negotiations were interrupted by the August 2008 military coup. The new authorities are stepping up their efforts to reengage rapidly with the two creditors. They expect to finalize bilateral agreements in the coming months.

impact on domestic inflation—as well as the prospects for a strong economic recovery. Regarding exchange rate policy, in response to a weakening external position in late 2008, the central bank has begun rationing foreign currency. This increased the parallel market premium, undermined confidence, and led to a sharp drop in the amount of foreign exchange sold on the official market (excluding BCM intervention). Greater exchange rate flexibility is needed to increase the effectiveness of monetary policy and facilitate adjustment to external shocks.

22. **Monetary policy will remain geared toward containing inflation in the context of a flexible exchange rate policy** (MEFP, ¶27). Rising fuel and food prices are expected to pose some risks to the inflation outlook, but the authorities' monetary program for 2010 will be sufficiently firm to keep inflation rate close to 5 percent. Broad money growth is to be limited to 13 percent, which, in view of the limited government financing requirement, would allow credit to the private sector to increase to 11.4 percent, up from 3.9 percent in 2009. Staff and BCM agreed that further cuts in interest rates should be gradual and based on a careful examination of the impact on external accounts. A reduction in the statutory reserve ratio could also be explored. In any case, the BCM stands ready to increase the policy rate as soon as signs of pressures on inflation or in the foreign exchange market emerge. The BCM will seek to strengthen its liquidity management efforts, notably through better coordination between monetary and fiscal policies.

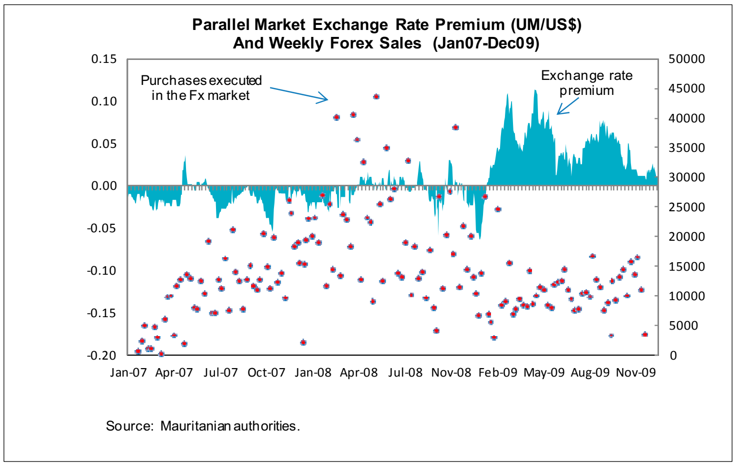
23. **The authorities concurred that greater exchange rate flexibility will help absorb the external shocks.** In this respect, it was agreed that the foreign exchange auction system should be reestablished, although the authorities expressed some concern about the negative impact of such measure on foreign exchange reserves. However, they recognized that greater flexibility of the exchange rate, resumption of donor support, and fiscal consolidation would help respond to the anticipated strong demand associated with the lifting of foreign exchange restrictions and to minimize loss of foreign exchange reserves, while increasing official reserves to US$247 million (2.5 months of imports) at end-December 2010. On this basis, the BCM has restored the foreign exchange auction system in December 2009 MEFP, ¶28) and will confine its interventions to smooth fluctuations in the exchange rate. The BCM intends to request technical assistance for improving its intervention policy in the foreign exchange market. Staff and BCM agreed that the exchange rate is close to its equilibrium (Box 4), with a modest overvaluation in the range of 2 to 11 percent. Completing the structural reform agenda will then be critical to buttress competitiveness.

C. Enhancing Financial Intermediation and the Investment Environment

Excluding the oil and other extractive sectors, investment in Mauritania is relatively low, reflecting poor financial intermediation (limited access to and cost of bank financing), red tape, cumbersome tax regulations, lack of infrastructure, high costs of production factors, and energy shortages. The Global Competitiveness Index (GCI) and the World Bank Doing Business reports have ranked Mauritania in the bottom quartile (Panel 1). Market-oriented *reforms centered on boosting financial intermediation and enhancing the investment environment will be critical to improve competitiveness, raise economic activity, and further reduce poverty.*

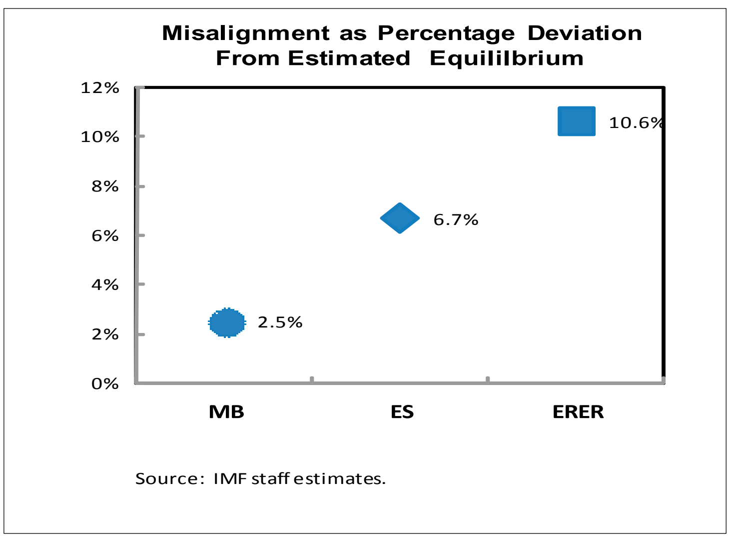
Box 4. The Real Effective Exchange Rate Assessment

There are no clear signs of exchange rate misalignment. Parallel market premiums and CGER analyses suggest that the Mauritanian real effective exchange rate (REER) is broadly in line with fundamentals.



Parallel market premiums are marginal. The rationing in the foreign exchange market introduced in late 2008 raised some concern over the availability of foreign exchange, and widened the premium in the parallel foreign exchange market, up to 11.5 percent in April 2009. The resumption of donor financing in the middle of 2009 boosted international reserves, lowering significantly the premiums to about 1 percent.

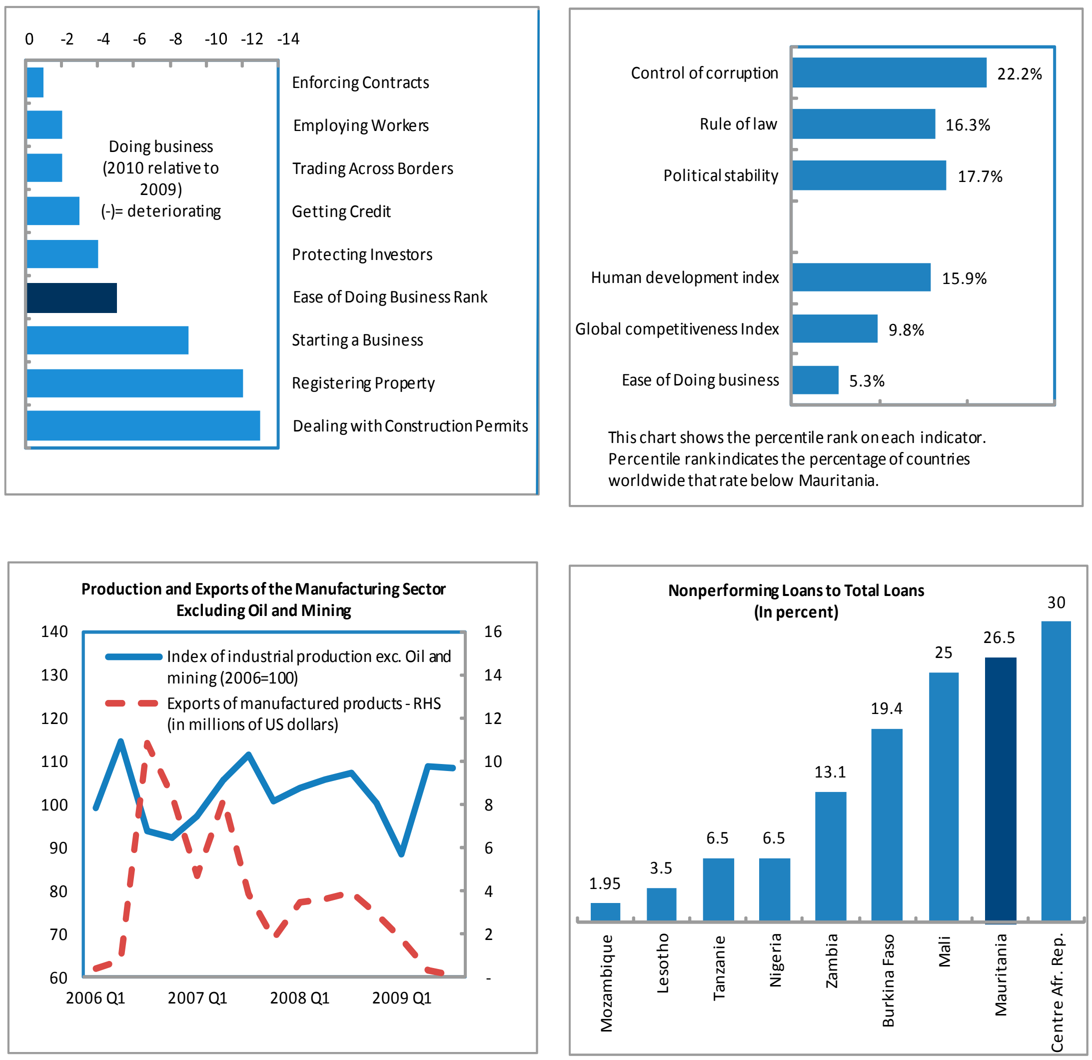
The assessments, based on CGER approaches, indicate that the current level of the Mauritanian real effective exchange rate is in line with its equilibrium level.



- The macroeconomic balance (MB) approach calculates the real exchange rate adjustment needed to close the gap between the underlying current account and the estimated current account equilibrium. The results show that the exchange rate is overvalued by 2.5 percent.
- The external sustainability (ES) approach calculates the current account that stabilizes the net foreign assets given the medium-term growth and inflation projections. The ES approach suggests that a real depreciation of 6.7 percent magnitude is needed to stabilize the ratio of net foreign assets to GDP.
- The equilibrium real exchange rate (ERER) approach estimates directly the equilibrium real exchange rate based on a set of fundamental factors. The analysis points to a 10.6 percent overvaluation of the ouguiya.

Panel 1. Mauritania: Competitiveness and Governance, 2010

Out of 183 countries, Mauritania ranks 166 in the 2010 World Bank's Doing Business Survey, losing five places relative to the previous year. Lack of competitiveness and poor governance constitute major constraints to the development of the manufacturing sector; while lack of progress in the judiciary reform and high NPLs reflect unfavorably on the banking indicators.

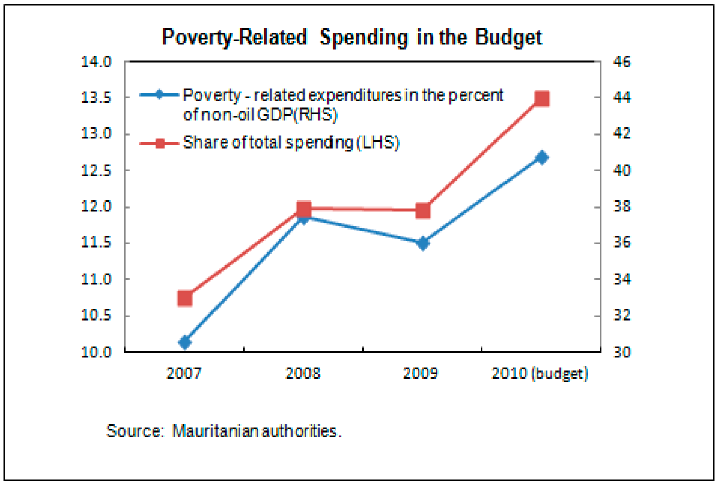


Sources: Doing Business 2010; Global Economic Index 2010; Human Development Report 2009; and Governance Indicators (World Bank), IMF.

24. **The authorities intend to accelerate implementation of their multi-pronged banking sector reform strategy to strengthen regulation and supervision and consolidate the banks' financial situation.** The domestic banking sector has virtually no exposure to the source of the global financial crisis. However, the banking system remains fragile with nonperforming loans reaching almost 26.5 percent of total loans at end-October 2009. Moreover, the economic slowdown could further deteriorate credit quality. In this regard, the authorities indicated that they will maintain a vigilant watch on bank performance as the impact of the global slowdown plays out. They will accelerate the

implementation of the 2007 FSAP. The BCM is committed to pursue the implementation of safeguards assessment mission recommendations (MEFP, ¶37). The authorities intend to request Fund technical assistance to further enhance banks' supervision.

25. **Improving the investment climate and private sector development remains a priority for the authorities**. Efforts to firm up governance and transparency, increased public spending in infrastructure, education and health, measures in the financial sector and in the tax regime to support private sector activity, reforms in the legal, judicial, and regulatory areas, and the new investment code (MEFP, ¶39) are vital to help lower the cost of doing business and boost private investment. Further progress in reforming public enterprises, in particular in the energy sector, would also help improve the business environment. In this context, the authorities will finalize, in collaboration with the World Bank, an overall strategy in the energy sector to reduce costs and expand supply.



D. Social Protection and Safety Nets

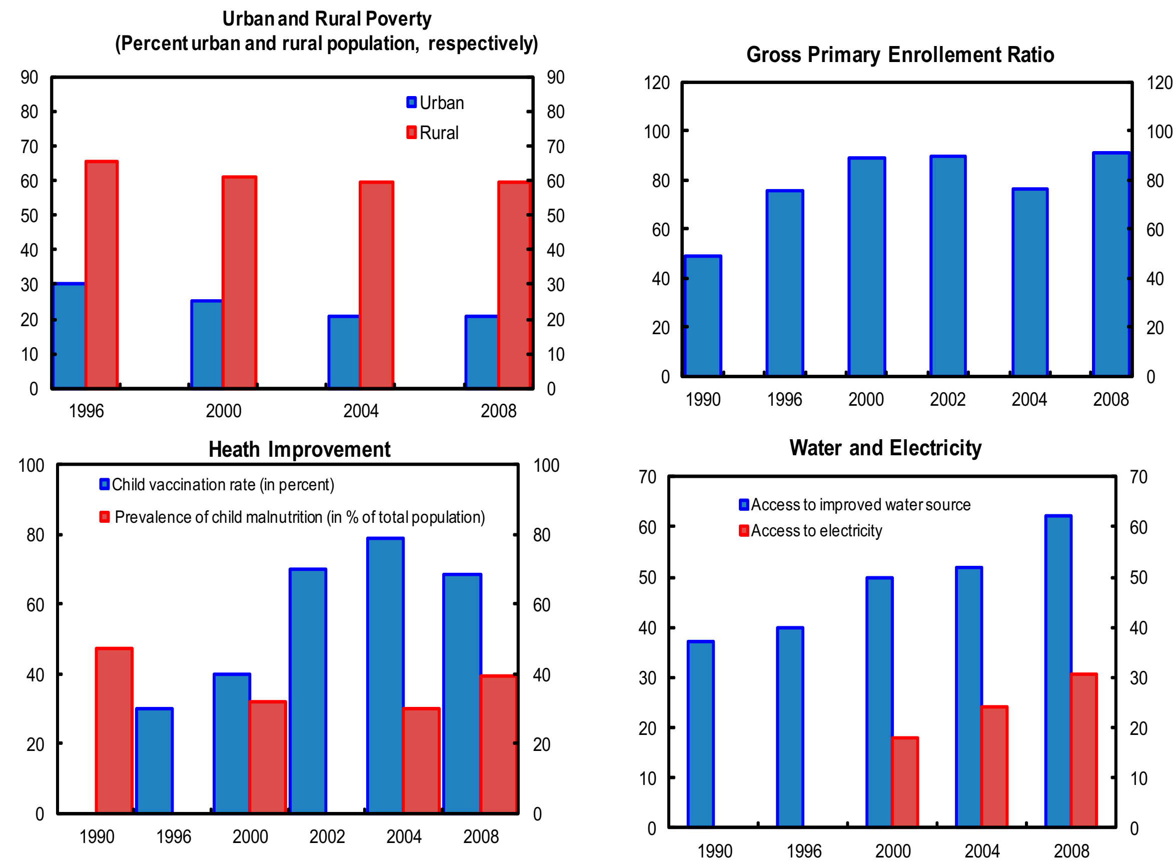
Notwithstanding recent progress, poverty remains exceptionally high, particularly in rural areas. The recent household survey found that 59.4 percent of the population in rural area is below the poverty line in 2008 (Panel 2). In addition, Mauritania's food situation remains structurally precarious, and a large segment of the population is subject to food insecurity.[5] *In the absence of safety nets, the government has been protecting vulnerable groups through a rise in poverty-related spending and a series of ad hoc measures. There is a need to develop comprehensive, well-targeted, and sustainable social protection and safety nets.*

26. **The authorities intend to develop sustainable and efficient safety nets over the medium term**. The authorities' response to the food and fuel crisis in 2008 mainly addressed short-term concerns, focusing on free food distribution via food stamps programs, and stabilization of gas, electricity, and water prices. Recent efforts to protect the poor led the authorities to provide well-targeted subsidy for cooking and heating oil to avoid severe environmental damages stemming from the use of wood by poor households who cannot

[5] The World Food Program estimates that about 400,000 Mauritanians (12 percent of the population) remain subject to food insecurity.

afford high gas prices. The authorities recognized the need to make further efforts to strengthen and expand, well targeted and coherent subsidy schemes and social safety nets programs in coordination with the World Bank and other donors. In this respect, they will launch, in collaboration with the UNICEF, a comprehensive study on existing social protection and safety nets schemes (MEFP, ¶41). The results and recommendations will be included in an updated version of the PRSP.[6] Looking forward, the authorities are also intensifying efforts to attract private investment in the agricultural sector to increase food output, reduce dependency on imports, develop income-generating activities for the poor, and improve food access.

Panel 2. Mauritania: Fighting Poverty, 1990-2008



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

[6] The updated version of the Poverty reduction Strategy paper (PRSP) is expected to be sent to the IMF and World Bank by September 2010.

E. Data Provision

27. **Provision of data to the Fund is broadly adequate for surveillance purposes, with timeliness and regularity of basic macroeconomic data being priorities.** Recently, efforts have been made to strengthen national accounts, balance of payments, and fiscal data, with the help of Fund technical assistance. Measures for improvement are underway.

V. ECF-Supported Program Modalities

28. **Access level and phasing.** ECF access is proposed at the norm of 120 percent of quota (SDR 77.28 million), to be disbursed in 7 installments over the three-year period covered by the arrangement (Table 6). The proposed access would be consistent with (a) the high balance of payment needs given that the country has been hit by multiple severe external shocks; (b) the need to build an adequate foreign exchange buffer in view of Mauritania's vulnerability to external shocks; (c) the strength of the program; and (d) the relatively low outstanding Fund credit (16.01 percent of quota). It would also help to rebuild reserves to comfortable levels and facilitate the authorities' adjustments efforts.

29. **Monitoring.** The program will be monitored on a semi-annual basis, with tests dates for end-June and end-December through 2012. The first review would assess performance based on end-June 2010 quantitative performance criteria and the second review would assess performance based on end-December 2010 performance criteria. Quantitative targets (MEFP Table 1) aim at (a) safeguarding external stability—a floor on net international reserves of the BCM; a ceiling on short-term external borrowing; a ceiling on medium- and long-term nonconcessional borrowing contracted or guaranteed by the government; a ceiling on new external arrears—and (b) ensuring fiscal sustainability—a ceiling on net domestic assets of the BCM; a floor on the balance of government non-oil operations. Structural benchmarks (MEFP Table 2) aim at strengthening tax administration to increase revenue; improving budget execution and liquidity management; enhancing transparency and accountability of the BCM; and ensuring an efficient management of the program. The measures are consistent with the Article IV policy discussions and are detailed in the MEFP.

30. **Financing.** The country faces high financing needs from 2010 through 2012. Taking into account the authorities' reserve target, the total financing gap during the period would reach US$205 million. These requirements would be partially filled by expected support from bilateral and other multilateral development partners, including the Arab Monetary Fund (Table 7). The remaining gap in 2010 would be filled by the Fund. Staff will reassess the availability of financing during the first review, when the extent of donor support should be clearer, and program targets will be revised if necessary. The authorities intend to organize by end-2010 a follow-up meeting on the pledges made during the December 2007 consultative group meeting in Paris.

31. **Program risks and mitigation.** Although challenging, the objectives of growth and poverty reduction in Mauritania are not out of reach, but risks remain**.** The key counterparts at the ministry of finance and at the central bank are those who were in charge of monitoring the 2006 PRGF arrangement. This provides signs of the authorities' capacity to undertake a new program. Further, the new authorities are strongly committed to the reform agenda, and to strengthen ownership, they have decided to create a technical monitoring committee to monitor closely the program and the reform agenda (MEFP, ¶43). Nevertheless, there are some risks, including renewed political instability and social tensions that could arise from the civil service reform and the restructuring of public enterprises.

32. **Capacity to repay.** The country's capacity to repay the Fund remains solid. Taking into account the scheduled disbursements and repayments due during the program period, Mauritania's outstanding use of Fund credit is expected to peak at 132 percent of quota, less than 4 percent of the country's total stock of medium- and long-term external debt in 2013. Debt service to the Fund will remain around 0.1 percent and 0.5 percent of exports of goods and services and gross international reserve through 2012, respectively (Table 8). Furthermore, preliminary results of the updated DSA indicate that the proposed access does not pose serious risks.

33. **Safeguards.** An update safeguards assessment of the BCM is underway and should be completed by the time of the first review. The 2010 safeguards mission found that recent economic and political challenges exacted a toll on the safeguards framework of the bank and significant risks continue to exist. Action is needed on several fronts including to restore independent governance oversight and timely publication of the audited financial statements, along with new procedures to ensure the integrity of data reported to the Fund. The permanent cessation of the cash operations of the BCM foreign offices is also a safeguards priority. The previous safeguards assessment of the BCM was completed on April 16, 2007.

VI. Staff Appraisal

34. **Recent global crises have highlighted Mauritania's vulnerability to external shocks**. The food and fuel price increases and the global economic slowdown, combined with the domestic political crisis have led to a contraction of economic activity and a decline in revenue. Together with a rising wage bill, this has hindered fiscal performance, limiting the government's ability to meet pressing demands for infrastructure and basic social services. On the positive side, domestic inflation remained in single digits and foreign exchange reserves of the BCM slightly above 2 months' import cover.

35. **Fiscal consolidation will be central to maintaining macroeconomic stability, putting public finances back on sustainable path, and promoting growth.** The 2010 budget strikes the right balance between supporting the recovery and restoring fiscal consolidation. It appropriately increases social and infrastructure spending while containing current spending. Medium-term fiscal sustainability will hinge on further broadening the

revenue base, strengthening tax and customs administration, and reducing tax exemptions, as well as reducing the wage bill and eliminating nonessential recurrent spending including untargeted subsidies. Adhering strictly to all budget execution procedures and significantly reducing the practice of treasury advances is also important. Decisive measures are also needed to improve public expenditure management, enhance public financial management, and restructure SOEs, in particular the utility companies to reduce the subsidy burden to the budget.

36. **Monetary policy should focus on anchoring inflation at low levels**. Staff supports the recent easing of monetary conditions. But the BCM should keep a wary eye on inflationary pressures and further easing should be gradual.

37. **Greater exchange rate flexibility is important to ensure that the exchange market clears and the parallel market disappears**. Staff welcomes and supports the authorities' intention to request technical assistance for improving their intervention policy in the foreign exchange market. Mauritania's real effective exchange rate is in line with its equilibrium level.

38. **Structural reforms to buttress the economy's resilience and improve competitiveness will be critical to raise economic activity and further reduce poverty.** The authorities need to pursue their multi-pronged banking sector reform strategy to further strengthen the financial sector and enhance banking intermediation. Continued fiscal consolidation to create room for investment in human capital and infrastructure and decisive actions to make the business environment more attractive are also important to promote a broad-based private sector-led growth. However, the range of reforms should be carefully sequenced and prioritized to take into account administrative capacity, and the need for social consensus.

39. **Key challenge is to strengthen social protection and safety nets.** The authorities are committed to protect spending critical for poverty reduction. Progress in expanding and strengthening social protection is also needed. Staff welcomes the authorities' plan to launch a comprehensive study on existing social protection and safety nets schemes. The results and recommendations should be included in the new PRSP under consideration.

40. **Staff supports the authorities' request for a new ECF arrangement.** The authorities are strongly committed to pursue the reform process embodied in the 2006 PRGF arrangement. They indicated their readiness to preserve macroeconomic stability, accelerate structural reforms to achieve high and sustainable growth, and strengthen social protection. The new program appropriately addresses these challenges.

41. **External assistance will be essential to address Mauritania's short- and medium-term financing needs and strengthen external sustainability.** Fund financing can be expected to play a crucial role in catalyzing other donors' support. However, the government should engage the World Bank and other development partners in providing additional

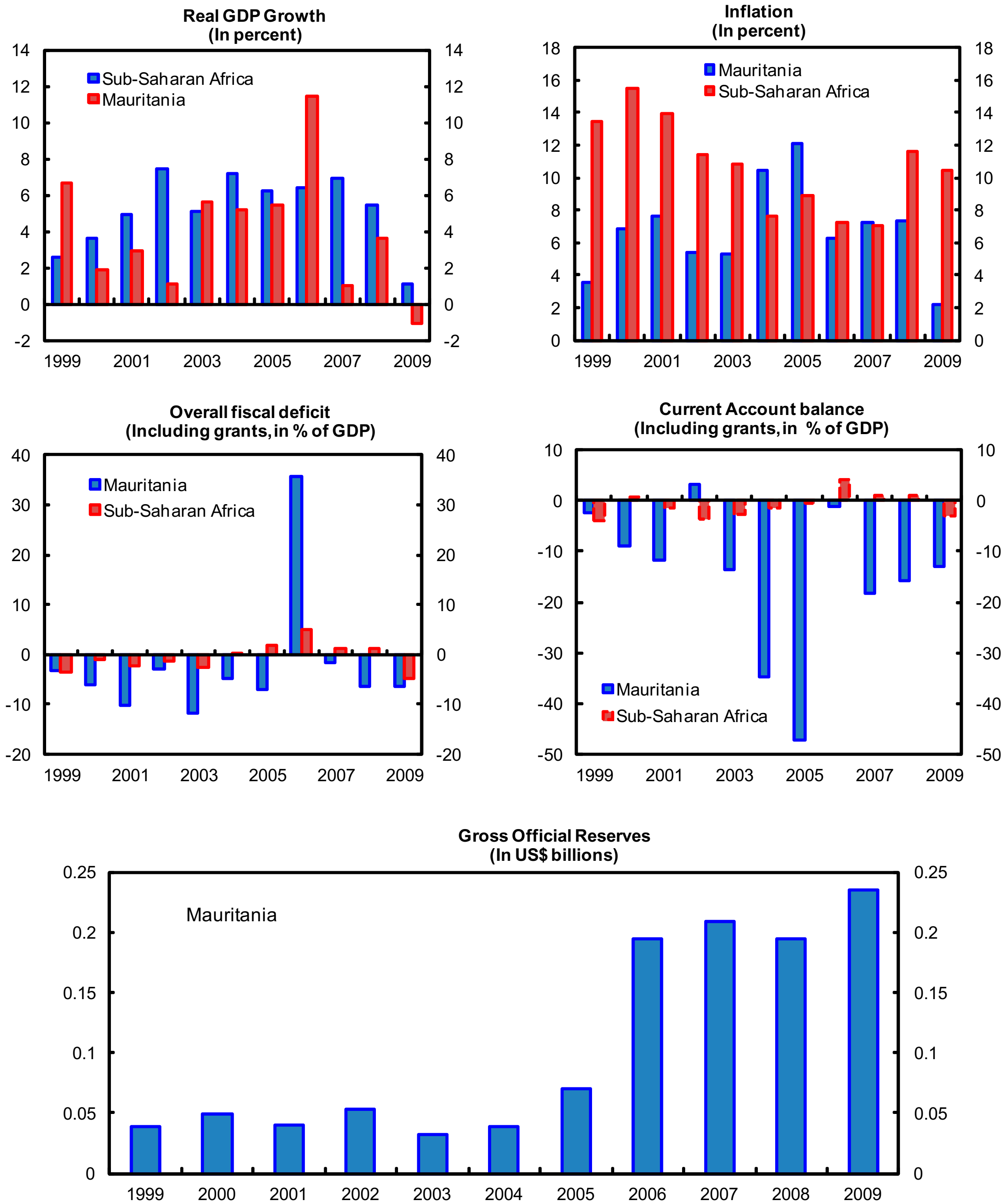
financial assistance. Staff supports the authorities' intention to organize by end-2010 a donors meeting.

42. **Improving the country's debt management capacity will also help to ensure external debt sustainability.** To the extent possible, the authorities should continue mobilizing concessional support to cover their financing needs. They also need to strengthen their debt management framework and accelerate efforts to conclude bilateral negotiations with the remaining Non-Paris Club creditors.

43. **Statistical data should be further strengthened to guide and monitor macroeconomic and poverty reduction policies.** In this respect, improved data on national accounts, the balance of payments and on external debt are a priority.

It is proposed that the next Article IV consultation with Mauritania be held under the 24-month cycle in accordance with the decision on consultation cycles in program countries.

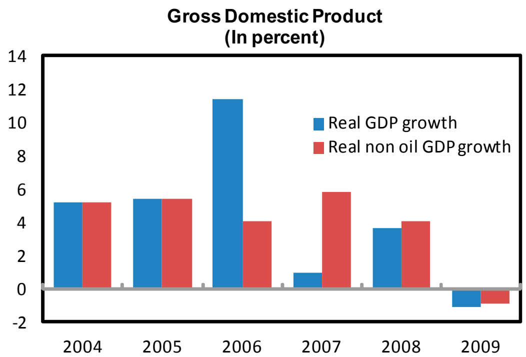
Figure 1. Mauritania: Economic Developments, 1999-2009



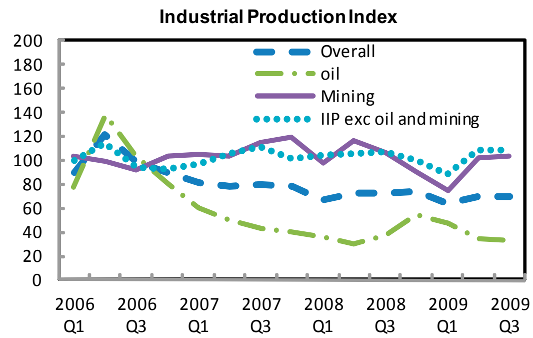
Sources: Mauritanian authorities and AFR REO.

Figure 2. Real Sector Developments, 2004-09

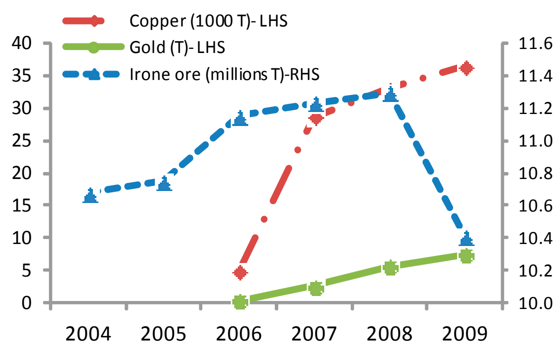
Real GDP has declined in 2009...



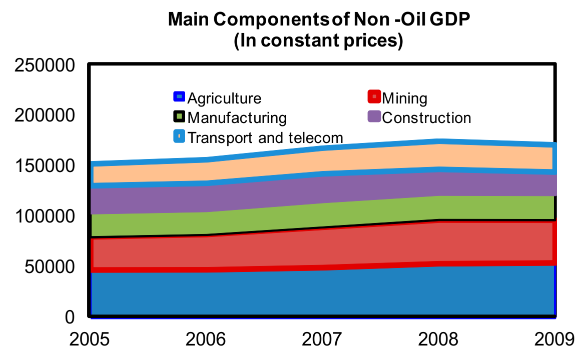
due to slower activity in the oil and mining ...



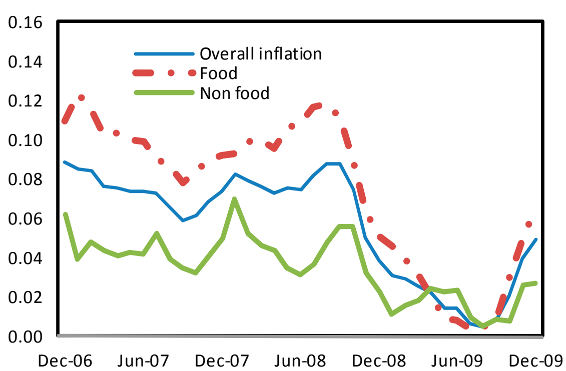
despite the surge in gold and copper production.



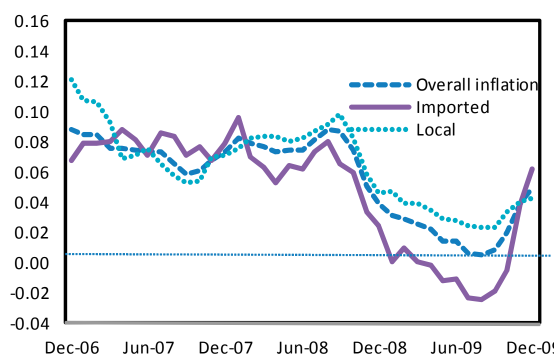
The manufacturing sector remains stagnant



Inflationary pressures have reemerged in the last quarter of 2009...

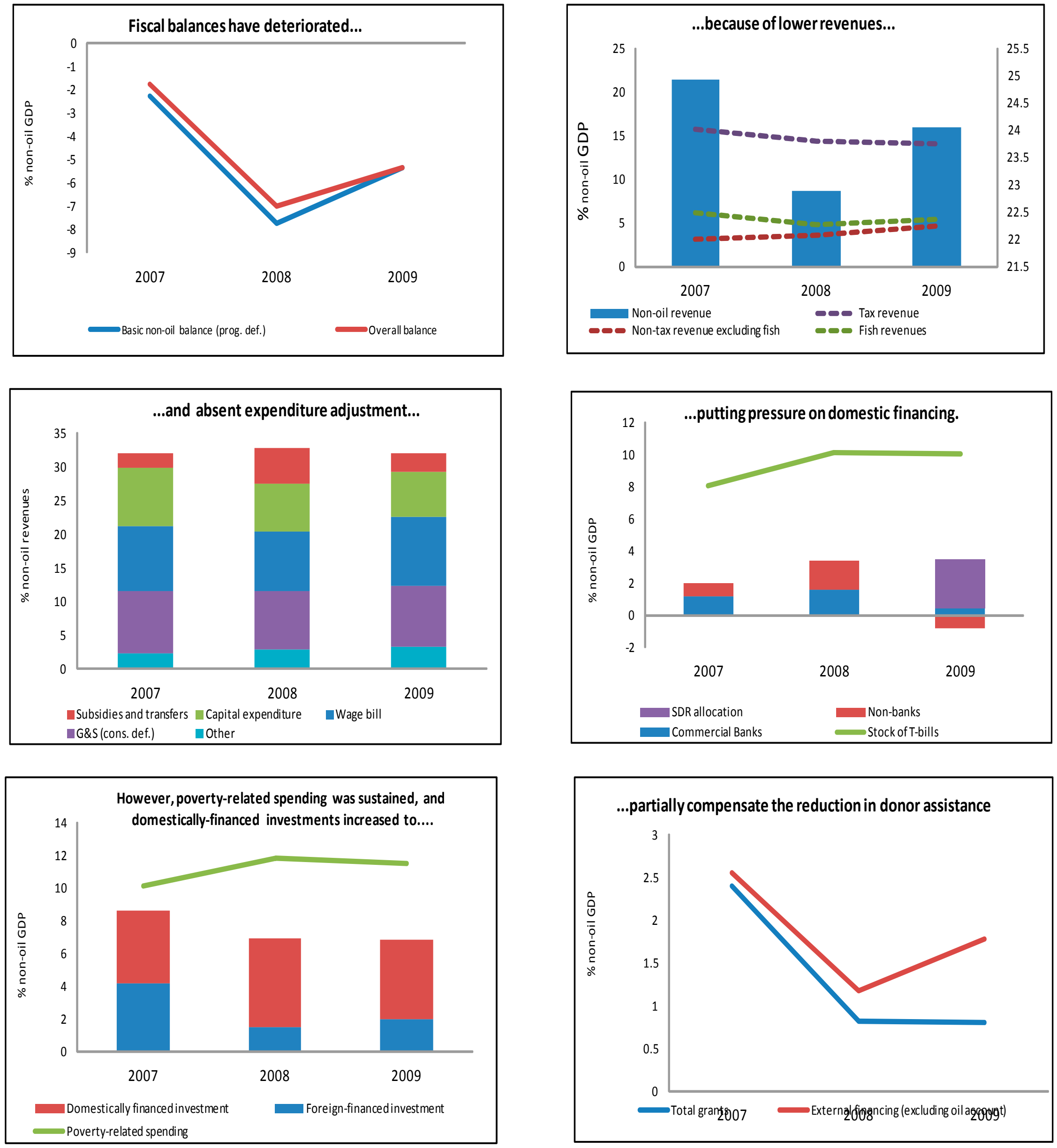


reflecting rising food and fuel international prices.



Source: Mauritanian authorities.

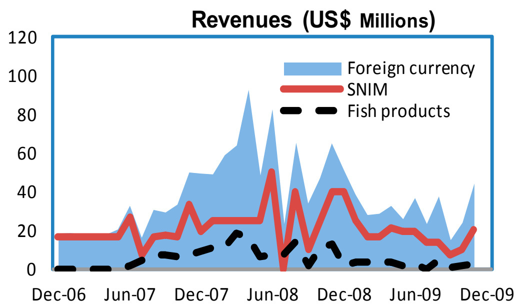
Figure 3. Mauritania: Fiscal Developments, 2007-09



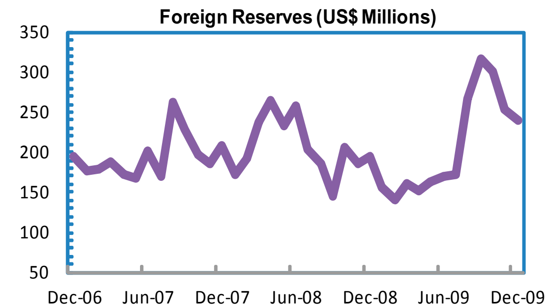
Sources: Mauritanian authorities; and Fund staff estimates.

Figure 4. Mauritania: Selected Financial Sector Indicators, 2006-09

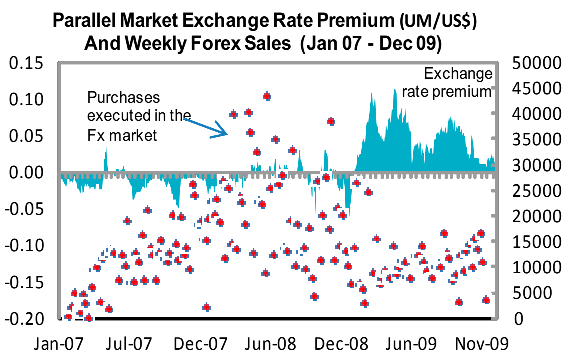
Following the fall in external demand and Iron ore prices, foreign currency proceeds decreased sharply.....



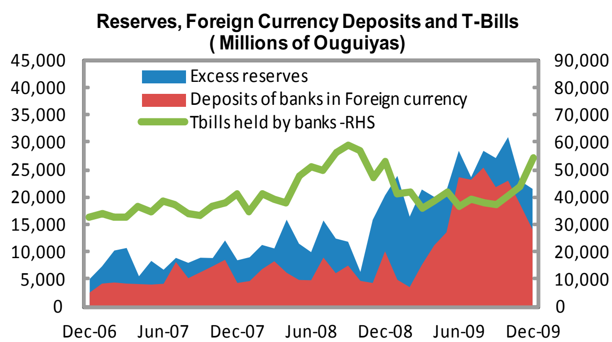
... causing a drop in official foreign reserves...



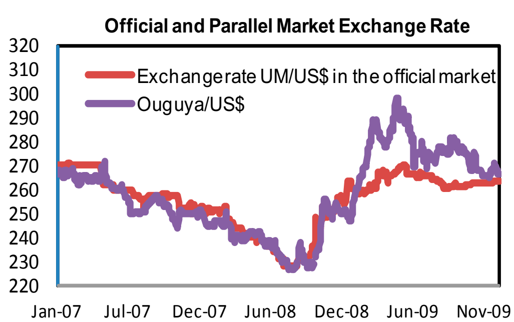
A rationing in the forex market, a peak in the parallel premium, and...



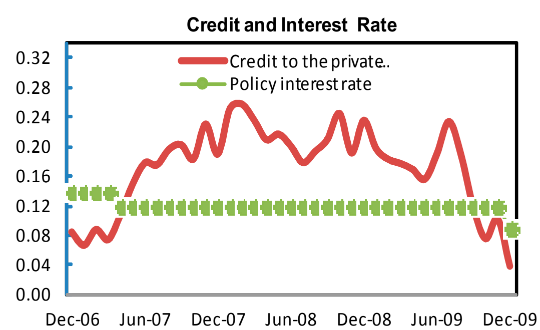
....a tightening of liquidity conditions and the decline of T-bill holdings by the banks.



The resumption of donor financing contributed to bring down the premium in the parallel market....



...while the benign inflation outlook allows to ease monetary conditions.



Source: Mauritanian authorities.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2008–14

	2008	2009	2010	2011	2012	2013	2014
	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
National income and prices							
GDP at constant prices	3.7	-1.1	4.6	5.2	5.4	6.0	5.4
Non-oil GDP at constant prices	4.1	-0.9	5.2	5.3	5.5	5.8	5.6
Oil production (1000 barrels per day)	12.1	10.7	7.5	7.5	7.5	10.0	10.0
GDP deflator	12.4	-6.2	8.0	2.7	1.9	2.5	0.7
Non-oil GDP deflator	13.0	-4.1	8.7	2.7	2.0	2.0	1.0
Consumer price index (period average)	7.3	2.2	4.8	4.8	5.1	5.0	5.0
Consumer price index (end of period)	3.9	5.0	4.6	5.1	5.0	5.0	5.0
External sector							
Exports of goods, f.o.b. (percentage change in value)	27.5	-23.4	21.9	4.8	3.2	6.7	2.4
Of which: Non-oil	37.5	-20.8	28.8	4.7	3.3	3.4	2.6
Imports of goods, f.o.b. (percentage change in value)	21.7	-26.3	16.4	12.1	2.8	-3.3	2.1
Current account balance (in percent of GDP)	-15.7	-12.7	-11.9	-16.5	-15.1	-10.0	-8.6
Official reserves							
Gross official reserves 1/							
In millions of US dollars, end of period	194.9	237.9	247.6	288.6	335.4	386.5	437.0
In months of following year's imports excluding extractive industries	2.2	2.2	2.5	2.7	3.0	3.3	3.5
Money							
Money and quasi-money (percentage change)	13.7	15.2	13.0	11.3	10.2	10.8	10.5
Credit to the private sector (percentage change)	23.6	3.9	11.4	8.4	8.1	8.0	7.3
Investment and savings							
Gross investment (percentage of GDP)	27.8	25.2	31.1	32.7	30.0	25.3	24.5
Gross savings (percentage of GDP)	12.0	12.4	19.2	16.2	14.9	15.3	15.9
Consolidated government operations (percent of non-oil GDP)							
Revenue and grants	25.9	26.7	27.8	25.8	25.6	25.6	25.5
Non-oil Revenue and grants	23.7	24.8	26.6	24.7	24.5	24.3	24.3
Non-oil Revenue	22.9	24.0	23.5	23.4	23.3	23.2	23.2
Oil revenue	2.2	1.8	1.2	1.1	1.1	1.2	1.2
Expenditure and net lending	32.8	32.0	32.8	30.2	28.9	28.3	28.0
Overall balance including grants	-7.0	-5.4	-5.0	-4.3	-3.3	-2.8	-2.5
Overall non-oil balance excluding grants	-10.0	-8.0	-9.2	-6.8	-5.6	-5.1	-4.7
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.8	-1.6	-1.1	-1.0	-1.0
External debt							
Total external debt (in percent of GDP)	88.5	103.1	71.5	74.8	79.7	76.4	72.4
Of which: PPG external debt (in percent of GDP)	80.7	92.9	58.8	55.3	55.1	53.9	53.0
Memorandum items:							
Ouguiya/US$ exchange rate (end of period)	261.5	262.0	--	--	--	--	--
Nominal GDP (in billions of UM)	855	794	896	968	1,040	1,130	1,199
Nominal non-oil GDP (in billions of UM)	798	759	868	938	1,010	1,089	1,162
Nominal GDP (in millions of US dollars)	3,540	3,029	3,421	3,695	3,969	4,312	4,576
Population (in millions)	3.1	3.2	3.3	3.4	3.5	3.5	3.6
GDP per capita (in US dollars)	1,124	939	1,036	1,093	1,146	1,216	1,260
Price of oil (US$/barrel)	85.6	54.3	66.5	71.8	74.2	75.7	77.5

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

1/ Excluding the oil account.

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

Table 2. Mauritania: Central Government Operations, 2007–14

(In billions of ouguiya, unless otherwise indicated)

	Act.	Est.		Projections				
	2007	2008	2009	2010	2011	2012	2013	2014
Non-oil revenue and grants	185.4	189.0	188.5	231.0	231.7	247.5	265.1	281.9
Non-oil revenue	169.1	182.5	182.4	204.3	219.6	235.4	253.1	270.0
Tax revenue	106.9	114.6	106.6	128.5	143.3	156.5	171.3	185.2
Taxes on income and profit	32.9	34.9	34.6	43.0	47.1	51.1	56.3	61.7
Taxes on goods and services	52.7	59.8	53.8	65.0	70.4	76.5	83.1	89.1
Taxes on international trade	19.1	17.4	14.2	18.3	21.5	24.3	26.8	29.2
Other	2.1	2.5	4.1	2.4	4.4	4.7	5.0	5.3
Nontax revenue	62.2	67.8	75.8	75.7	76.3	78.9	81.8	84.8
Of which: Fish revenues	41.4	38.7	41.0	47.5	45.4	45.5	45.7	45.9
Public enterprises dividends	9.1	16.2	18.4	15.3	16.9	18.3	19.8	21.4
Total grants	16.3	6.5	6.1	26.7	12.1	12.1	12.0	11.9
Of which: Projects	10.0	4.0	3.7	9.7	7.8	7.6	7.5	7.4
Expenditure and net lending	217.3	262.0	242.9	284.4	282.9	291.7	308.7	325.1
Current expenditure	158.9	206.4	186.7	184.2	190.9	202.2	216.2	229.5
Compensation of employees	64.6	71.3	77.0	76.6	78.9	84.5	90.5	96.5
Goods and services	63.8	54.0	51.7	54.7	59.1	63.6	68.7	73.2
Subsidies and transfers 1/	15.2	42.8	20.3	15.3	16.4	17.5	18.8	19.9
Interest	13.5	16.5	16.2	16.4	21.8	22.7	23.2	23.9
External	4.4	5.8	5.1	4.9	11.4	11.5	11.5	11.5
Domestic	9.1	10.7	11.1	11.5	10.4	11.2	11.8	12.4
Special accounts and others	1.8	6.8	5.0	5.0	5.4	5.8	6.3	6.7
Capital expenditure	58.5	55.6	51.8	96.9	90.4	88.7	92.0	95.4
Foreign-financed investment	28.6	12.0	14.9	42.6	37.1	34.0	33.1	32.5
Domestically financed investment	29.9	43.6	36.9	54.3	53.2	54.6	58.9	62.9
Restructuring and net lending	0.0	0.0	4.4	3.3	1.7	0.8	0.4	0.2
Common reserves	0.0	15.1	16.6	16.2	9.4	8.1	8.7	9.3
Basic non-oil balance; program definition 2/	-15.2	-61.8	-40.5	-32.6	-14.8	-10.7	-11.0	-11.1
Net revenue from oil	19.9	17.4	13.7	10.0	10.6	10.9	13.6	13.8
Overall balance including grants (deficit -)	-12.0	-55.6	-40.7	-43.3	-40.6	-33.3	-30.0	-29.4
Financing	12.0	55.6	39.1	43.3	40.6	33.3	30.0	29.4
Domestic financing	3.0	43.2	22.2	7.3	11.1	7.1	6.6	6.3
Banking system	7.7	32.4	30.6	6.2	7.4	4.8	3.9	3.6
BCM	-0.2	20.0	27.5	-3.5	0.0	0.0	0.0	0.0
Commercial banks	7.9	12.5	3.0	9.7	7.4	4.8	3.9	3.6
Nonbanks	5.5	14.8	-5.9	3.6	6.6	5.1	5.5	5.5
Privatization	0.0	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Domestic arrears	-10.2	-1.2	0.3	0.3	0.0	0.0	0.0	0.0
Float	-8.0	-0.2	0.3	0.0	0.0	0.0	0.0	0.0
Others	-2.1	-1.0	0.0	0.3	0.0	0.0	0.0	0.0
External financing	14.6	12.7	16.9	36.0	29.5	26.2	23.4	23.1
Oil account (net)	-2.8	3.3	3.4	2.6	2.6	2.6	0.0	0.0
Net revenue from oil (net)	-19.9	-17.4	-13.7	-10.0	-10.6	-10.9	-13.6	-13.8
Oil account contribution to the budget	17.1	20.7	17.1	12.6	13.2	13.5	13.6	13.8
Other (net)	17.3	9.4	13.5	33.4	26.9	23.6	23.4	23.1
Net borrowing (net)	9.2	4.1	8.9	28.2	19.0	16.0	15.3	14.7
Exceptional financing	8.1	5.4	4.7	5.2	7.8	7.6	8.1	8.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2. Mauritania:Central Government Operations, 2007–14 (concluded)

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

	Act.			Projections				
	2007	2008	2009	2010	2011	2012	2013	2014
Non-oil revenue and grants	27.3	23.7	24.8	26.6	24.7	24.5	24.3	24.3
Non-oil revenue	24.9	22.9	24.0	23.5	23.4	23.3	23.2	23.2
Tax revenue	15.8	14.4	14.1	14.8	15.3	15.5	15.7	15.9
Taxes on income and profits	4.9	4.4	4.6	5.0	5.0	5.1	5.2	5.3
Taxes on goods and services	7.8	7.5	7.1	7.5	7.5	7.6	7.6	7.7
Taxes on international trade	2.8	2.2	1.9	2.1	2.3	2.4	2.5	2.5
Other tax revenue	0.3	0.3	0.5	0.3	0.5	0.5	0.5	0.5
Nontax revenue	9.2	8.5	10.0	8.7	8.1	7.8	7.5	7.3
Of which: Fish revenues	6.1	4.9	5.4	5.5	4.8	4.5	4.2	4.0
Public enterprises dividends	1.3	2.0	2.4	1.8	1.8	1.8	1.8	1.8
Total grants	2.4	0.8	0.8	3.1	1.3	1.2	1.1	1.0
Of which: Project grants	1.5	0.5	0.5	1.1	0.8	0.8	0.7	0.6
Expenditure and net lending	32.0	32.8	32.0	32.8	30.2	28.9	28.3	28.0
Current expenditure	23.4	25.9	24.6	21.2	20.4	20.0	19.8	19.8
Compensation of employees	9.5	8.9	10.1	8.8	8.4	8.4	8.3	8.3
Goods and services	9.4	6.8	6.8	6.3	6.3	6.3	6.3	6.3
Subsidies and transfers 1/	2.2	5.4	2.7	1.8	1.7	1.7	1.7	1.7
Interest	2.0	2.1	2.1	1.9	2.3	2.2	2.1	2.1
External	0.6	0.7	0.7	0.6	1.2	1.1	1.1	1.0
Domestic	1.3	1.3	1.5	1.3	1.1	1.1	1.1	1.1
Special accounts and others	0.3	0.9	0.7	0.6	0.6	0.6	0.6	0.6
Capital expenditure	8.6	7.0	6.8	11.2	9.6	8.8	8.4	8.2
Foreign-financed investment	4.2	1.5	2.0	4.9	4.0	3.4	3.0	2.8
Domestically financed investment	4.4	5.5	4.9	6.3	5.7	5.4	5.4	5.4
Restructuring and net lending	0.0	0.0	0.6	0.4	0.2	0.1	0.0	0.0
Common reserves	0.0	1.9	2.2	1.9	1.0	0.8	0.8	0.8
Basic non-oil balance; program definition 2/	-2.2	-7.7	-5.3	-3.8	-1.6	-1.1	-1.0	-1.0
Net revenue from oil	2.9	2.2	1.8	1.2	1.1	1.1	1.2	1.2
Overall balance including grants	-1.8	-7.0	-5.4	-5.0	-4.3	-3.3	-2.7	-2.5
Financing	1.8	7.0	5.1	5.0	4.3	3.3	2.7	2.5
Domestic financing	0.4	5.4	2.9	0.8	1.2	0.7	0.6	0.5
Of which: Banking system	1.1	4.1	4.0	0.7	0.8	0.5	0.4	0.3
External financing	2.1	1.6	2.2	4.1	3.1	2.6	2.1	2.0
Of which: Oil account	-0.4	0.4	0.4	0.3	0.3	0.3	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil GDP (in billion of ouguiya)	678.4	797.6	758.6	867.7	938.1	1009.6	1089.5	1161.9
Non-oil primary balance including grants	-2.7	-7.1	-5.0	-4.3	-3.1	-2.1	-1.9	-1.7
Total revenue	27.9	25.1	25.9	24.7	24.5	24.4	24.5	24.4
Oil fund balance (in billion of ouguiya)	14.8	11.7	8.7	6.1	3.5	0.9	0.9	0.9

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

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

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

Table 3. Mauritania: Balance of Payments 2007-14

(In millions of U.S. dollars; unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	2013	2014
Trade balance	-193.7	-153.6	-59.7	6.3	-113.4	-109.5	73.4	80.1
Exports	1401.8	1787.6	1370.1	1670.0	1750.8	1806.6	1927.2	1972.7
Of which: Iron ore	540.0	823.4	499.5	627.0	647.5	677.2	750.8	742.0
Imports, fob	-1595.5	-1941.2	-1429.8	-1663.7	-1864.2	-1916.2	-1853.7	-1892.6
Food Products	-277.5	-381.6	-318.8	-326.6	-324.6	-329.8	-336.1	-341.7
Petroleum products	-375.2	-497.3	-311.4	-401.5	-439.6	-469.7	-507.2	-536.2
Imports of extractive industries	-490.9	-717.9	-484.5	-572.9	-716.8	-696.2	-561.5	-541.1
Services and income (net)	-465.7	-600.3	-462.8	-620.2	-676.5	-664.1	-667.3	-650.2
Services (net)	-456.7	-630.8	-479.7	-590.3	-587.8	-556.9	-546.9	-528.9
Credit	84.2	138.0	136.4	137.9	140.8	143.5	146.5	149.3
Of which: Fishing licenses	37.8	38.0	36.4	31.8	32.2	32.0	31.8	31.5
Debit	-540.8	-768.8	-616.1	-728.2	-728.6	-700.4	-693.4	-678.2
Of which: Freight (including oil and mining)	-215.3	-234.5	-173.2	-210.5	-237.3	-243.6	-234.3	-238.8
Income (net)	-9.1	30.5	16.9	-29.9	-88.7	-107.2	-120.3	-121.3
Credit	140.9	130.5	107.0	146.5	137.9	141.0	144.1	145.3
Of which: EU fishing compensation	118.4	117.0	96.0	135.2	126.0	126.0	126.0	126.0
Debit	-149.9	-100.0	-90.0	-176.4	-226.6	-248.2	-264.4	-266.6
Of which: Interest due on debt	-25.6	-31.6	-29.1	-32.3	-71.1	-90.6	-104.7	-104.6
Current transfers (net)	144.3	196.6	136.7	207.2	179.8	174.6	160.8	178.0
Private unrequited transfers (net)	70.2	71.7	75.3	76.8	85.6	89.9	91.7	96.3
Official transfers	74.0	124.9	61.5	130.5	94.1	84.7	69.0	81.7
Current account balance	-515.2	-557.3	-385.7	-406.7	-610.2	-599.0	-433.1	-392.1
Capital and financial account	417.6	408.6	377.4	1460.6	736.0	590.3	453.5	428.6
Capital account	0.0	30.9	0.0	1073.0	143.3	0.0	0.0	0.0
Financial account	417.6	377.7	377.4	387.6	592.7	590.3	453.5	428.6
Direct investment (net)	138.3	338.4	-38.3	-2.7	109.2	167.4	234.2	293.0
Of which: Oil exploration (net)	127.5	189.4	83.7	90.3	84.6	82.8	89.6	88.4
Official medium- and long-term loans	102.7	200.5	193.2	381.9	424.2	352.3	99.7	32.9
Disbursements	158.3	280.7	241.1	423.5	514.8	446.1	216.2	188.6
Public sector	126.5	260.5	214.4	281.2	215.2	176.5	186.3	158.6
SNIM	31.9	20.2	26.7	142.3	299.6	269.6	30.0	30.0
Amortization	-55.7	-80.2	-47.9	-41.7	-90.5	-93.8	-116.6	-155.7
Other financial flows	176.6	-161.2	222.5	8.4	59.3	70.5	119.6	102.7
Errors and omissions	118.8	103.3	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	21.1	-45.4	-8.3	1053.9	125.9	-8.8	20.4	36.5
Financing	-21.1	45.4	8.3	-1053.9	-125.9	8.8	-20.4	-36.5
Net foreign assets	-45.1	-9.1	-24.2	-10.8	-22.7	-29.5	-49.6	-65.3
Central bank (net)	-32.2	10.9	32.8	-0.8	-12.7	-19.5	-39.6	-55.3
Assets	-14.4	13.9	-43.1	-9.7	-41.0	-46.8	-51.0	-50.6
Liabilities	-17.9	-3.0	75.9	8.9	28.3	27.3	11.4	-4.7
Of which: SDR allocation	0.7	-0.5	83.7	-0.2	0.0	0.0	0.0	-0.3
Use of Fund resources (net)	12.8	3.1	0.0	35.0	35.3	35.3	17.6	0.0
Of which : new disbursemen	12.8	3.1	0.0	35.0	35.3	35.3	17.6	0.0
Commercial banks (net)	-12.9	-20.0	-57.1	-10.0	-10.0	-10.0	-10.0	-10.0
Oil account flow	-9.9	13.5	12.8	9.9	9.9	9.9	0.0	0.0
Exceptional financing 2/	33.9	41.0	19.8	-1053.1	-113.1	28.3	29.3	28.8
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Nominal GDP (in millions US dollars)	2821	3540	3029	3421	3695	3969	4312	4576
Trade Balance (in percent of GDP)	-6.9	-4.3	-2.0	0.2	-3.1	-2.8	1.7	1.8
Current account balance (in percent of GDP	-18.3	-15.7	-12.7	-11.9	-16.5	-15.1	-10.0	-8.6
Gross official reserves								
In millions of US dollars	208.8	194.9	237.9	247.6	288.6	335.4	386.5	437.0
In months of imports excluding extractive industries	2.0	2.2	2.2	2.5	2.7	3.0	3.3	3.5
Oil account	59.1	46.1	33.3	23.4	13.5	3.5	3.5	3.5

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

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

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

Table 4. Mauritania: Monetary Situation, 2007–10

(In billions of ouguiya at end-of-period exchange rates, unless otherwise indicated)

			Projections	
	2007	2008	2009	2010
Monetary survey				
Net foreign assets	12.0	-9.5	-3.5	-0.7
BCM	12.4	10.1	1.5	1.7
Commercial banks	-0.4	-19.6	-5.0	-2.3
Net Domestic Assets	199.5	250.1	280.6	313.7
Net domestic credit	305.0	368.1	419.1	452.3
Net credit to the government	121.9	141.7	183.8	190.0
Claims	167.6	176.0	206.1	215.8
Deposits	-45.7	-34.3	-22.3	-25.8
Credit to the economy	183.2	226.4	235.3	262.2
Other items net	-105.5	-118.0	-138.5	-138.5
Broad money	211.6	240.6	277.1	313.1
Monetary authorities				
Net foreign assets	12.4	10.1	1.5	1.7
Assets	52.4	51.0	62.3	64.9
Liabilities	-40.0	-40.9	-60.8	-63.2
Net Domestic Assets	83.5	100.5	125.1	142.4
Net domestic credit	93.7	101.8	130.2	126.7
Net credit to the government	87.7	95.6	124.5	121.0
Other items net	-10.2	-1.3	-5.1	-5.1
Reserve money	95.9	110.6	126.5	144.1
Currency in circulation	68.9	70.0	82.2	93.6
Of which: Banks deposits in FC	4.3	10.0	14.0	6.0
Commercial banks				
Net foreign assets	-0.4	-19.6	-5.0	-2.3
Assets	25.6	18.4	33.3	35.9
Liabilities	-26.0	-38.0	-38.2	-38.2
Net domestic credit	215.0	269.6	291.6	328.3
Net credit to the government	34.2	46.1	59.4	69.1
Credit to the private sector	180.8	223.4	232.3	259.2
Other items net	-95.3	-116.7	-133.4	-133.4
Memorandum items:				
Velocity of broad money	3.2	3.3	2.7	2.8
Velocity of broad money (GDP exc, extractive industries)	2.6	2.5	2.2	2.1
Credit to the private sector/GDP (percent)	26.7	28.0	30.6	29.9
Net foreign assets of banks (in millions of U.S. dollars)	-1.6	-74.8	-18.9	-8.9

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

Table 5. Millennium Development Goals, 1990-2015

	1990	1996	2000	2002	2004	2008	PRSP 2010	PRSP 2015	MDGs 2015
	(In percent of total population)								
1. Eradicate extreme poverty and hunger									
Overall poverty incidence	56.6	50.0	46.3	…	46.7	42.0	35.0	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	…	25.9	15.6	…	…	…
Prevalence of child malnutrition	47.6	…	32.0	…	30.2	39.4	26.0	21.0	23.8
	(In percent of primary school age group)								
2. Achieve universal primary education									
Gross primary enrollment ratio	49.2	75.9	89.1	89.8	76.7	90.9	98.0	100.0	100.0
	(In percent of total enrollment in first grade)								
Retention rate at the entrance of 5th Grade in primary education	75.3	…	59.6	60.6	52.9	63.7	68.8	100.0	100.0
	(In percent of total enrollment)								
3. Promote gender equality									
Share of girls in total primary enrollment	42.1	46.0	48.0	49.0	79.0	93.5	49.0	50.0	50.0
	(Per 1,000 live births)								
4. Reduce child mortality									
Child mortality (under five years)	129.5	125.6	122.0	…	…	…	128.0	55.0	45.7
	(Per 100,000 live births)								
5. Improve maternal health									
Reduce the rate of maternal mortality	…	…	747.0	…	820.0	820.0	400.0	300.0	…
	(In percent of ages 15-24)								
6. Combat HIV/AIDS, malaria, and other diseases									
Reduce by half the incidence of HIV/AIDS	…	…	0.5	0.6	0.5	…	< 1.1	< 1	1.0
	(In percent of population)								
7. Ensure environmental sustainability									
Access to improved water source	37.0	40.0	50.0	…	52.0	62.0	65.0	75.0	…
Access to electricity	…	…	18.0	…	24.0	30.6	…	…	…
Memorandum items:									
Population (in millions) 1/	1.95	2.29	2.57	2.72	2.88	3.20	…	…	…
UNDP Human Development Index	0.387	0.423	0.449	0.465	…		…	…	…
Gini index of inequality	…	0.34	0.39	…	0.39	0.38	0.4	0.41	…
Child vaccination rate (in percent)	…	30	40	70	79	68.8	…	…	…

Sources: Mauritanian authorities, World Development Indicators, and UNDP Human Development Indicators (2004).

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

Table 6. Mauritania: Proposed Access and Phasing Under the Proposed Three-Year ECF Arrangement, 2010-13 1/

Timing	Disbursement		Conditions
	Amount in SDR	Percent of Quota	
March 15, 2010	11.04	17.1	Approval of the arrangement.
September 30, 2010	11.04	17.1	Completion of the first review (end-June 2010 test date).
March 31, 2011	11.04	17.1	Completion of the second review (end-December 2010 test date).
September 30, 2011	11.04	17.1	Completion of the third review (end-June 2011 test date).
March 31, 2012	11.04	17.1	Completion of the fourth review (end-December 2011 test date).
September 30, 2012	11.04	17.1	Completion of the fifth review (end-June 2012 test date).
March 1, 2013	11.04	17.1	Completion of the sixth (final) review (end-December 2012 test date).
Total	77.28	120.0	

[1] Mauritania's quota is SDR 64.4 million.

Table 7. Mauritania: External Financing Requirements, 2008-12
(In millions of US dollars)

	2008	2009	2010	2011	2012
Total Requirements	637	434	448	701	693
Current account deficit	557	386	407	610	599
Scheduled public debt amortization	80	48	42	91	94
Total Sources	637	434	448	701	693
Capital inflows	566	423	372	666	666
FDI	338	-38	-3	109	167
Disbursements from official creditors (WB, AfDB, FADES)	261	214	281	215	176
Other flows	-33	247	93	342	322
Financing Items	44	41	76	65	64
IMF	3	0	35	35	35
Arab Monetary Fund	0	22	22	0	0
Exceptional financing 2/	41	20	20	30	28
Change in oil account (- increase)	13	13	10	10	10
Change in reserves (- increase)	14	-43	-10	-41	-47
Residual financing gap	0	0	0	0	0
Memorandum item:					
Overall balance	-45	-8	-19	-17	-9

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

1/ Arrears to Kuwait and Libya (1.2 billions at end-December 2008) are not included.
2/ Debt relief.

Table 8. Mauritania: Indicators of Capacity to Repay the Fund, 2010-16

			Projections				
	2010	2011	2012	2013	2014	2015	2016
Fund obligations based on existing credit (in milions of SDRs)							
Principal	0.00	0.00	0.65	1.87	2.06	2.06	2.06
Charges and interest	0.15	0.15	0.18	0.17	0.17	0.16	0.16
Fund obligations based on existing and prospective credit (in milions of SDRs)							
Principal	0.00	0.00	0.65	1.87	2.06	3.17	7.58
Charges and interest	0.15	0.15	0.32	0.36	0.36	0.36	0.34
Total obligations based on existing and prospective credit							
In milions of SDRs	0.15	0.15	0.97	2.23	2.42	3.53	7.92
In millions of US$	0.24	0.24	1.55	3.55	3.85	5.58	12.53
In percent of exports of goods and services	0.01	0.01	0.08	0.17	0.18	0.26	0.52
In percent of debt service	0.62	0.18	1.09	2.54	2.81	3.99	8.20
In percent of GDP	0.01	0.01	0.04	0.08	0.08	0.11	0.23
In percent of gross international reserves	0.10	0.08	0.46	0.92	0.88	1.12	2.25
In percent of quota	0.23	0.23	1.51	3.46	3.76	5.48	12.30
Outstanding Fund credit							
In milions of SDRs	32.4	54.5	75.9	85.1	83.0	79.8	72.3
In millions of US$	51.6	86.7	120.9	135.6	132.2	126.3	114.3
In percent of exports of goods and services	2.9	4.6	6.2	6.5	6.2	5.8	4.8
In percent of debt service	134.4	65.0	85.0	96.7	96.3	90.2	74.8
In percent of GDP	1.5	2.3	3.0	3.1	2.9	2.6	2.1
In percent of gross international reserves	20.8	30.1	36.0	35.1	30.2	25.4	20.5
In percent of quota	50.3	84.6	117.9	132.1	128.9	124.0	112.2
Net use of Fund credit (in millions of SDRs)	22.08	22.08	21.43	9.17	-2.06	-3.17	-7.58
Disbursements	22.08	22.08	22.08	11.04	0	0	0
Repayments	0.00	0.00	0.65	1.87	2.06	3.17	7.58
Memorandum items:							
Exports of goods and services (in millions of US$)	1808.0	1891.6	1950.2	2073.7	2122.0	2182.0	2395.7
Debt service (in millions of US$)	38.4	133.4	142.3	140.1	137.2	140.0	152.8
Nominal GDP (in millions of US$)	3421.0	3695.4	3969.1	4311.8	4576.0	4897.9	5331.2
Gross international reserves (in millions of US$)	247.6	288.6	335.4	386.5	437.0	497.0	557.0
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4	64.4

Source: IMF staff estimates and projections.

APPENDIX: MAURITANIA: LETTER OF INTENT

Nouakchott, February 23, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, NW
Washington, D.C. 20431
USA

Dear Mr. Strauss-Kahn:

1. The elections organized in July 2009 with the assistance of the international community paved the way for the return to constitutional order. Since then, the new government is now focusing its attention on continuing the economic reforms undertaken in recent years, which have helped to raise the standard of living of the population and to further reduce poverty. Aware that further efforts are needed to reach the Millennium Development Goals, the government has prepared a wide-ranging program of reforms covering the period 2010-12.

2. The new program is primarily designed to address the fallout from the external shocks that have led to a decline in economic activity, strained public finances, and thereby slowed poverty reduction efforts. The much needed stabilization of the economy requires fiscal consolidation, a cautious monetary policy, and a flexible exchange rate policy. To put growth on a sustainable path, the program includes ambitious structural reforms aimed at enhancing public financial management, developing the financial sector, and creating a business climate conducive to private investment, a prerequisite for creating jobs and reducing poverty. Regarding exchange rate policy, we restored normal operation of the foreign exchange market on December 14, 2009. All exchange restrictions introduced since end-2008 on current account transactions payments were lifted.

3. The attached Memorandum on Economic and Financial Policies (MEFP) sets out the main elements of the government's program for the next three years. It also describes the macroeconomic objectives, structural measures, and indicators for the first year of the program supported by the ECF arrangement.

4. The government requests financial assistance from the IMF through an arrangement under the Extended Credit Facility (ECF) in the amount of SDR 77.28 million, i.e., the equivalent of 120 percent of the country's quota. The government will provide Fund staff with all the data and information necessary to monitor implementation of the program. The

first and second reviews of Mauritania's performance under the arrangement will be completed by September 30, 2010 and March 31, 2011, respectively.

5. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program. Nevertheless, the government stands ready to adopt any measures that may prove necessary for this purpose. The government will consult with Fund staff on the adoption of these measures well in advance of any revisions to the policies stated in the MEFP, and in accordance with the IMF's policies on such consultations.

Sincerely yours,

/s/
Ousmane Kane
Minister of Finance

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

/s/
Sid'Áhmed Ould Raiss
Governor of the Central Bank of Mauritania

ATTACHMENT I. MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2010–12

FEBRUARY 23, 2010

I. INTRODUCTION

1. The political change that occurred in August 2008 led to a domestic political crisis and a significant reduction in, or in some cases, the suspension of financial and technical assistance of several development partners. The Mauritanian people's deep commitment to democracy and the help of the international community made possible the organization of presidential elections in July 2009 and the return to constitutional order.

2. The new government remains steadfastly committed to continuing and accelerating the reforms begun in the past few years with a view to increasing the standard of living of its population and to achieving further reduction in poverty. This entails the pursuit of sound macroeconomic management and the acceleration of structural reforms to improve the business climate, promoting the private sector, and diversifying the economy.

3. This memorandum sets out the government program for the period 2010–12, for which we request the financial support of the International Monetary Fund (IMF) under the Extended Credit Facility (ECF). It also sets out the actions and objectives for the first year.

II. ECONOMIC ENVIRONMENT AND REFORMS: RECENT DEVELOPMENTS

4. Prudent macroeconomic management and the implementation of structural reforms, undertaken as part of the program supported by the Poverty Reduction and Growth Facility (PRGF) approved in 2006, had started to bear fruit, with sustained economic growth and inflation relatively under control. This performance, together with debt relief,[1] facilitated the allocation of additional resources to finance infrastructure and poverty-reducing social expenditure. Progress was therefore made toward achieving the Millennium Development Goals (MDGs), in particular in the education sector and access to drinking water.

5. In addition to the domestic political crisis and subsequent reduction in financial assistance from its main partners, Mauritania also suffered two further shocks in 2008 and 2009 that had a significant negative effect on its economy.

- First, the sharp rise in food prices in 2008, in response to which the authorities implemented a Special Intervention Program (SIP) for an amount of US$161 million,

[1] Mauritania reached the Heavily Indebted Poor Countries (HIPC) Initiative completion point in 2002 and received assistance under the Multilateral Debt Relief Initiative (MDRI) in 2006.

equivalent to 4.9 percent of non-oil GDP (PIBHP). The SIP helped to limit the impact of this crisis on the most disadvantaged sections of the population.

- Second, Mauritania suffered the effects of the international financial crisis. The direct impact of the latter is very limited as financial intermediation is low and the Mauritanian financial sector is insulated from the global financial system. However, the global economic slowdown did affect Mauritania significantly through the fall in prices of and external demand for its main export commodities (iron and copper). World prices for iron and copper dropped between 2008 and 2009 by 36 percent and 28 percent, respectively.

6. These three shocks led to a contraction in the non-oil activity of about 1 percent in 2009. Furthermore, oil production continues to fall. In 2009, it reached 10,700 barrels a day compared with initial projections of approximately 75,000 barrels a day at the beginning of 2006. The external current account deficit is expected to reach 13 percent of GDP in 2009. The allocation of Special Drawing Rights (SDR) and financial compensation under the fisheries agreement with the European Union (EU) helped the Central Bank increase its foreign exchange reserves at end-December 2009 to approximately US$238 million, equivalent to 2.2 months of imports of goods and services.[2] The drop in tax revenues resulting from the global economic slowdown, together with the rise in spending under the SIP led to deterioration in the basic non-oil budget deficit excluding grants, which amounted to 5.3 percent of non-oil GDP in 2009.

7. Some progress was made in the area of structural reform. In the public finance area, consistent with IMF recommendations from 2008, measures being implemented seek to simplify the tax system, expand the tax base, and streamline and assess the quality of public expenditure. In this context, the government has undertaken several reforms since 2008 specifically aiming at (a) simplifying procedures; (b) reducing tax rates;[3] (c) creating the large enterprise unit responsible for collecting taxes from enterprises with turnover in excess of UM 100 million; (d) setting up the medium-sized enterprises directorate, responsible for tax collection from enterprises with turnover ranging between UM 30 and 100 millions; and (e) upgrading the Tax Centers (Centres des impôts—CDI) tasked with collecting taxes from small enterprises subject to a flat turnover tax.

[2] Excluding extractive industry imports and those financed by foreign aid.

[3] The Corporate income tax (*impôt sur les bénéfices industriels et commerciaux—BIC*) was reduced from 40 percent to 25 percent, the presumptive minimum tax (*impôt minimum forfaitaire—IMF*) was lowered from 4 percent to 2.5 percent, the tax on salaries and wages (*impôt sur les traitements et salaries—ITS*) decreased from 60 percent to 30 percent, the tax on noncommercial income (*impôt sur les bénéfices non commerciaux—BNC*) was reduced from 35 percent to 30 percent, and the tax on income from movable capital (*impôt sur les revenus de capitaux mobiliers—IRCM*) was cut from 16 percent to 10 percent.

8. On monetary policy, we have lowered in November 2009 the key interest rate of the Central Bank of Mauritania (BCM) from 12 percent to 9 percent, taking into account the fall in inflationary pressures and the sluggish state of the economy. The modernization of our management instruments is underway. In this connection, we adopted (a) a new charter for the Central Bank aimed at strengthening monetary policy efficiency by targeting price stability and ensuring greater independence for the central bank; and (b) new regulations and a new procedures manual for the money market. A monetary policy council chaired by the Governor tasked with setting BCM's monetary policy was also established. Furthermore, the legal framework for new policy instruments (BCM bonds, certificates of deposit, and commercial paper) was established, and the money market was expanded to include all economic agents.

9. Foreign exchange reforms included establishing as of January 2007 a procedure for auctioning foreign currencies on the foreign exchange market. However, this procedure was suspended in reaction to the financial crisis and the deterioration of Mauritania's external position, and temporary exchange restriction measures were introduced at end-2008.

10. We implemented important reforms in the financial sector. Accordingly, in line with the Financial Sector Assessment Program (FSAP) recommendations, we introduced various measures, including (a) new laws relating to the charter of the central bank, banking activity, and microfinance; and (b) several implementing regulations relating to the general order regulating credit institutions. In line with the objectives set out by the government, all but four of the banks have already increased their capital to UM 4 billion. In addition, since 2005 the financial statements and international reserves of the BCM were audited annually and semiannually, respectively, by an international audit firm hired through a competitive selection process. Significant headway has also been made in modernizing the payment system. For example, the launch of electronic banking was accompanied by the standardization by the central bank of the securities handled by the Clearing House.

III. Government Program

A. Medium-Term Objectives

11. The government's objective is to create adequate conditions for stronger growth in order to progress toward the Millennium Development Goals (MDGs) and to reduce the poverty incidence to less than 28.3 percent by 2015. In this context, the authorities intend to pursue structural reforms and macroeconomic policies during 2010-12 aimed at maintaining macroeconomic stability and in particular (i) keeping inflation at about 5 percent; (b) returning to an average annual non-oil GDP growth rate above 5 percent; and (c) accumulating foreign exchange reserves equivalent to about three months of imports by end-2012.

B. Policies

Fiscal policy

12. We have decided to reduce the basic non-oil deficit (excluding grants) from 5.3 percent of non-oil GDP in 2009 to about 1 percent in 2012, by increasing revenues while rationalizing public spending. In this connection, we will continue to implement measures aimed at further expanding the tax base and improving tax and customs administration with a view to increase tax revenues. Nevertheless, total revenues (excluding grants) are expected to stabilize given the fall in nontax revenues, in particular those relating to the fishery sector.

13. Regarding current expenditure, civil service reform and the modernization of government will contribute to a reduction in the wage bill by 1.7 points of non-oil GDP between 2009 and 2012 and to an improvement in the quality of public service. The ongoing civil service reform, in collaboration with our development partners, including the World Bank, will focus on updating the regulations and rationalizing the recruitment process, decentralizing the payroll, and paying salaries and wages through bank accounts. Using the findings of the comprehensive census of government employees, we will assess the operational staffing needs by ministry, ensure adequacy between staffing and needs, and strengthen personnel management. These measures will be part of a plan to rehabilitate the public sector, reduce budgetary transfers, and upgrade performance.

14. Lower transfers and subsidies to public enterprises will also help reduce current spending. To achieve this objective, we will carry out an assessment of the governance of public enterprises,[4] and program or performance contracts will be signed with the ultimate view of restoring balanced financial positions and reducing subsidies. We intend to pursue our efforts on public investment, consistent with the priorities targeted in the Poverty Reduction and Strategy Paper (PRSP), including with particular reference to human resources development, access by the poor to basic services, acceleration of economic growth, and promotion of employment. Under these circumstances, emphasis will be on building infrastructure and land-use planning to ensure a balanced and orderly development of the country. We have just set up an agency tasked with project monitoring and research, and we intend to adopt a new government procurement code to improve the quality of public investment. This new code will facilitate not only swifter execution of projects, but also greater transparency of government contract award procedures.

[4] Electricity company, Société Mauritanienne d'électricité (SOMELEC); gas company, Société Mauritanienne de Gaz (SOMAGAZ); rural development agency, Société Nationale de Développement Rural (SONADER); water company, Société Nationale d'Eau (SNDE); road maintenance, company Entreprise Nationale d'Entretien Routier (ENER); Mauritanian Hydrocarbon Company (Société Mauritanienne des Hydrocarbures - SMH), and Mauritanian Post Company (MAURIPOST).

15. Most state-owned enterprises are in financial distress and rely heavily on budgetary transfers to continue operating. In the context of our program to restructure the public enterprise sector, and in view of the fiscal risks posed by SOEs, we will put in place, in collaboration with the World Bank, recovery programs for all SOEs in financial distress. The objective is to enable these SOEs to continue supplying these public goods to the country in a sustainable way and in adequate conditions. We will seek grants and concessional loans to fund the restructuring plans.

16. The government is committed to carry on its ambitious PFM reform program, including improving the medium-term expenditure framework, moving to program budgeting, and creating a Treasury Single Account under a government account management agreement. The government is also committed to increasing poverty-reducing expenditures during 2010-12 and to pursuing reforms to further improve the quality, transparency, and efficiency of government expenditure

Monetary and exchange policy

17. We will pursue prudent monetary policy, consistent with our objective to keep inflation in check. The BCM will continue the reforms undertaken to modernize, adapt monetary policy instruments, and strengthen central bank operational independence. We will intensify our efforts in particular to develop an interbank market.

Structural reforms

18. In line with FSAP recommendations, we intend to implement reforms to strengthen the financial sector while improving access to financial services in a competitive environment. This reform will focus on strengthening the legal and regulatory framework of the financial sector, increasing transparency of accounting practices in the financial sector and the reliability of its financial statements, building the capacity of the various financial institution supervisory authorities, and implementing AML/CFT regulations. To safeguard transparency and to ensure adequate supervision of the financial sector, commercial banks' financial statements will be audited annually by an audit firm hired through invitation to tender. The authorities are also committed to studying various options to eliminating the stock of outstanding nonperforming loans held by the banks. Furthermore, the banks will continue to increase their share capital to the level of UM 6 billion by 2012.

19. We will continue to pursue a more flexible foreign exchange policy and to modernize the foreign exchange market. This market, based on a BCM-managed auctions system, could then be transformed into an interbank foreign exchange market.

20. We are committed to improving the business climate and to removing obstacles to private sector development. Measures under consideration include setting up a legal framework to facilitate the acquisition and enforcement of collateral and guarantees on movable and immovable property, simplification of the mechanisms to recover claims and

enforce contracts, the strengthening of the capacity of the courts regarding commercial law, financial law, and the settlement of trade disputes, and to improve the dissemination of legal information.

Strengthening the social welfare system and combating poverty

21. The current PRSP is organized around five pillars: (a) accelerating economic growth and maintaining macroeconomic equilibrium; (b) anchoring growth in the economic sphere of the poor; (c) developing human resources and improving access to basic social services; (d) enhancing governance and reinforcing institutional capacities; and (e) improving planning, monitoring and evaluation systems. The combination of higher output growth, relatively low inflation, and increased and improved social spending contributed to lower the national incidence of poverty from 47.6 percent in 2004 to about 42 percent in 2008. At this rate, achieving the Millennium Development Goal (MDG) by bringing down poverty rate to 28.5 percent in 2015 appears very challenging. However, some MDGs, particularly in the education sector will likely be achieved by 2015.

22. The government's steady commitment to achieving the MDGs and to strengthening the social welfare system will be reflected through additional resources to benefit vulnerable segments of the population, primarily at the local level, an improvement in the range of available services (in the design and implementation of sectoral policies), a strengthening of the institutional and human capacity to increase absorption capacity, and, finally, the linking of resources to specific targets, including the setting of performance indicators associated with the MDGs to facilitate the monitoring of expenditure effectiveness and efficiency. The program will help achieve higher economic growth and preserve macroeconomic stability while creating fiscal space for additional social and infrastructure spending, thereby facilitating progress toward the MDGS.

23. We recognize that the success of Mauritania's social and economic development national policies is more than ever predicated on crafting a governance policy that delivers transparent and efficient management of public goods. To address this major challenge, the government has decided to join a number of international agreements that will ensure effective implementation of its ambitions with regard to good governance and sound public resources management. We will make all efforts to mobilize technical and financial assistance from foreign partners in support of government policies.

IV. PROGRAM FOR 2010

24. Our objective for the 2010 annual tranche of our program is to attain a growth rate in the non-oil sector of 5.2 percent, to keep inflation below 5 percent, reduce the external current account deficit to about 12 percent of GDP, and to increase foreign exchange reserves to approximately 2.5 months of imports. Achieving these targets assume normal rainfall, the resumption of technical and financial assistance by our partners, the implementation of appropriate macroeconomic policies, and the continuation of structural reforms.

A. The Macroeconomic Program

Fiscal policy

25. The 2010 budget law is based on a solid resumption of economic growth, a significant improvement in revenue collection, a tight control in public spending growth, strengthened access to essential services, and improved living conditions of the population. The basic non-oil deficit (excluding grants) will be limited to UM 32.6 billion (3.8 percent of non-oil GDP).

26. Non-oil revenues will increase on account of both the economic recovery and tax measures to expand the tax base and modernize and strengthen the tax and customs administrations. The main measures include: (a) a 100 percent increase in the tax on vehicles used for public transportation of people or goods and a 50 percent increase on vehicles for personal use; (b) a raise from 14 to 18 percent in the value added tax (VAT) rate on petroleum products and telephony with a view to harmonizing the VAT system with that of neighboring countries, in particular those from the West African Economic and Monetary Union (WAEMU); and (c) replacing the tax services with a 14 percent tax on financial operations.

27. The current budget (excluding interest on foreign debt) will fall slightly to UM 183 billion (21 percent of non-oil GDP). Civil service reform (completion of the census of civil servants, reconciliation of the payroll file with the civil service roster to eliminate double pay and unjustified paid salaries, and the computerization and automation of the payroll) should help keep the level of the wage bill unchanged compared with 2009, at UM 76.6 billion (8.8 percent of non-oil GDP in 2010 against 10.1 percent of non-oil GDP in 2009). The 2010 consolidated domestically-financed capital expenditure amounts to UM 54.3 billion (6.3 percent of non-oil GDP). These resources will be allocated to priority actions supporting sustained economic growth, job creation, better access to essential services, and improved living conditions for the population, in particular for the most vulnerable groups. In this context, a relatively significant amount is allocated for restructuring the poor neighborhoods of large towns and cities, improving the living environment and access to drinking water, developing education and health, as well as supporting employment initiatives. Capacity constraints are a risk and efforts will be made to put together various programs aimed at strengthening capacity and modernizing the public sector. In view of the substantial needs of the country, we intend to step up our efforts to mobilize more grants in support of higher priority spending. Should that be the case, the basic non oil deficit would exceed the program target. We are committed to offset shortfall in revenue by cuts in spending with lower priority, so as to achieve the basic non-oil deficit (excluding grants) program target.

Monetary and exchange policies

28. The monetary authorities will continue to implement a sound monetary policy consistent with the inflation target and in the context of greater exchange rate flexibility. The 2010 monetary program targets a 13 percent monetary growth and an increase in credit to the private sector. However, the Central Bank stands ready to tighten its policy, specifically through its lead rates as much as necessary if inflationary pressures emerge. In support of a more active liquidity management, the fiscal and monetary coordination committee will be revived. The BCM will continue to use Treasury bills for open-market operations.

29. Regarding exchange rate policy, we restored normal operation of the foreign exchange market on December 14, 2009. All restrictions introduced since end-2008 on current account transactions payments were lifted. The intervention policy will be conducted in line with market rules and will essentially aim to smooth excessive daily fluctuations in the exchange rate. We are firmly of the opinion that this should restore confidence and lead to the expansion of the foreign exchange market and a rise in transactions. We would welcome technical assistance in this area to guide our efforts.

External sector and debt management

30. Mauritania's external outlook hinges upon development in prices of its principal export commodities. Current projections indicate that prices of Mauritania's main export commodities are on the rise again, which could lead to an increase in exports and an improvement in the external current account in 2010. The external current account deficit is expected to amount to approximately US$406 million (about 12 percent of GDP) and be financed mainly through a rise in foreign direct investment in the oil and mining sector and the mobilization of additional external funding. Excluding the financing mobilized by the National Industrial and Mining Company (Société Nationale Industrielle et Minière (SNIM)) to expand its productive capacity, medium- and long-term external borrowing is expected to reach approximately US$281 million in 2010.

31. Our external borrowing policy will be under intense monitoring to ensure debt sustainability. The government will work closely with its development partners to implement a debt management strategy that will ensure access to external financing while preserving external debt sustainability. In this context, we intend to request World Bank support to assess debt management capacity and needs in the context of the management performance assessment (MPA) and medium-term debt strategy (MTDS) TA programs. The recommendations will enable us to address the weaknesses of the current system and ensure more active and efficient debt management. We will be mobilizing mainly financing on concessional terms. However, some strategic projects could require financing that may not be secured on concessional terms. Such projects will be brought to the attention of the IMF and the World Bank for review. Finally, we will pursue our best efforts to reach an agreement on

the arrears accumulated vis-à-vis Kuwait and Libya, on terms comparable with those granted by the Paris Club creditors.

B. Structural Reforms

Strengthening tax administration and improving fiscal management

32. The sound execution of the 2010 government budget and the preparation of the 2011 budget as a tool for macroeconomic management require measures to strengthen transparency, improve tax collection, and reinforce budget execution in line with the recommendations of recent technical assistance missions of the IMF, the World Bank, and the United Nations Development Programme (UNDP).

33. Eradicating corruption is an essential prerequisite for sound resource management and effectiveness of government policies in the service of its citizens. The government has now started a process with the support of its partners that will lead to the adoption of a national anti-corruption strategy (SNLCC). An initial revised report and three-year action plan have just been prepared and have been forwarded to our development partners. During 2010, this policy will be submitted to all stakeholders for validation and implementation. Our country's membership of the Extractive Industries Transparency Initiative (EITI) reflects similar consideration. Over the past few years, Mauritania has received considerable assistance to strengthen natural resource management both in the mining sector run by the National Industrial and Mining Company (SNIM) and the hydrocarbon sector. Regards the latter, the Mauritanian Hydrocarbon Company (Société Mauritanienne des Hydrocarbures (SMH)) manages the government's interests in hydrocarbons and the publication of the production-sharing contracts.

34. On revenues, we intend to strengthen the tax and customs administrations based on the recommendations of the most recent West Africa Regional Technical Assistance Center (West AFRITAC) technical assistance mission. The modernization of tax administration is the cornerstone of fiscal reform. In this connection, we will set up a steering committee to oversee tax reform. This committee will be tasked with: (a) developing and implementing the plan to computerize the operations of the General Directorate of Taxation; and (b) issuing, in parallel with the census operations, new identification numbers to taxpayers, starting with those for the Large Enterprise Directorate and the Medium-sized Enterprise Directorate.

35. We will also strengthen customs administration by simplifying and computerizing customs procedures. The third phase of customs computerization and, in particular, migration to the Automatic System for Customs Data Entry (ASYCUDA++) version is underway. This application will improve management of exemptions and help establish digital archiving. To minimize fraud, the customs administration intends to: (a) create a valuation office (*bureau de la valeur*); and (b) set up a customs valuation database. We will also continue reconciling data between customs and the service company (SGS).

36. Improvement in cash flow and active cash management are priorities for government action. In this context, we will prepare a government cash management plan. Weekly meetings of the fiscal and monetary policy coordination committee will be recorded in minutes that will review the cash position and three-month rolling cash forecasts, as well as the budget execution recommendations, and the BCM's interventions on the money market.

Controlling the wage bill and improving quality of public service

37. Civil service reform with the support of the World Bank and government modernization will be continued. The comprehensive census of government employees carried out in 2007 will be validated and updated by end-June 2010 and we will reconcile the databases of the government payroll and the civil service roster. We will terminate, before June 30, 2010, all benefits in kind granted to government employees and replace them instead by cash allowances in order to enhance transparency in the remuneration policy.

Reorganizing and strengthening the financial sector

38. It is important to continue building on the achievements of the past few years by improving access to financial services in a competitive environment. The BCM is committed to pursue the implementation of measures recommended by safeguards assessment missions, including the January 2010 mission in order to strengthen the safeguards mechanism in place and address all the vulnerabilities identified. On accounting, BCM intends to convert its accounting system to International Financial Reporting Standards (IFRS) with a view to improving financial transparency. In order to fully implement this project, BCM requests the resumption of IMF technical assistance over the next few years, including in 2010. BCM's financial statements, including central bank reserves at end-December 2009, will be audited by an international audit firm hired through a competitive selection process. In addition, the commercial banks should increase their share capital to UM 4.5 billion by end-2010 about (US$17 million).

Reforming the electricity sector

39. The electricity production sector is in a very fragile state, due to insufficient production capacity as well as very significant operating losses of the government electricity company Société Mauritanienne d'électricité (SOMELEC). With support from our partners, we will finalize a master plan for the sector that will include medium- and long-term objectives. The plan will include a technical and financial restructuring program for SOMELEC, while clarifying the relationship between SOMELEC and the government, and defining the role of the private sector in the sector.

Improving the business climate and promoting the private sector

40. The obstacles hindering private sector development range from the high input costs of production factors and the rigidity of the overall business environment. They are also

attributable to the availability and skills of the workforce and to weak infrastructure services, such as water, transport, telecommunications, and, above all, electricity. Measures under consideration in support of private sector development will aim at mitigating the impact of those obstacles and gradually removing them. The Investment Code will be revised during 2010, drawing on the experience of other countries, so as to provide Mauritania with a consistent and comprehensive law that consolidates all the advantages, incentives, and safeguards granted to investors. Administrative formalities and procedures will be simplified and their processing will be shortened as we intend to reactivate and expand starting in 2010 the authority of the One-Stop Facility.

Strengthening the social welfare system and combating poverty

41. With the support of UNICEF and other specialized institutions of the United Nations, Mauritania has recently launched a study on social protection with a view to better understanding existing social welfare mechanisms and programs. This study will review the social safety nets currently in place, assess the priority needs, and issue recommendations to guide the action of the government and its partners in preparing a national social welfare strategy for Mauritania for the 2010–12 period.

Improving economic statistics

42. The compilation of reliable financial and economic statistics is essential for the design and monitoring of the PRSP and this program. Accordingly, the collection and processing of data on prices, national accounts, and balance of payments will be further improved. For this purpose, we are committed to strengthen the resources of the agencies tasked with producing these data, including the National Office of Statistics (ONS). We will also step up our efforts with the donors to mobilize the technical and financial resources needed for that purpose.

C. Risks

43. Various risks may hamper achievement of the program objectives. These include the following: (a) the vulnerability of the Mauritanian economy to exogenous shocks, such as price volatility of its principal export commodities; (b) low mobilization of official transfers; and (c) rainfall and locust infestation hazards on agriculture and livestock farming in an arid zone. The government is aware of these risks and stands ready to adjust its policies if the risks materialize. If need be, corrective measures will be taken in consultation with IMF staff.

V. Program Monitoring

44. The government will establish a technical monitoring committee (CTS) to ensure effective implementation of this program. This committee will also monitor the execution of an action plan to reform public financial management. It will include, in particular, representatives of the Ministry of Finance, the Ministry of Economic Affairs and

Development, BCM, ONS, and representatives of other ministries and government agencies that can assist CTS, if need be. The technical committee's operation will be guided by a ministerial committee that will also include the Governor of the Central Bank. The CTS will have a permanent secretariat and will meet regularly to assess progress made and will ensure transmission of data required for monitoring program execution. The implementation of the program will be assessed every six months in consultation with IMF staff. The first review will be based on the quantitative performance criteria and indicators at end-June 2010 (MEFP Table 1) and on the structural benchmarks (MEFP Table 2). These quantitative criteria and benchmarks are set out in the Technical Memorandum of Understanding (TMU), along with adjusters in case of contingencies.

Table 1 . Mauritania: Quantitative Performance Criteria and Indicative Targets for the First Annual Program under the ECF Arrangement 1/

(Cumulative change from end-December 2009)

	End-Dec. 2009	End-Mar. 2010	End-Jun. 2010	End-Sep. 2010	End-Dec. 2010
	Initial level	Indicative Target	Performance criteria	Indicative Target	Indicative Target
Net international reserves of the BCM (floor); in million of US$ 2/	-47.8	6.9	24.1	37.1	31.4
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 2/	125.1	10.5	10.3	11.3	17.3
Basic non-oil balance (floor) ; in billions of ouguiyas		-10.5	-19.2	-19.2	-32.6
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0	0	0	0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government , BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0	0	0	0
New external arrears on non reschedulable debt (continuous quantitative performance criterion)		0	0	0	0
Poverty-related expenditures, in billions of ouguiyas (indicative target)		21.9	53.3	87.8	110.1
Adjustors (in million of US$)					
Net international assistance	…	2.9	2.1	15.8	50.3
Cumulative disbursements of official loans and grants in foreign currency	…	8.1	19.2	38.2	87.0
Impact of any additional debt relief	…	0	0	0	0
Cumulative amounts of external cash debt service payments	…	-5.2	-17.2	-22.5	-36.7
FNRH contribution to the budget	65.1	19.8	42.4	42.5	48.2
Cumulative disbursements of official grants in foreign currency		8.1	19.2	38.2	65.0
Memorandum item:					
UM/$ exchange rate (program)	262				

1/ For definitions, see Technical Memorandum of Understanding.

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

Table 2. Mauritania. Structural Benchmarks, 2010

Measure	Date	Rationality
Issue, while surveys are underway, new identification numbers to taxpayers.	End-December 2010	Strengthen tax administration and increase revenue.
Adopt the ministerial decision establishing the Technical Monitoring Committee.	End-March 2010	Efficient management of the program.
BCM should publish on its website audited financial statements together with audit opinion of the years ended.		Promote transparency and governance of the central bank.
December 31, 2007	End-March 2010	
December 31, 2008	End-March 2010	
December 31, 2009	End-June 2010	
Establish a rolling three-month cash management plan.	End-June 2010	Improve budget execution, liquidity management and interventions of the central bank in financial markets.
Conduct an audit of NIR and NDA data of the BCM as of June 30, 2010.	End-Septembre 2010	Improve BCM accountability and safeguard data reporting process.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period January 1, 2010–December 31, 2012, which are set forth in the Memorandum of Economic and Financial Policies (MEFP) and reported in Table 1. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.

2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference period described in Table 1 and the end of the month indicated.

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

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

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

5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001),* excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (*revenue recorded by Treasury*). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt

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

6. **The new limit on medium- and long-term nonconcessional external debt contracting or guaranteeing** by the government, the BCM, and SOEs (excluding SNIM) is defined as the foreign currency debt, with maturities of one year or longer, contracted or guaranteed by the government or the BCM with a grant element (defined as 1 minus the NPV-to-face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274-(00/85) August 24, 2000; see Annex) but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

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

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

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

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

B. Structural Benchmarks

11. **Structural benchmarks for the 2010 tranche of the program are:**

- Issue by end-December 2010, while surveys are underway, new identification numbers to new taxpayers in Nouakchott and Nouadhibou. This benchmark aims at building a centralized taxpayers database and provide each taxpayer with a single identification number. Observance of this benchmark will require transmission to IMF staff by end-December 2010 the database including all taxpayers and their single identification number.

- Adopt by end-March 2010 the ministerial decision establishing the Technical Monitoring Committee (TMC) in charge of monitoring the program. A copy of this decision should be sent to the IMF by end-March 2010.

- Establish by end-December 2010 a rolling three-month cash management plan. Transmission to IMF staff of the cash management plan and the minutes of the meetings of the committee to coordinate budgetary and monetary policies.

- BCM should publish on its website audited financial statements together with audit opinions for the years ended

    - December 31, 2007 (by end-March 2010)

    - December 31, 2008 (by end-March 2010)

    - December 31, 2009 (by end-June 2010)

- Conduct annual financial audits of the BCM, and twice a year audits of its NIR and NDA data.

II. Program Adjustors

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

13. In case **net international assistance** or **the contribution of the FNRH to the budget falls short** of the amounts projected in Table 1, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the

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

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

III. Reporting Requirements

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

Central Bank of Mauritania (BCM)

- The monthly balance sheet of the BCM, and monthly data on (a) BCM's gross foreign exchange reserves (at program exchange rates and at actual official exchange rates); and (b) the FNRH (National Hydrocarbon Revenue Fund) balances, as well as receipts and outlays (transfers to the Treasury account) and their timing, within two (2) weeks following the end of each month.

- The monthly monetary survey, the aggregated balance sheet of the commercial banks, and monthly data on foreign exchange positions of individual commercial banks by currency and on a consolidated basis at actual official exchange rates within three (3) weeks from the end of each month.

- Data on Treasury bills auctions and the new stock outstanding within a week following each auction.

- Monthly data on the level of liabilities of each public enterprise to the banking sector, within one month from the end of each month.

- Monthly external debt data within 39 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

    - The external debt data file: service of the external debt of the BCM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.

- The monthly list of medium- and long-term public or publicly-guaranteed external loans contracted during each month, identifying for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

- Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor and by currency) within 30 days following the end of each quarter.

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

Ministry of Finance

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

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

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

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

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

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

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

National Statistical Office

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

Technical Monitoring Committee

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

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

IV. Central Government Operations Table

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

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

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

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

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

- **External financing** is defined as the sum of: the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of technical arrears and passive debts as defined in Paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

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

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

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

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

INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

Staff Report for the 2009 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility

Informational Annex

Prepared by the Middle East and Central Asia Department

February 26, 2010

Contents Page

Annex I. Relations with the Fund

As of December 31, 2009

I.	**Membership Status**: Joined: September 10, 1963		Article VIII
II.	**General Resources Account**	**SDR Million**	**% Quota**
	Quota	64.40	100.00
	Fund holdings of currency	64.40	100.00
	Reserve Position	0.00	0.00
III.	**SDR Department**	**SDR Million**	**% Allocation**
	Net cumulative allocation	61.67	100.00
	Holdings	0.12	0.20
IV.	**Outstanding Purchases and Loans**	**SDR Million**	**% Quota**
	PRGF Arrangements	10.31	16.01

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Dec. 18, 2006	Dec. 17, 2009	16.10	8.38
PRGF	Jul. 18, 2003	Nov. 07, 2004[1]	6.44	0.92
PRGF	Jul. 21, 1999	Dec. 20, 2002	42.49	42.49

VI. Projected Payments to Fund

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

	Forthcoming				
	2010	2011	2012	2013	2014
Principal	0.00	0.00	0.65	1.87	2.06
Charges/Interest	0.20	0.20	0.20	0.19	0.18
Total	0.20	0.20	0.84	2.06	2.24

[1] Cancellation date.

VII. Implementation of HIPC Initiative

Enhanced

		Framework
I.	Commitment of HIPC assistance	
	Decision point date	Feb. 2000
	Assistance committed by all creditors ($millions)[2]	622.00
	Of which: IMF assistance ($millions)	46.76
	(SDR equivalent in millions)	34.80
	Completion point date	Jun. 2002
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	34.80
	Interim assistance	16.88
	Completion point balance	17.92
	Additional disbursement of interest income[3]	3.63
	Total disbursements	38.43

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

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

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

[2] 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.

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

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million)[4]		32.91
Of which:	MDRI	30.23
	HIPC	2.68

II. Debt Relief by Facility (SDR Million):

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

IX. Safeguards Assessments

6. An update safeguards assessment of the Banque Centrale de Mauritanie (BCM) was completed on April 17, 2007. The assessment identified serious vulnerabilities in the central bank's safeguards framework and concluded that with the exception of appointing an international audit firm, the central bank had made little progress in strengthening the framework since the 2004 assessment. In particular, critical vulnerabilities were found in the areas of financial reporting (including reporting of monetary data to the Fund), and controls. A number of recommendations were made to address these vulnerabilities, including with respect to audits of reserves and quarterly monetary program data, the preparation of financial statements on the basis of International Financial Reporting Standards, and measures to improve controls in reserves management. Measures have been taken in some areas. Recommendations related to monetary program data remain relevant in the context of possible future programs. An update safeguards assessment of the BCM is underway and should be completed by the time of the first review. The 2010 safeguards mission found that recent economic and political challenges exacted a toll on the safeguards framework of the bank and significant risks continue to exist. Action is needed on several fronts including to restore independent governance oversight and timely publication of the audited financial statements, along with new procedures to ensure the integrity of data reported to the Fund. The permanent cessation of the cash operations of the BCM foreign offices is also a safeguards priority. The previous safeguards assessment of the BCM was completed on April 16, 2007.

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

X. Exchange Rate Arrangement

The currency of Mauritania is the ouguiya (UM). In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second imposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. In July 2005, this surrender requirement was reduced to 60 percent. In July 2006, the surrender requirement was cancelled for small-scale pelagic fish exports and in October 2006, it was further reduced to 25 percent for exports of the public trading company SMCP. The BCM eliminated in October 2006 foreign exchange rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2 (a). From October 2005 to January 2007, the ouguiya was de facto pegged to the U.S. dollar, at an exchange rate of UM 268.6 per dollar. The BCM launched a foreign exchange auction market in late January 2007. By end-2008, in response to a weakening external position triggered by the global economic slowdown, the central bank moved away from the auction system and rationed foreign exchange. In December 2009, the central bank lifted all restrictions on current account transactions and restored the auction system. Mauritania's de facto exchange rate continues to be classified as a managed float with no pre-announced path.

XI. Last Article IV Consultation

Discussions for the 2008 Article IV consultation were held in Nouakchott during March 9-20, 2008. The Country Report No. 08/231 was considered by the Executive Board on May 19, 2008.

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

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

- The financial sector, while not exhibiting any sign of distress, does not support economic development and presents significant challenges.
- Banks are vulnerable and inefficient; they primarily serve their affiliated economic groups.
- Nonbank financial intermediaries are underdeveloped; microfinance is emerging, with institutions depending on subsidies.
- Financial sector regulation still needs some additional improvement and enforcement, in spite of recent progress, is still weak.

- The financial sector infrastructure needs to be modernized—including the legal and judicial framework, accounting and auditing practices, and the payment system.

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

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

XIII. Technical Assistance (since 2005)

1. MCM

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

Peripatetic TA missions by panel expert on foreign exchange reserves management: July13–26, 2005.

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

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

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

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

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

2. FAD

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

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

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

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

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

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

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

3. LEG

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

4. STA

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

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

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

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

5. AFRITAC

Several TA missions in 2005–07, including on tax and customs administration, computerization of public expenditure chain, external debt management, public finance statistics, and microfinance supervision and regulation.

Several missions in late 2008 and early 2009, including microfinance supervision, tax and customs administration, public debt management and development of financial markets, and external debt statistics.

XIV. Resident Representative

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

Annex II—Mauritania: JMAP Implementation Matrix			
Title	**Products**	**Mission timing**	**Expected delivery**
A. Mutual information on relevant work programs			
Bank work program in next 12 months	Policy Notes	September 2009	May 2010
IMF work program in next 12 months	First review under the ECF	September 2010	November 2010
	Second review under the ECF	March 2011	May 2011
B. Requests for work program inputs			
Fund request to Bank (with summary justification)	Collaborate on LIC DSA	February 2010	February 2010
Bank request to Fund (with summary justification)	Report to the Concessional Loans Committee	December 2009	February 2010
C. Agreement on joint products and missions			
Joint products in next 12 months	LIC-DSA	December 2009	February 2010
	PRSP Progress Report	May 2010	June 2010
	Medium-Term Budget Framework	May 2010	June 2010

ANNEX III. ISLAMIC REPUBLIC OF MAURITANIA—STATISTICAL ISSUES APPENDIX

As of January 30, 2010

I. Assessment of Data Adequacy for Surveillance

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

National accounts: Substantial work is still required to implement the statistical methodologies of the *1993 System of Natio* *Accounts (1993 SNA)* and rebase constant price estimates to 1998. The National Statistical Office (ONS) has finalized estim 1998–2001 and produced provisional estimates for 2002–05. The ONS has completed the 2006 estimates and is working on 2008. AFRITAC West is providing technical assistance.

Price statistics: The current edition of the consumer price index (CPI), developed with the assistance of AFRISTAT has bee published since May 2004. Geographical coverage of the CPI is limited to Nouakchott, the capital. The authorities intend to a new CPI that will reflect recent consumption trends.

Government finance statistics: has benefited from recent efforts to increase the comprehensiveness of the data through the adoption of systematic compilation practices. With ongoing methodological improvements, the authorities should publish monthly statements of treasury accounts.

Monetary statistics: BCM monetary statistics are in line with the statistical methodologies of the *Monetary and Financial Statistics Manual* and data dissemination recommendations of the GDDS. More specifically, BCM developed and implemented bridge tables from source data for monetary statistics to the new Standardized Report Form (SRFs) for reporting monetary statistics to STA. In parallel, BCM pursued the implementation of the recommendations of the various IMF safeguards assessment missions. BCM posts monetary statistics on its official website (the most recent data refers to December 2007). With recent methodological improvements, the BCM is now expected to submit monetary data to STA monthly by using the SRFs 1SR, 2SR, and 5SR beginning with end-January 2010 data onwards and to progressively compile SRFs back to December 2001.

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 as under-reporting of external transactions by commercial banks is problematic. No balance of payments statistics are reported to STA. TA from AFRICA West could help address some of the short comings.

II. Data Standards and Quality

Participant in the General Data Dissemination System (GDDS). Metadata need to be upgraded.	No data ROSC is available.

III. Reporting to STA (Optional)

Mauritania does not report of government finance statistics to STA.
Monetary data using SRFs 1SR, 2SR, and 5SR are not currently reported.

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of December 2009

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	Jan. 2010	Feb. 2010	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Jan. 2010	Feb. 2010	M	M	NA
Reserve/Base Money	Jan. 2010	Feb. 2010	M	M	NA
Broad Money	Jan. 2010	Feb. 2010	M	M	NA
Central Bank Balance Sheet	Jan. 2010	Feb. 2010	M	M	NA
Consolidated Balance Sheet of the Banking System	Dec. 2009	Jan. 2010	M	M	NA
Interest Rates[2]	Dec. 2009	Jan. 2010	W	W	W
Consumer Price Index	Jan. 2010	Feb. 2010	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	Jan. 2010	Feb. 2010	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2009	Jan. 2010	A	A	I
External Current Balance	Dec. 2009	Jan. 2010	Q	Q	I
Exports and Imports of Goods and Services	Dec. 2009	Jan. 2010	Q	Q	I
GDP/GNP	2009 [7]	Jan. 2010	A	A	I
Gross External Debt	Dec. 2009	Jan. 2010	A	A	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] Preliminary.

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF MAURITANIA

Debt Sustainability Analysis

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

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The updated joint IMF-World Bank low-income country debt sustainability analysis (LIC DSA) shows that, despite the several shocks that affected the country, including the global economic slowdown, Mauritania remains at a moderate risk of debt distress.[1] *Under the baseline scenario, all debt burden indicators remain below their policy-dependent indicative thresholds, except for a minor and non protracted breach of threshold for the present value (PV) of debt-to-GDP ratio. Public debt indicators remain on declining paths. Stress tests suggest that Mauritania is particularly vulnerable to export shocks, thus highlighting the need to pursue a prudent macroeconomic policy and a cautious borrowing strategy, improve debt management, and diversify the economy.*

I. BACKGROUND

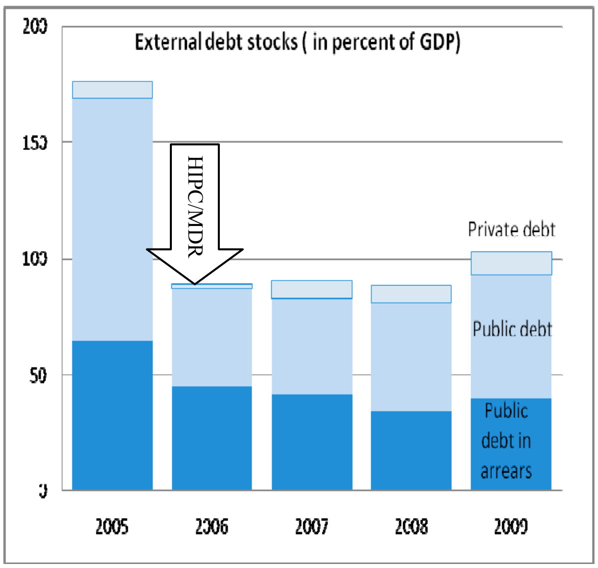
1. **This report updates the DSA prepared in 2008.** This analysis is based on the long-term macroeconomic framework presented in the 2009 Article IV discussions report. The assessment remains broadly similar to the 2008 DSA, despite the fact that public and external balances are weaker than previously projected and that medium-term prospects are not as

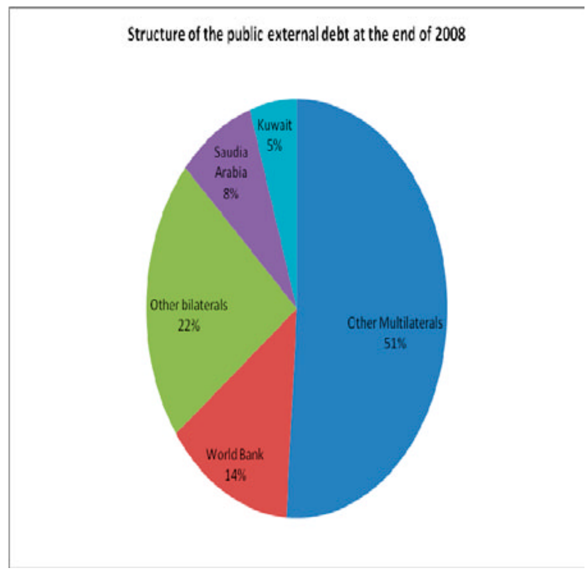
[1] The external and the public sector LIC DSAs presented in this document are based on the common standard LIC DSA framework. See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework, Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04) and "Applying the Debt Sustainability Framework for Low-Income Countries Post Debt Relief," http://www.imf.org/external/np/pp/eng/2006/110606.pdf and IDA/SecM2006-0564, 8/11/06).

favorable. In the long run, the forecast remains broadly the same and as a result Mauritania remains at a moderate risk of debt distress.

2. **HIPC debt relief and MDRI assistance contributed to firm up the country's debt sustainability.** Mauritania reached its completion point under the HIPC Initiative in 2002 and received MDRI assistance in 2006. Debt relief agreements with most creditors have been finalized, but agreements have yet to be reached on arrears owed to two non-Paris club creditors (Libya and Kuwait). These arrears amounted to about US$1.2 billion at end-2009 (nearly half of Mauritania's outstanding stock of external nominal debt), of which about US$1 billion (83 percent) is owed to Kuwait.

Figure 1. Evolution and Composition of External Debt



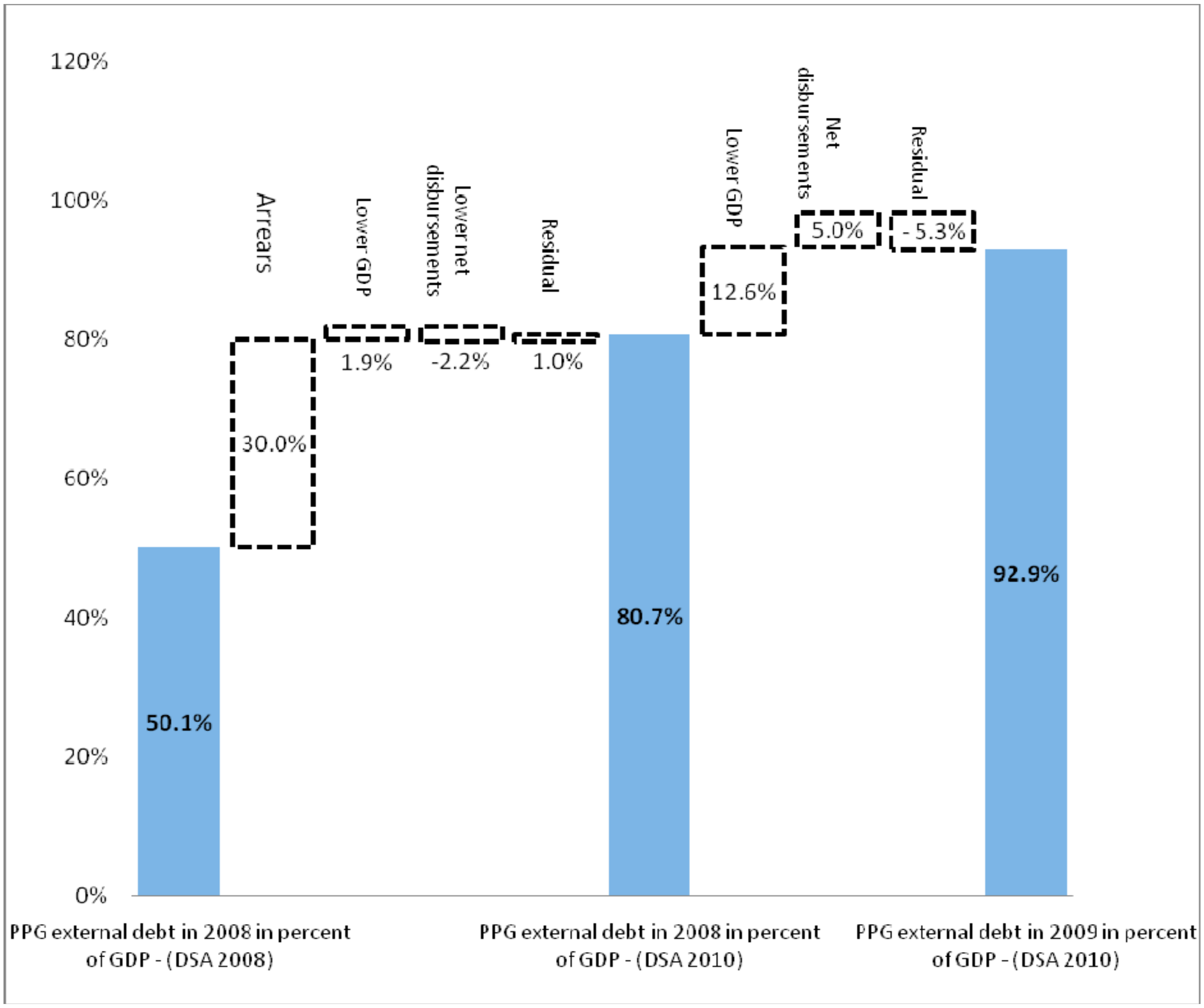


3. **As of end-2008, total external debt amounted to US$2.8 billion**, or 88.5 percent of GDP. Gross public and publicly-guaranteed (PPG) external debt[2] was about 81 percent of GDP, compared with a projection of about 50 percent in the previous DSA. The difference is mainly explained by the non-clearance of arrears accumulated vis-à-vis the aforementioned two non-Paris Club creditors. Excluding those arrears, the public external debt ratio remained broadly unchanged (Figure 2). Key creditors are the World Bank Group's IDA, Saudi Arabia, and Kuwait. Preliminary data indicate that public external debt to GDP ratio increased to about 93 percent at end-2009 due mainly to the decline in GDP. At end-2008, net total public debt (gross external and domestic debt net of oil fund reserves) amounted to roughly 89 percent of GDP.

[2] This includes central government and state-owned enterprises (excluding SNIM).

Figure 2. Factors Explaining:

(i) the differences in the estimates of the PPG external debt as percentage of GDP in 2008 between the DSA 2008 and DSA 2010 and (ii) the change in PPG external debt between 2009 and 2008



II. UNDERLYING DSA ASSUMPTIONS

4. **Since the last DSA, oil output and exports were significantly revised downward,** in line with output trends in 2008 and 2009**.** Oil production[3] is expected to reach annually 10.2 million barrels over the period 2009**-**29 (compared with 13.9 million barrels in the 2008 DSA). The current projections are conservative considering the intense exploration program underway that could boost prospects for additional oil and gas reserves.

[3] The exhaustion of reserves is beyond the projected horizon.

5. **The medium-term outlook is affected by recent external shocks.** Mauritania was hard hit by the fuel and food crisis nearly two years ago and the subsequent global recession in 2008-09, mainly through the decline in the prices of and the demand for Mauritania's main export commodities (iron, copper, and fish). The consequences of these external shocks have been exacerbated by a domestic political crisis triggered by the military coup in August 2008 and the unexpected significant drop in oil production. These multiple shocks have taken a toll on the economy and its growth prospects. Therefore, in the medium term, economic activity, exports, and the fiscal and external positions are weaker than previously projected.

6. **Long-run macroeconomic indicators remain, however, broadly unchanged.** The economy is expected to return to high and sustained non-oil GDP growth, supported by ongoing large investments projects, including a major project to expand capacity of the national iron ore company (estimated at US$1.1 billion).[4] Thus, the external position is expected to strengthen gradually. On the fiscal side, the non-oil deficit will increase, reflecting social and infrastructure needs, but it will be fully financed by increasing oil revenue. Average annual inflation would stay at around 5 percent during the projection period.

7. **Outstanding arrears to Kuwait and Libya are assumed to be rescheduled in 2010 and 2011.** The authorities indicated that the technical groundwork was completed but final negotiations were interrupted by the August 2008 military coup. The July 2009 presidential election enabled Mauritania's return to constitutional order, and the new authorities are stepping up their efforts to reengage rapidly with the two creditors. They expect to finalize bilateral agreements in the coming months. Therefore, consistently with LIC DSA guidelines for post-completion point countries, we assume debt relief by Kuwait and Libya in line with the debt reduction required under HIPC.[5]

[4] The project includes 4 components: (a) expanding capacity; (b) building a new mineral seaport; (c) modernizing the railway connection from the mine to the seaport; and (d) building a maintenance base. The financing is provided by several financial institutions, including the African Development Bank, the European Investment Bank, the French Development Agency (AFD), and the Islamic Development Bank. This project will help expand iron ore production. Lack of detailed information does not allow to fully incorporate the impact on growth of other major ongoing and upcoming identified projects.

[5] See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries" available at www.imf.org and www.worldbank.org.

Box 1. Baseline Macroeconomic Assumptions

Real GDP growth: Real GDP growth is projected to be sustained at 5.3 percent per year on average over 2010-14, supported by strong activity in the non-oil sector, which is expected to be driven by a significant investment program covering water production and distribution, a large port, and a major project (estimated at US$1.1 billion) to expand capacity of the national iron ore company. Upon completion of these projects, we expect growth to stabilize at about 4.5 percent per year over 2015-29. Near-term risks include volatility in the commodity market, notably a large drop in iron ore and copper prices and a prolonged shortfall in power supply. On the upside, accelerated structural reforms to improve the business environment and higher return on ongoing investment could spur growth.

Inflation: Continued prudent monetary and fiscal policies will keep inflation in the low single digits, at around 5 percent.

Current account balance: The current account deficit is expected to peak at about 16.5 percent of GDP in 2011, mainly driven by the increase in imports associated with the implementation of three major projects in the mining, transportation, and water sectors. The external position would strengthen gradually after 2012, with exports remaining at about 45 percent of GDP through 2022 (and then declining to about 40 percent in 2029) and imports falling steadily to 41 percent by 2029. Net foreign direct investment is expected to decline gradually from about 8 percent of GDP in 2008 to 2.3 percent in 2029.

Mauritania: Major Projects 2009-12

in millions of US dollars

	Total cost of projects	Planned Disbursements 2009	2010	2011	2012
I) Development and Modernization Program of SNIM	1072	25.9	268.9	392.9	347.8
as percentage of GDP		0.9%	8.4%	11.5%	9.5%
of which Expansion of Iron ore capacities production	776				
Construction of a new mineral port	170				
II) Extension of the Nouakchott Sea port	300	0	102	102	96
III) Aftout Essahli Water Project	450	236	100	15	0
Total		261.9	470.9	509.9	443.8
as percentage of GDP		8.8	14.7	14.9	12.1

Source: Mauritanian authorities.

Government balances: The framework assumes the following: (a) non-oil revenue remains stable at about 24 percent of non-oil GDP throughout the period; (b) grants are expected to stabilize at 1 percent in the long-run; and (c) oil revenue will peak at 4 percent of GDP in 2022 before declining steadily to 3.1 percent of GDP in 2029. The government's non-oil deficit including grants is projected to improve gradually from 9 percent to about 3.6 percent of non-oil GDP between 2008 and 2029. The projected primary balance improves from a deficit of 3.2 percent of GDP in 2009 to a surplus of 0.9 percent of GDP in 2029.

External financing: The framework assumes that the authorities will be successful in eliciting additional aid resources equivalent to the levels pledged at the December 2007 consultative group meeting. For this purpose, the government intends to organize in 2010 a follow-up meeting on these pledges. The baseline scenario assumes that Mauritania will borrow essentially on concessional terms. It is expected that new borrowing will gradually shift away from concessional financing. Average grant element on new borrowing will decline to about 18 percent in 2029.

Domestic debt, mainly treasury bills held by the banking sector, stood at 8 percent of GDP at end- 2008. It is projected to stay around 9 percent until 2029.

Real interest rates. The real interest rate of the short-term domestic debt approaches 5 percent.

III. External Debt Sustainability

8. **The analysis shows that Mauritania's external debt is at a moderate risk of debt distress.**[6] The analysis was conducted under the debt sustainability framework for low-income countries (LICs). Mauritania ranks as a "medium performer," according to the World Bank CPIA rating.[7] Therefore, the indicative, policy-related debt burden thresholds used for the analysis are those applying to medium performers. The debt-burden thresholds for countries in this category are: (a) the PV of the debt-to-exports of goods and services of 150 percent; (b) PV of the debt-to-GDP of 40 percent; and (c) PV of the debt-to-fiscal revenues of 250 percent. The relevant debt service ratios are: (a) 20 percent of exports of goods and services; and (b) 30 percent of fiscal revenues.

Baseline

9. **All debt burden indicators remain below their policy-dependent indicative thresholds, except for a marginal and non protracted breach of threshold for the present value (PV) of debt-to-GDP ratio.** PV of debt-to-exports and PV of debt-to-revenue ratios remain well below their indicative, policy-dependent thresholds throughout the period (Figure 1). Furthermore, the ratios decline continuously, and are estimated to be about 40 percent below their thresholds during the last ten years of the projections. However, the PV of debt-to-GDP ratio would only decline below its threshold from 2016. The deterioration of the country's debt indicators in the medium term relative to the previous DSA is attributable mainly to the (i) new loan contracted by the national mining company to expand its production and export capacity; (ii) lower projected oil output; and (iii) the decline in the discount rate from 5 to 4 percent. Debt service ratios reflecting liquidity risks would stay below the indicative thresholds.

Alternative scenario and stress tests

10. **Under the two alternative scenarios, all external debt burden indicators—but the PV of debt-to-GDP—remain below their thresholds**. In the historical scenario (key macroeconomic indicators evolve in line with the record of the past ten years), as well as in a scenario of less favorable lending conditions (new borrowing at 2 percentage points higher interest rates than in the baseline), PV of debt-to-exports and PV of debt-to-revenue ratios

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[6] According to the LIC DSA guidelines, the existence of arrears could suggest that a country is in debt distress, unless there are other reasons than debt-service burden for not servicing its debt. Despite having substantial arrears to external creditors, Mauritania is not assessed as being in debt distress because its arrears are related to debts that were previously categorized as "passive".

[7] In the LIC DSA framework, the quality of a country's policies and institutions is measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index, and classified into three categories: strong, medium and poor. The average CPIA rating for Mauritania over 2006-08 is 3.33, above the 3.25 threshold (see http://siteresources.worldbank.org/IDA/Resources/tablesCPR.pdf).

remain below their thresholds. The historical scenario, based on a continued relatively high level of FDI (12 percent of GDP), shows a more optimistic debt ratio trajectory in comparison with the baseline. However, maintaining FDI at 12 percent of GDP in the long term is unlikely to occur.

11. **The bound tests highlight the country's vulnerability to external shocks, in particular, to lower export value growth.** The most extreme test reflects the one standard deviation shock to export of goods and services in 2010-11. As a result of this shock, all debt stock indicators would breach the thresholds before declining to sustainable levels around 2017 for the PV of debt-to-revenue ratio and 2022-23 for the PV of debt to-exports and GDP ratios.[8] The PV of debt-to-exports ratio does not breach its threshold under any other tests, while the PV of debt-to-revenue ratio breaches the currency depreciation test—a one-time 30 percent depreciation of the exchange rate in 2010—during four years. Also, the debt-to-GDP ratio is breached under several other stress tests.

IV. Public Debt Sustainability

Baseline

12. **Under the baseline assumptions, the PV of net government debt-to-GDP ratio is projected to decline continuously over the projection period**. Total public debt consists mainly of external PPG debt (90 percent), following then closely the dynamics of its external component. Net public debt would decline to 27 percent of GDP in 2029, down from 89 percent of GDP in 2008. This decline reflects the authorities' policy to move to a primary fiscal surplus starting in 2018 coupled with relatively high and sustained economic growth.

Alternative scenario and stress tests

13. **Stress tests highlight some vulnerability, particularly to exchange rate, to fiscal slippages, and to long-term growth.** The public debt path is susceptible to shocks to the primary fiscal balance. If the primary deficit remains at about 3½ percent of GDP (as in 2009) the debt ratio would stay at around 60 percent of GDP through 2029. This, of course, suggests that the 2009 fiscal stance is not sustainable and the need for fiscal consolidation to put public finances back on a sustainable path. The debt path is also vulnerable to the shock "permanently lower GDP growth." Under the latter assumption, the PV of public debt would reach 52 percent of GDP in 2029, compared with a baseline projection of 24 percent. Public debt indicators also increase in case of a large depreciation of the exchange rate as shown by the test one-time 30 percent real depreciation in 2010.

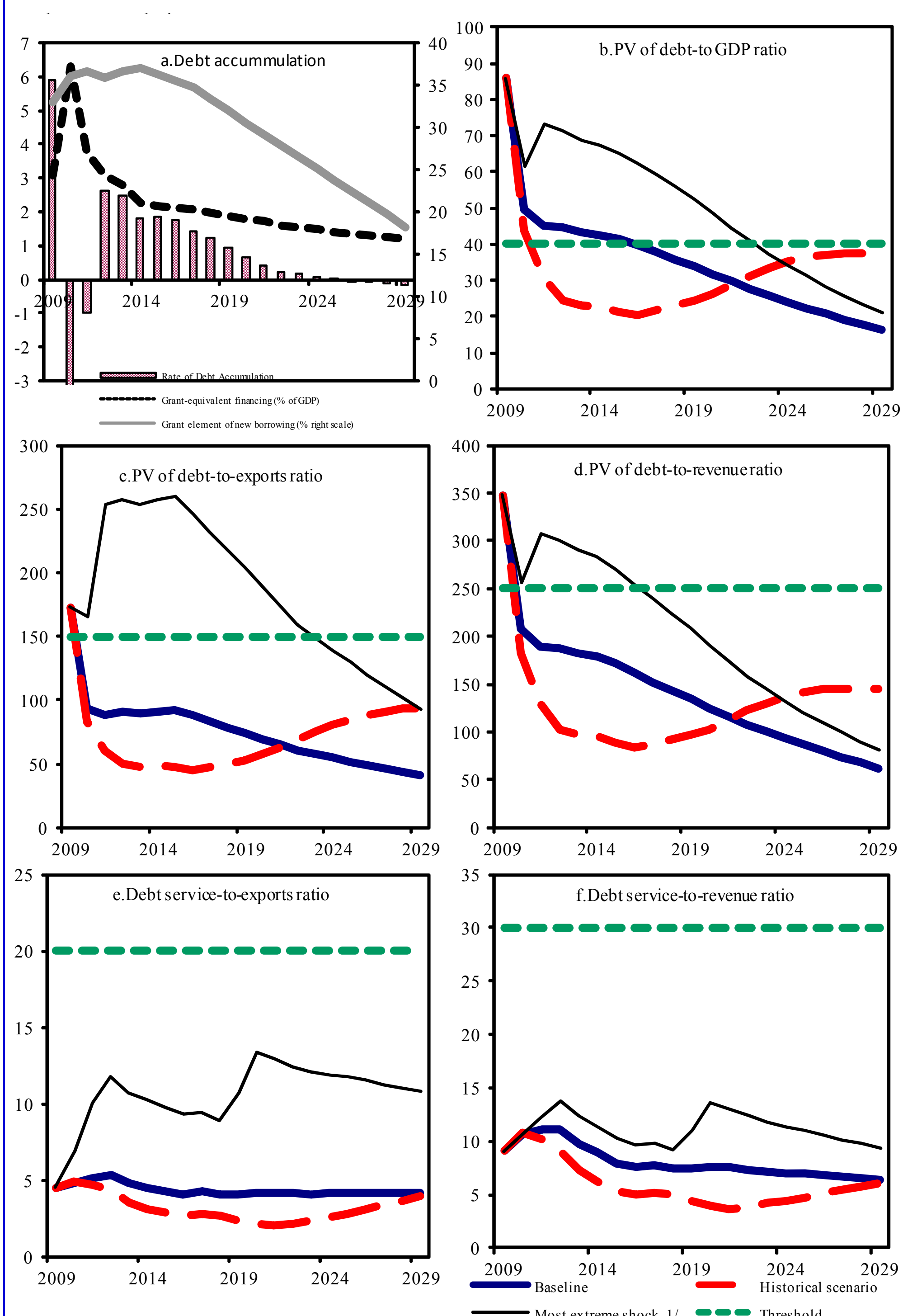
[8] The standard test models a decline in export performance by 16 percent in 2010-11. Should the growth of exports be set at 0 percent during 2010-11, the debt ratios would breach their thresholds only marginally and for three years.

V. CONCLUSION

14. **This LIC DSA, in line with the 2008 DSA, suggests that Mauritania's risk of debt distress remains moderate**. The PV of debt-to-revenue and PV of debt-to-exports ratios would remain well below the policy-dependent thresholds throughout the period, while the PV of debt-to-GDP ratio exhibits a minor breach in the indicative threshold until 2016. The latter debt trajectory is on a gross basis and does not take into account accumulated reserves in the oil fund (1.1 percent of GDP in 2016).

15. **The debt dynamics are subject to risks.** The country's vulnerability to exports shocks highlights the need to pursue a cautious borrowing strategy, improve debt management, pursue a prudent macroeconomic policy, and diversify the economy. The authorities need to adopt sustainable macroeconomic policies and proceed cautiously with new borrowing over the medium to long term. On the upside, hydrocarbon projections are very conservative despite some indications of additional oil and gas reserves. Moreover, the ongoing large investments projects are expected to result in an acceleration of growth, which has not been fully incorporated in the macroeconomic framework.

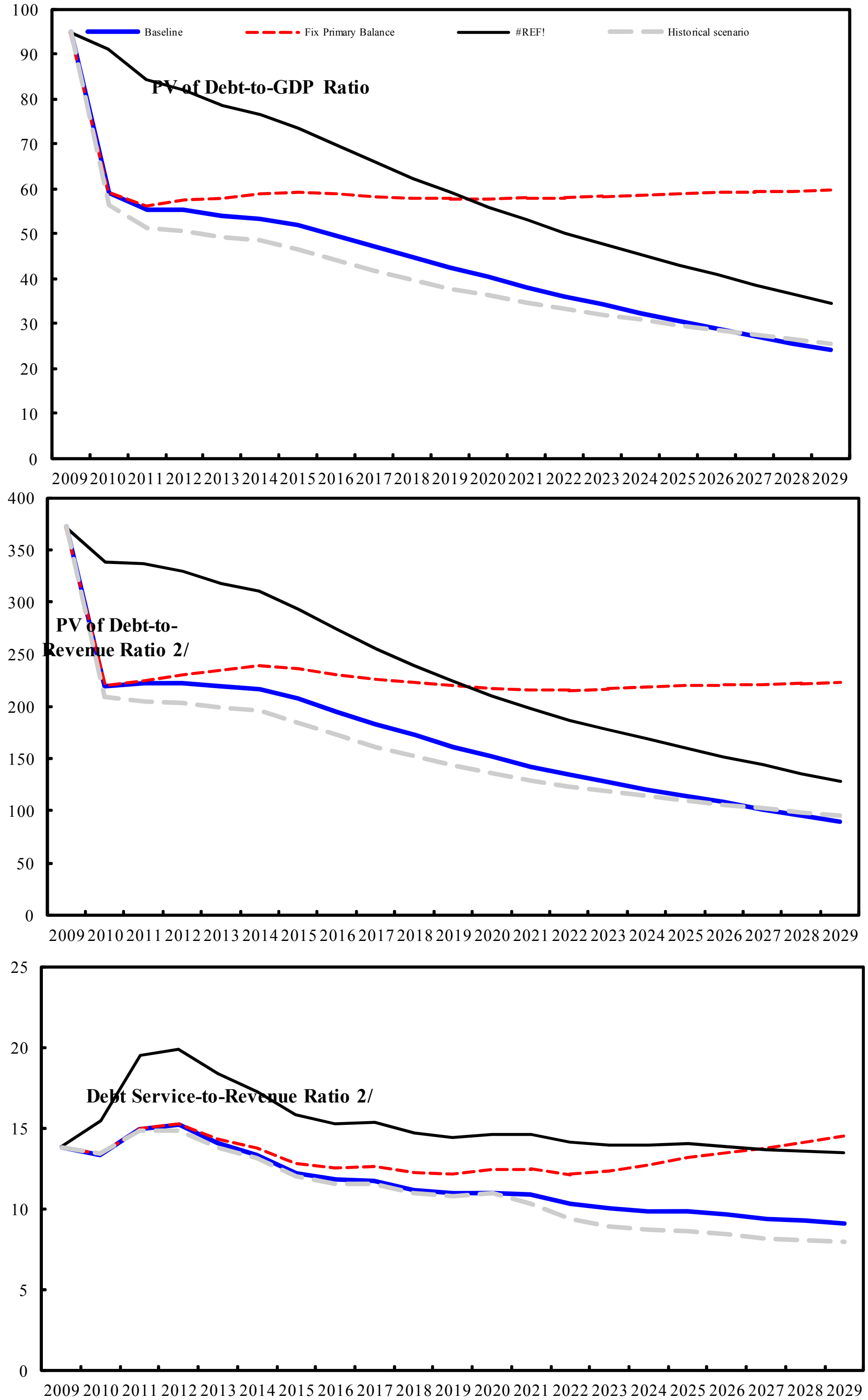
Figure I.1. Mauritania: Indicators of Public and Publicly Guaranteed External
Debt under Alternatives Scenarios, 2009-29 1/



Sources: Mauritania authorities and IMF staff projections

a Exports shock; in c. to a Exports shock; in d. to a Exports shock; in e. to a Exports shock and in figure f. to a Exports shock

Figure I.2. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2009-29 1/



Sources: Mauritanian authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2019.

2/ Revenues are defined inclusive of grants.

Table 1a.Mauritania:: External Debt Sustainability Framework, Baseline Scenario, 2006-29 1/
(In percent of GDP, unless otherwise indicated)

	Actual		Historical 0 Average	0 Standard Deviation	Projections									
	2007	2008			2009	2010	2011	2012	2013	2014	2009-2014 Average	2019	2029	2015-2029 Average
External debt (nominal) 1/	**90.4**	**88.5**			**103.1**	**71.5**	**74.8**	**79.7**	**76.4**	**72.4**		**48.8**	**20.0**	
o/w public and publicly guaranteed (PPG)	82.9	80.7			92.9	58.8	55.3	55.1	53.9	53.0		41.6	18.6	
Change in external debt	1.1	-1.9			14.6	-31.6	3.3	4.9	-3.3	-4.1		-4.5	-1.9	
Identified net debt-creating flows	0.5	-8.3			21.8	0.0	8.2	5.7	-1.8	-2.3		-3.8	-3.1	
Non-interest current account deficit	**16.5**	**14.6**	**15.4**	**15.8**	**11.0**	**10.3**	**14.6**	**12.8**	**7.6**	**6.3**	10.4	**1.8**	**-0.4**	0.6
Deficit in balance of goods and services	22.4	22.2			17.8	17.1	19.0	16.8	11.0	9.8		4.0	1.0	
Exports	51.1	54.4			49.7	52.8	51.2	49.1	48.1	46.4		45.7	39.7	
Imports	73.4	76.6			67.6	69.9	70.2	65.9	59.1	56.2		49.6	40.7	
Net current transfers (negative = inflow)	-5.0	-5.6	-7.8	2.0	-7.7	-6.1	-4.9	-4.4	-3.7	-3.9		-3.6	-2.7	-3.3
o/w official	-2.5	-3.5			-2.0	-3.8	-2.5	-2.1	-1.6	-1.8		-1.8	-1.4	
Other current account flows (negative = net inflow)	-0.9	-2.0			0.9	-0.7	0.5	0.4	0.4	0.4		1.4	1.4	
Net FDI (negative = inflow)	**-10.8**	**-7.9**	**-12.0**	**13.1**	**-6.1**	**-0.2**	**-3.0**	**-4.2**	**-5.4**	**-6.4**		**-4.5**	**-2.3**	-3.6
Endogenous debt dynamics 2/	**-5.2**	**-14.9**			**16.9**	**-10.2**	**-3.4**	**-2.9**	**-3.9**	**-2.2**		**-1.1**	**-0.5**	
Contribution from nominal interest rate	1.2	1.2			2.0	1.7	1.9	2.2	2.4	2.3		1.2	0.5	
Contribution from real GDP growth	-0.8	-2.7			1.1	-4.2	-3.4	-3.8	-4.4	-3.9		-2.3	-0.9	
Contribution from price and exchange rate changes	-5.6	-13.4			13.8	-7.7	-1.9	-1.4	-1.9	-0.5		-0.8	...	
Residual (3-4) 3/	**0.6**	**6.4**			**-7.2**	**-31.6**	**-4.9**	**-0.8**	**-1.6**	**-1.8**		**-0.7**	**1.3**	
o/w exceptional financing	1.2	1.2			0.7	-30.8	-3.1	0.7	0.7	0.6		0.2	0.1	
PV of external debt 4/	...	81.0			96.1	62.4	64.6	69.1	65.7	61.8		41.0	17.6	
In percent of exports	...	148.9			193.2	118.0	126.2	140.6	136.6	133.3		89.8	44.3	
PV of PPG external debt	**...**	**73.2**			**85.9**	**49.6**	**45.1**	**44.4**	**43.2**	**42.4**		**33.8**	**16.2**	
In percent of exports	**...**	**134.6**			**172.7**	**93.9**	**88.1**	**90.5**	**89.9**	**91.5**		**74.1**	**40.7**	
In percent of government revenues	**...**	**313.0**			**347.7**	**207.6**	**189.6**	**187.6**	**183.1**	**179.3**		**134.5**	**62.6**	
Debt service-to-exports ratio (in percent)	**1.5**	**6.1**			**7.0**	**7.0**	**7.5**	**8.5**	**9.7**	**11.3**		**7.7**	**4.5**	
PPG debt service-to-exports ratio (in percent)	**0.8**	**4.4**			**4.5**	**4.8**	**5.2**	**5.3**	**4.8**	**4.5**		**4.1**	**4.2**	
PPG debt service-to-revenue ratio (in percent)	**1.6**	**10.3**			**9.1**	**10.7**	**11.1**	**11.1**	**9.8**	**8.9**		**7.4**	**6.4**	
Total gross financing need (Billions of U.S. dollars)	0.3	0.5			0.4	0.7	0.7	0.7	0.5	0.4		0.2	0.0	
Non-interest current account deficit that stabilizes debt ratio	15.4	16.5			-3.6	41.9	11.3	7.9	10.9	10.3		6.3	1.5	
Key macroeconomic assumptions														
Real GDP growth (in percent)	1.0	3.7	4.5	3.2	-1.1	4.6	5.2	5.4	6.0	5.4	4.3	4.8	4.5	4.6
GDP deflator in US dollar terms (change in percent)	6.7	17.4	7.1	12.6	-13.5	8.0	2.7	1.9	2.5	0.7	0.4	3.8	3.2	3.4
Effective interest rate (percent) 5/	1.5	1.6	0.8	0.6	1.9	1.8	2.9	3.2	3.3	3.1	2.7	2.5	2.3	2.4
Growth of exports of G&S (US dollar terms, in percent)	2.3	29.6	20.0	35.8	-21.8	20.0	4.6	3.1	6.3	2.3	2.4	9.0	5.9	7.1
Growth of imports of G&S (US dollar terms, in percent)	35.8	26.8	19.4	25.5	-24.5	16.9	8.4	0.9	-2.7	0.9	0.0	6.3	6.4	5.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	33.0	36.0	36.6	35.8	36.6	37.1	35.9	32.0	18.3	28.3
Government revenues (excluding grants, in percent of GDP)	25.0	23.4			24.7	23.9	23.8	23.7	23.6	23.7		25.2	25.8	25.3
Aid flows (in Billions of US dollars) 7/	0.1	0.1			0.2	0.2	0.1	0.1	0.1	0.1		0.1	0.1	
o/w Grants	0.1	0.0			0.0	0.1	0.0	0.0	0.0	0.0		0.1	0.1	
o/w Concessional loans	0.0	0.1			0.1	0.1	0.1	0.1	0.1	0.1		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...			3.1	6.3	3.7	3.1	2.8	2.3		1.9	1.2	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...			39.5	51.7	46.5	47.3	48.2	51.1		56.6	57.9	57.7
Memorandum items:														
Nominal GDP (Billions of US dollars)	2.9	3.5			3.0	3.4	3.7	4.0	4.3	4.6		6.9	14.9	
Nominal dollar GDP growth	7.8	21.7			-14.4	13.0	8.0	7.4	8.6	6.1	4.8	8.8	7.9	8.2
PV of PPG external debt (in Billions of US dollars)		2.4			2.6	1.7	1.7	1.8	1.9	1.9		2.3	2.4	
(PVt-PVt-1)/GDPt-1 (in percent)					5.9	-29.8	-1.0	2.7	2.5	1.8	-3.0	1.0	-0.2	0.2

Sources: Mauritanian authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 1.b. Mauritania: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2009-29
(In percent)

	Projections							
	2009	2010	2011	2012	2013	2014	**2019**	2029
PV of debt-to GDP ratio								
Baseline	86	50	45	44	43	42	**34**	16
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	86	44	31	24	23	23	**24**	37
A2. New public sector loans on less favorable terms in 2009-2029 2	86	52	50	50	50	50	**43**	26
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	86	51	48	47	46	45	**36**	17
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	86	61	73	71	69	67	**53**	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	86	57	56	55	53	52	**41**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	86	51	48	47	46	45	**36**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	86	56	58	57	55	54	**43**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	86	69	62	61	59	58	**46**	22
PV of debt-to-exports ratio								
Baseline	173	94	88	90	90	92	**74**	41
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	173	83	60	50	48	49	**53**	94
A2. New public sector loans on less favorable terms in 2009-2029 2	173	99	97	102	104	108	**95**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	173	94	88	90	89	91	**73**	40
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	173	166	253	257	253	257	**204**	94
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	173	94	88	90	89	91	**73**	40
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	173	96	94	97	96	97	**78**	41
B5. Combination of B1-B4 using one-half standard deviation shocks	173	115	121	123	122	124	**99**	51
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	173	94	88	90	89	91	**73**	40
PV of debt-to-revenue ratio								
Baseline	348	208	190	188	183	179	**135**	63
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	348	183	129	103	98	96	**97**	145
A2. New public sector loans on less favorable terms in 2009-2029 2	348	219	208	212	211	211	**172**	99
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	348	214	202	200	195	190	**142**	65
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	348	257	307	301	291	284	**209**	81
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	348	237	234	231	225	220	**164**	75
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	348	212	203	200	195	190	**141**	63
B5. Combination of B1-B4 using one-half standard deviation shocks	348	235	244	241	234	228	**169**	74
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	348	287	262	258	252	246	**183**	84
Debt service-to-exports ratio								
Baseline	5	5	5	5	5	5	**4**	4
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	5	5	5	4	4	3	**2**	4
A2. New public sector loans on less favorable terms in 2009-2029 2	5	5	5	5	5	5	**5**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	5	5	5	5	5	5	**4**	4
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	5	7	10	12	11	10	**11**	11
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	5	5	5	5	5	5	**4**	4
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	5	5	5	5	5	5	**4**	4
B5. Combination of B1-B4 using one-half standard deviation shocks	5	6	6	7	6	6	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	5	5	5	5	5	5	**4**	4
Debt service-to-revenue ratio								
Baseline	9	11	11	11	10	9	**7**	6
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2009-2029 1/	9	11	10	9	7	6	**4**	6
A2. New public sector loans on less favorable terms in 2009-2029 2	9	11	10	11	10	10	**9**	8
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2010-2011	9	11	12	12	10	10	**8**	7
B2. Export value growth at historical average minus one standard deviation in 2010-2011 3/	9	11	12	14	12	11	**11**	9
B3. US dollar GDP deflator at historical average minus one standard deviation in 2010-2011	9	12	14	14	12	11	**9**	8
B4. Net non-debt creating flows at historical average minus one standard deviation in 2010-2011 4/	9	11	11	11	10	9	**8**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	9	12	13	13	12	11	**9**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2010 5/	9	15	15	15	14	12	**10**	9
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	25	25	25	25	25	25	**25**	25

Sources: Mauritanian 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 (implicitl an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 2a. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2006-29
(In percent of GDP, unless otherwise indicated)

	Actual		Average	Standard Deviation	Estimate	Projections								
	2007	2008			2009	2010	2011	2012	2013	2014	2009-14 Average	2019	2029	2015-29 Average
Public sector debt 1/	92.1	88.8			101.9	68.2	65.7	65.9	64.8	64.0		50.3	26.5	
o/w foreign-currency denominated	81.0	79.3			91.8	58.1	54.9	55.0	53.9	52.9		39.9	17.3	
o/w: foreign currency denominated oil reserve	-2.0	-1.4			-1.1	-0.7	-0.4	-0.1	-0.1	-0.1		-1.7	-1.3	
Change in public sector debt	3.6	-3.3			13.1	-33.7	-2.5	0.3	-1.2	-0.8		-3.0	-1.9	
Identified debt-creating flows	-7.0	-0.2			12.7	-37.7	-4.0	-0.6	-1.9	-0.7		-2.9	-1.9	
Primary deficit	-0.5	4.6	-0.2	13.8	3.2	3.2	2.5	1.4	0.9	0.7	2.0	-0.2	-0.9	-0.4
Revenue and grants	27.1	24.1			25.5	26.9	25.0	24.8	24.7	24.7		26.4	26.8	
Grants	2.2	0.8			0.8	3.0	1.3	1.2	1.1	1.0		1.2	1.0	
Oil revenue	2.6	2.0			1.7	1.1	1.1	1.0	1.2	1.2		3.3	3.1	
Primary (noninterest) expenditure	26.7	28.7			28.7	30.1	27.5	26.3	25.6	25.4		26.2	25.9	
Automatic debt dynamics	-7.6	-6.1			8.8	-10.1	-3.4	-2.8	-3.5	-2.0		-2.9	-1.1	
Contribution from interest rate/growth differential	-2.1	-3.9			2.2	-4.6	-2.8	-2.8	-3.2	-2.7		-2.4	-1.0	
of which: contribution from average real interest rate	-1.2	-0.6			1.2	-0.1	0.6	0.6	0.5	0.7		0.0	0.2	
of which: contribution from real GDP growth	-0.9	-3.3			1.0	-4.5	-3.4	-3.4	-3.7	-3.3		-2.4	-1.2	
Contribution from real exchange rate depreciation	-5.5	-2.2			6.6	-5.5	-0.6	0.0	-0.3	0.7		...	...	
Other identified debt-creating flows	1.1	1.3			0.7	-30.8	-3.1	0.7	0.7	0.6		0.2	0.1	
Privatization receipts (negative)	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	
Debt relief (HIPC and other)	1.1	1.3			0.7	-30.8	-3.1	0.7	0.7	0.6		0.2	0.1	
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	
Residual, including asset changes	10.5	-3.1			0.4	4.0	1.5	0.9	0.8	-0.2		-0.1	0.0	
Other Sustainability Indicators														
NPV of public sector debt	9.1	81.2			94.8	59.0	55.5	55.3	54.1	53.4		42.6	24.1	
o/w foreign-currency denominated	0.0	73.2			85.9	49.6	45.1	44.4	43.2	42.4		33.8	16.2	
o/w external	...	73.2			85.9	49.6	45.1	44.4	43.2	42.4		33.8	16.2	
PV of contingent liabilities (not included in public sector debt)	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	11.8	18.4			16.9	15.7	15.5	15.2	14.5	14.3		12.4	10.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	33.7	336.5			372.2	219.4	221.6	222.6	219.1	216.5		161.6	89.7	
PV of public sector debt-to-revenue ratio (in percent)	36.6	347.4			383.7	246.8	233.3	233.5	229.0	225.6		169.4	93.1	
o/w external 3/	…	313.0			347.7	207.6	189.6	187.6	183.1	179.3		134.5	62.6	
Debt service-to-revenue and grants ratio (in percent) 4/	25.6	16.5			13.8	13.4	15.0	15.2	14.1	13.3		10.9	9.1	
Debt service-to-revenue ratio (in percent) 4/	27.8	17.1			14.3	15.0	15.7	15.9	14.7	13.8		11.5	9.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.0	7.9			-9.9	36.9	5.0	1.1	2.1	1.5		2.8	1.0	
Key macroeconomic and fiscal assumptions														
Real GDP growth (in percent)	1.0	3.7	4.5	3.2	-1.1	4.6	5.2	5.4	6.0	5.4	4.3	4.8	4.5	4.6
Average nominal interest rate on forex debt (in percent)	1.0	0.9	0.6	0.4	1.1	1.1	1.7	1.7	1.6	1.6	1.5	1.5	1.7	1.6
Average real interest rate on domestic debt (in percent)	18.9	3.9	10.0	12.2	16.2	0.5	5.9	6.8	6.4	8.3	7.3	5.0	4.7	4.9
Real exchange rate depreciation (in percent, + indicates depreciation)	-6.5	-2.8	-6.4	7.3	8.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	3.3	9.0	8.6	10.2	-6.2	8.0	2.7	1.9	2.5	0.7	1.6	3.8	3.2	3.4
Growth of real primary spending (deflated by GDP deflator, in percent)	2.6	11.7	6.9	17.2	-1.2	9.8	-3.9	0.7	3.2	4.6	2.2	5.0	4.4	4.8
Grant element of new external borrowing (in percent)	...	...	…	…	33.0	36.0	36.6	35.8	36.6	37.1	35.9	32.0	18.3	...

Sources: Mauritanian authorities; and staff estimates and projections.
1/ Central government's debt, net of oil fund reserves
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 2b. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, 2009-29

	Projections							
	2009	2010	2011	2012	2013	2014	2019	2029
PV of Debt-to-GDP Ratio								
Baseline	95	59	55	55	54	53	43	24
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	95	56	51	50	49	48	38	26
A2. Primary balance is unchanged from 2009	95	59	56	57	58	59	58	60
A3. Permanently lower GDP growth 1/	95	60	57	57	57	57	52	52
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	95	62	61	63	62	63	57	45
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	95	67	72	71	69	68	54	31
B3. Combination of B1-B2 using one half standard deviation shocks	95	63	63	64	63	63	54	38
B4. One-time 30 percent real depreciation in 2010	95	91	84	82	78	76	59	34
B5. 10 percent of GDP increase in other debt-creating flows in 2010	95	67	63	63	61	60	48	28
PV of Debt-to-Revenue Ratio 2/								
Baseline	372	219	222	223	219	216	162	90
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	372	210	205	203	199	196	143	95
A2. Primary balance is unchanged from 2009	372	220	224	231	234	239	219	222
A3. Permanently lower GDP growth 1/	372	221	226	230	230	231	198	191
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	372	228	245	251	252	254	214	168
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	372	249	287	286	280	276	207	117
B3. Combination of B1-B2 using one half standard deviation shocks	372	232	253	256	255	254	203	140
B4. One-time 30 percent real depreciation in 2010	372	338	337	330	318	310	224	129
B5. 10 percent of GDP increase in other debt-creating flows in 2010	372	249	252	252	247	244	183	104
Debt Service-to-Revenue Ratio 2/								
Baseline	14	13	15	15	14	13	11	9
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	14	13	15	15	14	13	11	8
A2. Primary balance is unchanged from 2009	14	13	15	15	14	14	12	14
A3. Permanently lower GDP growth 1/	14	13	15	16	15	14	12	13
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2010-2011	14	14	16	16	15	15	13	13
B2. Primary balance is at historical average minus one standard deviations in 2010-2011	14	13	16	17	16	15	12	12
B3. Combination of B1-B2 using one half standard deviation shocks	14	14	16	16	15	14	12	12
B4. One-time 30 percent real depreciation in 2010	14	15	20	20	18	17	14	13
B5. 10 percent of GDP increase in other debt-creating flows in 2010	14	13	16	16	15	14	11	10

Sources: Mauritanian 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.

INTERNATIONAL MONETARY FUND
Public Information Notice
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IMF Executive Board Concludes 2009 Article IV Consultation with Mauritania

On March 15, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritania.[1]

Background

Economic performance deteriorated sharply in 2008-09 on the back of both domestic and external shocks. The global food and fuel price increases weakened the fiscal and external positions and pushed up inflation, while domestic political crisis led to a significant reduction in external assistance. The global economic slowdown contributed to further fiscal and balance of payments pressures mainly through the decline in the prices of and the demand for Mauritania's main export commodity (iron, copper and fish). Furthermore, the anticipated shift to an oil economy did not materialize, as oil output continued to fall steadily, lowering the country's expectations and heightening the need for more external aid.

Reflecting these multiple shocks, non-oil real GDP growth is estimated at -0.9 percent in 2009, down from 4.1 percent in 2008. Oil output continued to decline and overall GDP would contract by about1 percent.

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[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. 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.

Inflation has remained in the low single digits (5 percent in 2009), on account of a somewhat prudent monetary policy stance and low international fuel and food prices. Broad money grew at 15.2 percent while private sector credit growth slowed down to about 4 percent in 2009. With slumping economic activity and a benign inflation outlook, the monetary authorities reduced the central bank policy rate from 12 to 9 percent in November 2009 but real interest rates remained positive. The effective exchange rate depreciated by 3 percent in nominal terms and 2 percent in real terms.

The basic non-oil fiscal deficit increased to 7.7 percent of non-oil GDP in 2008, up from 2.2 percent in 2007. Spending adjustment efforts have not kept pace with declining revenue and the basic non-oil fiscal deficit, although lower, would still be high in 2009, reaching 5.3 percent of non-oil GDP.

The current account deficit is estimated at 12.7 percent in 2009, down from 15.7 percent in 2008, as lower food and fuel prices and the normalization of relations with the international community have helped cushion the impact of the global economic slowdown. Gross international reserves reached about US$ 238 million at end-December 2009, the equivalent of 2.2 months of imports of goods and services.

In the short term, the authorities need to limit the fallout from recent shocks, including the global economic slowdown and restore growth while ensuring macroeconomic stability. The peaceful completion of the presidential election has established a strong basis for resumption of the reform agenda and of the financial support from the international community. An appropriate macroeconomic policy mix will support the recovery while containing inflationary pressures. Looking forward, the authorities need to sustain high and diversified growth in order to boost employment and further reduce poverty.

Executive Board Assessment

Executive Directors observed that the return of constitutional order to Mauritania has established a basis for the resumption of the reform agenda and of financial support from the international community.

Directors noted that Mauritania's macroeconomic situation weakened in 2008-09 owing to the global economic downturn and the domestic political crisis. However, the economy is projected to rebound in 2010 driven by strong activity in the non-oil sector. Directors stressed that sustaining high economic growth over the long term will require sound macroeconomic policies and broad-based structural reforms to promote private sector development and increase the resilience of the economy to external shocks.

Directors considered fiscal consolidation to be a high priority. They agreed that the 2010 budget strikes the right balance between supporting the recovery, increasing social and infrastructure spending, and restoring fiscal prudence.

Directors underscored that medium-term fiscal sustainability will hinge on further broadening the revenue base, strengthening tax and customs administration, containing the wage bill, and reducing nonessential recurrent spending, including untargeted subsidies. They encouraged the authorities to implement decisive measures to improve expenditure management, restructure the state-owned enterprises, and strengthen the debt management framework.

Directors supported the gradual easing of monetary policy. They underscored that any further monetary easing should be undertaken cautiously, and that the authorities should stand ready to increase the policy rate as signs of inflationary pressures emerge.

Directors stressed that greater exchange rate flexibility will facilitate the adjustment to external shocks. They welcomed the reestablishment of the foreign exchange auction system and the authorities' commitment to a flexible exchange rate. Directors noted staff's assessment that the real effective exchange rate is broadly in line with economic fundamentals and supported the authorities' intention to limit intervention in the foreign exchange market to smoothing out excessive volatility.

Directors encouraged the authorities to pursue their multi-pronged banking sector reform strategy to further strengthen the financial sector, and enhance banking intermediation. They urged the authorities to reduce the high level of nonperforming loans. A sound banking system, together with well-sequenced reforms to improve the business environment and address electricity supply bottlenecks, is important to promote a broad-based private sector-led growth.

Directors stressed the importance of increased donor support on concessional terms to address Mauritania's short-and medium-term financing needs. They welcomed the authorities' plans to convene a donors meeting during 2010. Directors encouraged the authorities to accelerate efforts to conclude bilateral negotiations with the remaining non-Paris Club creditors on terms comparable with those granted by the Paris Club creditors.

Directors commended the authorities' commitment to protect poverty-related spending. They highlighted the need to expand and strengthen safety nets and social protection. In this regard, Directors welcomed the authorities' plan to launch a comprehensive study on existing social protection schemes.

Directors encouraged the authorities to continue improving the quality and timeliness of data reporting to the Fund.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Mauritania: Selected Economic and Financial Indicators, 2008–11

	Est.		Projections	
	2008	2009	2010	2011
National income and prices				
GDP at constant prices	3.7	-1.1	4.6	5.2
Non-oil GDP at constant prices	4.1	-0.9	5.2	5.3
Oil production (1000 barrels per day)	12.1	10.7	7.5	7.5
GDP deflator	12.4	-6.2	8.0	2.7
Non-oil GDP deflator	13.0	-4.1	8.7	2.7
Consumer price index (period average)	7.3	2.2	4.8	4.8
Consumer price index (end of period)	3.9	5.0	4.6	5.1
External sector				
Exports of goods, f.o.b. (percentage change in value)	27.5	-23.4	21.9	4.8
Of which: Non-oil	37.5	-20.8	28.8	4.7
Imports of goods, f.o.b. (percentage change in value)	21.7	-26.3	16.4	12.1
Current account balance (in percent of GDP)	-15.7	-12.7	-11.9	-16.5
Official reserves				
Gross official reserves 1/				
In millions of US dollars, end of period	194.9	237.9	247.6	288.6
In months of following year's imports excluding extractive industries	2.2	2.2	2.5	2.7
Money				
Money and quasi-money (percentage change)	13.7	15.2	13.0	--
Credit to the private sector (percentage change)	23.6	3.9	11.4	--
Investment and savings				
Gross investment (percentage of GDP)	27.8	25.2	31.1	32.7
Gross savings (percentage of GDP)	12.0	12.4	19.2	16.2
Consolidated government operations (percent of non-oil GDP)				
Revenue and grants	25.9	26.7	27.8	25.8
Non-oil Revenue and grants	23.7	24.8	26.6	24.7
Non-oil Revenue	22.9	24.0	23.5	23.4
Oil revenue	2.2	1.8	1.2	1.1
Expenditure and net lending	32.8	32.0	32.8	30.2
Overall balance including grants	-7.0	-5.4	-5.0	-4.3
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.8	-1.6
External debt				
Total external debt (in percent of GDP)	88.5	103.1	71.5	74.8
Of which: PPG external debt (in percent of GDP)	80.7	92.9	58.8	55.3
Memorandum items:				
Ouguiya/US$ exchange rate (end of period)	261.5	262.0	--	--
Nominal GDP (in billions of UM)	855	794	896	968
Nominal non-oil GDP (in billions of UM)	798	759	868	938
Nominal GDP (in millions of US dollars)	3,540	3,029	3,421	3,695
Price of oil (US$/barrel)	85.6	54.3	66.5	71.8
Population (in millions)	3.1	3.2	3.3	3.4
GDP per capita (in US dollars)	1,124	939	1,036	1,093

Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
2/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US$118.1 Million Three-Year Extended Credit Facility Arrangement for Mauritania

The Executive Board of the International Monetary Fund (IMF) today approved a three-year arrangement totaling SDR 77.28 million (about US$118.1 million) for the Islamic Republic of Mauritania under the Extended Credit Facility (ECF).[1] The approval makes an amount equivalent to SDR 11.04 million (about US$16.9 million) immediately available, with the remainder available in installments subject to semiannual reviews.

The 2010-2013 arrangement, equivalent to 120 percent of Mauritania's SDR 64.4 million quota in the Fund, will support the Mauritanian authorities' economic program. Mauritania's economic growth and fiscal position have been weakened by the global fuel and food price crisis in 2007-08 and subsequent financial crisis and global recession in 2008-09. The effects of these external shocks were exacerbated by a domestic political crisis that led to a decline in aid flows, and the unexpected significant drop in oil production.

At the conclusion of the Executive Board's discussion of Mauritania's request, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, made the following statement:

"Economic performance in Mauritania deteriorated sharply in 2008-09 on the back of both domestic and external shocks. Real GDP declined and the fiscal position weakened. Inflation has

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

remained under control, but the current account deficit is high at 12.7 percent of GDP, and international reserves only cover about two months of imports.

“The economic program prepared by Mauritania for 2010-12 focuses on addressing these challenges with policies to support sustained growth and poverty reduction. Fiscal consolidation will create more space for social and infrastructure spending, while reducing the vulnerability stemming from a large public debt. Together with a prudent monetary policy framework, this will help maintain low inflation and rebuild international reserves. Deepening financial intermediation and enhancing the business environment will support a broad-based private sector led-growth.

“The 2010 budget targets a deficit of 3.8 percent of non-oil GDP, down from 5.3 percent in 2009, through a combination of revenue and spending measures. The budget appropriately increases social and infrastructure spending while containing current spending.

“The authorities have decided to allow greater exchange rate flexibility to increase the effectiveness of monetary policy and facilitate adjustment to external shocks, while conserving scarce international reserves. Rising fuel and food prices may pose some risks to the inflation outlook, but the authorities’ monetary program for 2010 aims to be sufficiently firm to keep the inflation rate close to 5 percent.

“The authorities’ multi-pronged banking sector reform strategy would help strengthen the financial system and enhance intermediation. Decisive actions to make the business environment more attractive are also important to promote a broad-based private sector-led growth.

”Support from the international community will be essential to help Mauritania address its short and medium-term financing needs and strengthen external sustainability,” Mr. Portugal stated.

Recent Economic Developments

The global economic downturn and the drop in donor financing following the August 2008 military coup have weakened economic activity in Mauritania, through slower activity in the mining, fishing, and the construction sectors. Non-oil real GDP growth is estimated at -0.9 percent in 2009, down from 4.1 percent in 2008. Oil output continued to decline in 2009 and total GDP would contract by about 1 percent.

The fiscal position has also deteriorated. The basic non-oil fiscal deficit increased to 7.7 percent of non-oil GDP in 2008, up from 2.2 percent in 2007. Preliminary data suggest that spending adjustment efforts have not kept pace with declining revenue and the basic non-oil fiscal deficit, although lower, would still be high in 2009, reaching 5.3 percent of non-oil GDP. Faced with limited resources, the authorities have used the IMF's recent SDR allocation to help close the fiscal financing gap.

Lower food and fuel prices and the normalization of donor relations have helped cushion the impact of the global economic slowdown on the external position. The current account deficit remains high at an estimated 12.7 percent in 2009, although down from 15.7 percent in 2008. The resumption of donor financing after the July 2009 election and the disbursement of financial compensation under the European Union (EU) fishing convention helped maintain the level of gross international reserves at end-December 2009 at 2.2 months of imports.

Inflation has remained in the low single digits. It fell rapidly to 0.9 percent year-on-year in September 2009, reflecting lower international fuel and food prices and a somewhat prudent monetary policy stance. However, international fuel and food prices are rising again, pushing up inflation to 5 percent year-on-year at end-December 2009. With slumping economic activity and a benign inflation outlook, the BCM lowered its policy rate from 12 to 9 percent in November 2009 but real interest rates remained positive. The effective exchange rate depreciated by 3 percent in nominal terms and 2 percent in real terms.

Program Summary

The authorities' 2010-2012 economic program aims to sustain high growth and reduce poverty while safeguarding macroeconomic stability. To achieve these goals, the program focuses on the following key areas:

- Fiscal consolidation to reduce public debt, while creating more fiscal space for social and infrastructure spending

- Further enhancing the monetary policy framework to maintain low inflation and rebuild reserves to about 3 months of imports

- Deepening financial intermediation and enhancing the business environment in support of a broad-based private sector led-growth

- Strengthening social protection and safety nets..

Mauritania: Selected Economic and Financial Indicators, 2008–11

	Est.		Projections	
	2008	2009	2010	2011
National income and prices				
GDP at constant prices	3.7	-1.1	4.6	5.2
Non-oil GDP at constant prices	4.1	-0.9	5.2	5.3
Oil production (1000 barrels per day)	12.1	10.7	7.5	7.5
GDP deflator	12.4	-6.2	8.0	2.7
Non-oil GDP deflator	13.0	-4.1	8.7	2.7
Consumer price index (period average)	7.3	2.2	4.8	4.8
Consumer price index (end of period)	3.9	5.0	4.6	5.1
External sector				
Exports of goods, f.o.b. (percentage change in value)	27.5	-23.4	21.9	4.8
Of which: Non-oil	37.5	-20.8	28.8	4.7
Imports of goods, f.o.b. (percentage change in value)	21.7	-26.3	16.4	12.1
Current account balance (in percent of GDP)	-15.7	-12.7	-11.9	-16.5
Official reserves				
Gross official reserves 1/				
In millions of US dollars, end of period	194.9	237.9	247.6	288.6
In months of following year's imports excluding extractive industries	2.2	2.2	2.5	2.7
Money				
Money and quasi-money (percentage change)	13.7	15.2	13.0	--
Credit to the private sector (percentage change)	23.6	3.9	11.4	--
Investment and savings				
Gross investment (percentage of GDP)	27.8	25.2	31.1	32.7
Gross savings (percentage of GDP)	12.0	12.4	19.2	16.2
Consolidated government operations (percent of non-oil GDP)				
Revenue and grants	25.9	26.7	27.8	25.8
Non-oil Revenue and grants	23.7	24.8	26.6	24.7
Non-oil Revenue	22.9	24.0	23.5	23.4
Oil revenue	2.2	1.8	1.2	1.1
Expenditure and net lending	32.8	32.0	32.8	30.2
Overall balance including grants	-7.0	-5.4	-5.0	-4.3
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.8	-1.6
External debt				
Total external debt (in percent of GDP)	88.5	103.1	71.5	74.8
Of which: PPG external debt (in percent of GDP)	80.7	92.9	58.8	55.3
Memorandum items:				
Ouguiya/US$ exchange rate (end of period)	261.5	262.0	--	--
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Sources: Mauritanian authorities; and IMF staff estimates and projections.
1/ Excluding the oil account.
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Statement by Laurean W. Rutayisire
Executive Director for the Islamic Republic of Mauritania

I. Introduction

On behalf of my Mauritanian authorities, I would like to thank Management and Staff for their continuous support to Mauritania.

Over the past two years, Mauritania has been adversely affected by a series of major shocks which have contributed to deteriorating significantly the country's economic outlook. The global economic crisis hit Mauritania hard through the trade channel i.e., the decline in external demand for the country's main export commodities; a shock that was preceded in 2008 by both the rapid increase of the global food prices, and the suspension of financial aid from development partners following the 2008 political crisis.

With the stabilization of the political situation in July 2009, my authorities have launched an ambitious reform agenda to revive the economy and address the country's long-term development challenges including the need to diversify the economy and increase the population's living standards and welfare. There was an urgent need to stabilize the economy, strengthen public finances and create fiscal space for infrastructure and poverty reducing expenditure while accelerating the implementation of structural reforms to enhance the economy's resilience to shocks.

To better anchor these policies, my authorities are requesting the support of the IMF under a three-year Extended Credit Facility. They would like to reiterate their firm commitment to the policies and objectives under the Fund-supported program, notably fiscal consolidation and a prudent monetary policy within a more flexible exchange rate regime. They are also committed to improving the country's competitiveness and business climate while continuing to promote the development of the private sector.

II. Recent economic developments and policy measures

In 2009, non-oil real GDP contracted by 0.9 percent compared to +4.1 percent in 2008 while oil production continued to drop to approximately 10,000 barrels per day. The current account deficit remained high at almost 13 percent of GDP while the basic non-oil fiscal deficit dropped slightly to 5.3 percent of GDP in 2009 from 7.7 percent in 2008. Inflation remained relatively stable at approximately 5 percent in 2009. Foreign exchange reserves stood at the equivalent of 2.2 months of imports.

In the context of the economic slowdown, the authorities implemented supportive **fiscal policy** measures including significant tax rate reductions. The corporate income tax, for example, was lowered from 40 percent to 25 percent and the tax on wages reduced from 60 to 30 percent. Concomitantly, measures to enhance revenue performance were also taken to simplify the tax system, expand the tax base, and streamline public expenditure. In this regard, and consistent with previous IMF recommendations, the authorities set up both a large and a medium-sized enterprise units responsible for tax collection while tax centers for small enterprises were upgraded.

On the **monetary policy** front, the central bank lowered its lead rate from 12 to 9 percent in November 2009, as the economy stagnated and inflation declined. While continuing to address the effects of the economic slowdown, the authorities also pursued a number of important reforms including the adoption of a new charter giving greater independence to the central bank, and the establishment of the legal framework for new policy instruments (central bank bonds, CDs, and commercial paper).

In response to the deterioration of Mauritania's external position in the midst of the global economic crisis, temporary exchange restriction measures were introduced by the central bank at end-2008 and the foreign exchange auction mechanism was interrupted. However, normal operation of the foreign exchange market was restored on December 14, 2009 and the exchange system is now free of restrictions.

III. Medium-term objectives under the program

The medium-term objectives under the program are: a return to a sustained growth rate of 5 percent; keep inflation low and stable at about 5 percent; accumulate reserves equivalent to 3 months of imports by end-2012; bring down the basic non-oil fiscal deficit to about 1 percent by 2012.

1. Fiscal policy

To lower the basic non-oil deficit to about 1 percent by 2012, the authorities have launched important measures both of the revenue side, and on the expenditure side and are committed to offset any shortfall in revenue by cuts in lower priority spending to achieve the fiscal deficit target. In view of the substantial needs of the country, they intend to step up their efforts to mobilize additional grants in support of high priority spending.

In the 2010 budget law, the basic non-oil deficit will be limited to 3.8 percent of non-oil GDP. Measures to expand the tax base and modernize and strengthen tax and customs administrations will be implemented. In view of harmonizing the VAT system with that of neighboring countries, in particular those of the WAEMU, the VAT on petroleum products and telecommunication will be increased from 14 to 18 percent.

On the expenditure side, the civil service reform under way with the assistance of the World Bank and other development partners comprises the completion of the census of civil servants, reconciliation of the payroll file with the civil service roster to eliminate unjustified paid salaries, and the computerization and automation of the payroll. This reform will contribute to a reduction of the wage bill by 1.7 percent of non-oil GDP between 2009 and 2012 and lowering the share of the wage bill to 8.8 percent of non-oil GDP in 2010 compared to 10.1 percent in 2009. An assessment of operational staffing needs by ministry will also be conducted. Furthermore, all benefits in kind granted to government employees will be terminated and replaced by cash allowances.

To lower transfers and subsidies to public enterprises which for the most part are in financial distress and rely heavily on budgetary transfers to continue operating, an assessment of the governance of public enterprises will be carried out with the assistance of development partners, and performance contracts will be signed with the ultimate view of restoring balanced financial positions and reducing subsidies.

Public investment efforts will be pursued consistent with the priorities of the PRSP, including access by the poor to basic services and promotion of employment. The emphasis will be put on building infrastructure that has a high impact on poverty reduction. In this regard, a large share of capital expenditure will be allocated for restructuring poor neighborhoods of large cities, improving living conditions including access to drinking water, and supporting employment initiatives. An agency tasked with project monitoring and research has just been set up, and the authorities intend to adopt a new government procurement code to improve the quality of public investment.

2. Monetary, exchange rate, and financial sector policies

The monetary authorities remain committed to a prudent **monetary policy** with the objective of keeping inflation in check in the context of greater exchange rate flexibility. Following the November loosening of monetary policy, the central bank stands ready to further tightening monetary policy if inflationary pressures emerge as credit to the private sector is projected to grow. Reforms under way to modernize and adapt monetary policy instruments while strengthening central bank operational independence will also be pursued.

Following the lifting of all restrictions introduced on current account transactions payments in 2008, the authorities remain committed to implementing a more flexible **exchange rate** regime to help absorb external shocks. Interventions by the central bank will be limited to smoothing excessive daily fluctuations.

As regards **financial sector** reform, various measures were introduced in line with recent FSAP recommendations, including new laws relating to the charter of the central bank, banking activity, and microfinance. Additional reforms will focus on strengthening the legal and regulatory framework, increasing transparency of accounting practices and the reliability of financial statements, building the capacity of the various financial institution supervisory authorities, and implementing AML/CFT regulations. The authorities will also study various options to eliminate the large stock of outstanding nonperforming loans held by the banks.

3. External sector and debt

The **current account** deficit is projected to decline to 11.9 percent of GDP in 2010 from 15.7 percent in 2008 subject to a favorable development in prices for Mauritania's main export commodities and an improvement in the global economic outlook. The deficit will be financed mainly through an increase in FDI in the oil and mining sector and the mobilization of additional external funding.

As regards Mauritania's **external borrowing** policy the government will work closely with its development partners to implement a debt management strategy that would ensure access to external financing while preserving external debt sustainability. They agree with the findings of the recent debt sustainability analysis conducted with the World Bank indicating that Mauritania remains at moderate risk of debt distress. Efforts will continue to be made to mobilize financing mainly on concessional terms. However, some strategic projects that could require financing on non-concessional terms will be brought to the attention of the IMF and the World Bank for review.

4. Structural reforms

The authorities will continue their efforts to improve the **business climate** and to remove obstacles to private sector development notably the limited availability and skills of the workforce and weak infrastructure services in electricity, transport, and telecommunications. Measures under consideration include setting-up a legal framework to facilitate the acquisition and enforcement of collateral on property, and strengthening the capacity of the judicial system. The authorities will also revise the investment code in 2010 drawing on experience of other countries so as to consolidate the safeguards granted to investors.

With the support of development partners Mauritania will finalize a master plan for the **electricity sector** which is in a very fragile state due to insufficient production capacity and significant operating losses. The plan will include a restructuring program for national electricity company and will clarify the relationship between the electricity company and the government.

With the support of UNICEF Mauritania has recently launched a study on **social protection** that will review the social safety nets currently in place, assess priority needs, and issue recommendations to guide the action of the government and its partners in preparing a national social welfare strategy for Mauritania for the 2010-12 period.

The government is also currently working on the adoption of a national **anti-corruption** strategy. An initial report and three-year action plan have just been prepared and have been forwarded to our development partners. During 2010, this policy will be submitted to all stakeholders for validation and implementation.

IV. Conclusion

My authorities are aware of the daunting challenges ahead but they are also firmly determined to move ahead with their ambitious reform agenda and achieving the objectives under the program. However, reaching these objectives is subject not only to the implementation of sound macroeconomic policies and the continuation of structural reforms but also to the resumption of financial and technical assistance from Mauritania's development partners. They are confident that the IMF and other partners will continue to support the authorities' efforts to reach their economic and social objectives.