INTERNATIONAL MONETARY FUND

Staff Country Reports

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Mauritania: First Review under the Three-Year Arrangement Under the Extended Credit Facility—Staff Report and Press Release

In the context of the first review under the 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 First Review under the Three-Year Arrangement Under the Extended Credit Facility, prepared by a staff team of the IMF, following discussions that ended on September 26, 2010, with the officials of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 3, 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 Press Release summarizing the views of the Executive Board.

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

Letter of Intent sent to the IMF by the authorities of Mauritania*
Memorandum of Economic and Financial Policies by the authorities of Mauritania*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

First Review Under the Three-Year Arrangement Under the Extended Credit Facility Arrangement

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

Approved by Patricia Alonso-Gamo and Dhaneshwar Ghura

November 3, 2010

On March 15, the Executive Board of the International Monetary Fund approved a three-year arrangement totaling SDR 77.28 million (120 percent of quota) under the Extended Credit Facility (ECF).

Discussions for the first review under the ECF were held in Nouakchott during September 15-26, 2010. The mission met with the President, 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, academic, business communities, and unions, as well as the opposition.

The mission comprised Mr. Loko (head), Messrs. Bessaha, Zouhar, De Bock, and Mrs. Terrier (all MCD), and Mr. Jenkins (SPR). The mission was assisted by the resident representative, Mr. Najeh. Mr. Sidi Bouna (Advisor, OED) joined some of the policy discussions.

The authorities have given their consent to the publication of the staff report, the letter of intent, and the memorandum of economic and financial policies for 2011.

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EXECUTIVE SUMMARY

Program implementation through end-June is satisfactory. All relevant quantitative performance criteria, including the ones for end-June were met. However, the indicative target on poverty-related spending was not fully met, mainly resulting from delays in implementing poverty-related investment projects. The structural reform agenda is advancing and the authorities have implemented all relevant structural benchmarks. All end-September indicative targets are expected to be met, with the exception of the poverty-related spending target. The end-year program targets remain appropriate and within reach.

Economic activity is recovering. Available high frequency indicators point to a robust growth in the non-oil sector, particularly in the mining and constructions sectors. Non-oil real GDP growth has been revised up around 5.6 and 5.5 percent in 2010 and 2011. The fiscal and external positions will be stronger on the back of higher prices and outputs for iron ore and gold. The pursuit of a prudent monetary policy stance should help keep inflation in the single digits and reach the end-year official reserves target of 2.7 months of imports in 2011.

The 2011 budget preserves fiscal discipline and appropriately protects infrastructures and social spending. The authorities will further strengthen the tax and customs administration to increase revenue, speed up the modernization of the civil service to contain the wage bill, and improve transparency and efficiency in the use of public resources.

Greater flexibility in the exchange rate and an enhanced monetary policy framework will help build reserves. Efforts are needed to strengthen the monetary framework and improve the functioning of the foreign exchange market. The central bank stands ready to increase the policy rate if pressures on inflation or in the foreign exchange market emerge.

The structural program continues to focus on improving the business climate and promoting private sector-led growth. Reforms are essential to further enhancing financial intermediation, putting major public enterprises on a sound financial footing, and improving governance and the business climate.

Staff recommends the completion of the first review under the ECF, in light of the good performance through end-June and the authorities' strong commitment to the program.

I. Background and Program Implementation

1. **Mauritania faces several key challenges, including an undiversified economy, vulnerability to external shocks, a weak business climate, and relatively high unemployment and poverty rates.**

The economy depends heavily on the mining sector, which represents nearly 75 percent of exports, but less than 3 percent of employment in 2010. Almost one out of two Mauritanians lives below the poverty line, and a large segment of the population remains subject to food insecurity.[1]

2. **A three-year arrangement under the ECF was approved in March 2010.**

The ECF supports the authorities' program, aimed at addressing the negative impact of the recent global economic downturn, consolidating macroeconomic stability, sustaining high growth, lowering unemployment, which remains high, particularly among the youth, and alleviating poverty.

3. **The security situation remains tense.**

The continued threats by al-Qaeda in Islamic Maghreb (AQIM) have triggered several attacks by Mauritanian forces on AQIM militants in recent months.

4. **The authorities organized a Donors' Round Table in June in Brussels**. Donors pledged to provide about US$3.2 billion over 2011–15 to Mauritania.

5. **The program is off to a good start.**

All performance criteria for the first review were met (Letter of Intent, Table 1). However, the indicative target on poverty-related spending was not fully met, mainly resulting from delays in implementing poverty-related investment projects.[2] The structural reform agenda is advancing as planned and all relevant structural benchmarks were observed (Letter of Intent, Table 2). Based on preliminary information, all end-September indicative targets are expected to be met, with the exception of the poverty-related spending target. The end-year program targets remain appropriate and within reach.

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[1] Agricultural input covers 25 percent of domestic needs.

[2] Poverty-related spending includes identified poverty-related current and domestically-financed investment spending considered to have significant effects in the direction of reducing poverty, based on the recommendations of the January 2006 FAD TA mission.

II. Recent Economic Developments and Outlook

6. **Recent economic developments have been encouraging and broadly in line with those anticipated at the time the program was approved.**

- Rapid credit growth, strong pick-up in export, and a rebound in the industrial production point to a robust growth in the non-oil sector. Oil production has been slightly higher than anticipated.

- Inflation has remained in the single digits although it rose to 6.9 percent (y/y) in August, from 5 percent in December 2009, driven by higher international food and fuel prices.

- Mauritania's main exports (iron ore, gold, and copper) which are critical for the economy have strengthened considerably, improving the external position. Gross official reserves stood at US$222.6 million (2 months of imports) at end-September 2010.

- The reduction in the Central Bank of Mauritania (BCM) key policy rate from 12 to 9 percent in December 2009 (and the subsequent increase in credit to the private sector) has, as would be expected, led to downward pressure on the exchange rate. BCM's interventions have been limited and the Ouguiya depreciated by about 9 percent since the beginning of the year vis-à-vis the U.S. dollar. The premium in the parallel market remains insignificant.

- Fiscal performance has been strong owing mainly to (i) robust tax collection and unanticipated government receipts from the mining sector;[3] and (ii) under-execution of capital spending.

7. **The short-term outlook remains favorable but downside risks remain.**

- Non-oil real GDP would grow by 5.6 percent and 5.5 percent in 2010 and in 2011 supported by strong activity in the agriculture, mining, and construction sectors. In contrast, oil output will remain on a declining path. The current account deficit would narrow reflecting higher iron ore and gold output and prices (Box 1). Appropriate monetary policy would help keep inflation in the single digits and reach the end-year official reserves targets of 2.7 months of imports in 2011. The recent increase in international wheat price is not expected to have a significant impact on the economy in 2010. However, persistently high wheat prices in 2011 could push up inflation.

- Weaker global growth, sharp declines in international prices of iron ore or sharply higher food and fuel prices are the main downside risks for the outlook. On the upside, the growth outlook could be strengthened by continued strong policy implementation and acceleration in donor support.

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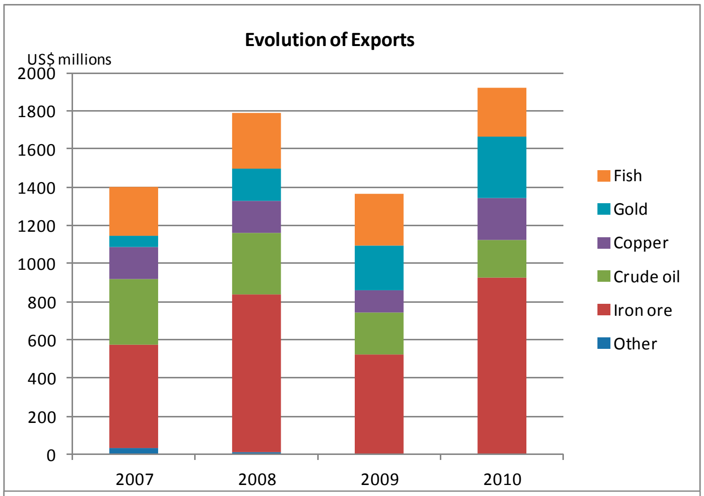
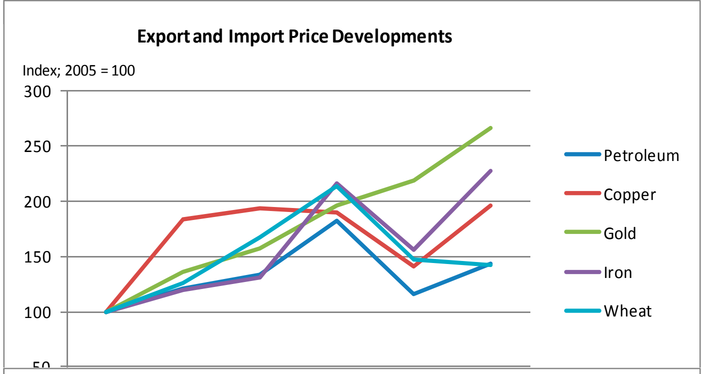
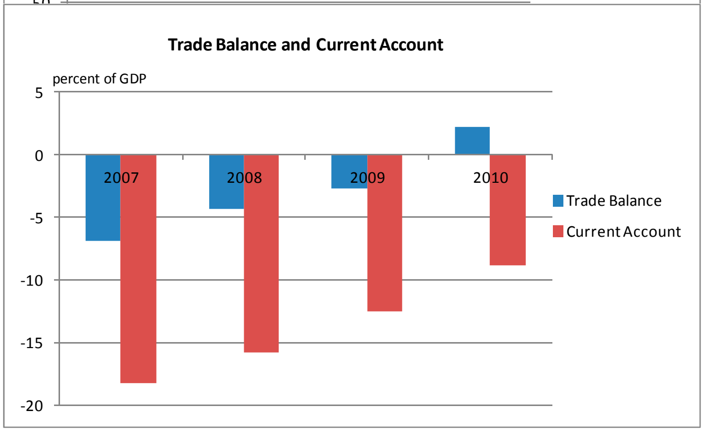
[3] This mainly represents additional royalties and bonuses from an extension of gold production by the company Tasiast.

Box 1. External Developments

Mauritania's economy has benefitted from a sharp rebound in the prices of its key export commodities—iron, copper, and gold—in tandem with the improvement in global economic conditions and the rise in domestic production volumes. This is expected to translate into an increase of some 40 percent in exports in 2010. Mauritania remains a net importer of petroleum products and higher world oil prices have had an adverse overall impact on the trade balance.







Overall, the trade balance is expected to improve by some 5 percent of GDP in 2010, swinging from a deficit of 2.7 percent of GDP in 2009 to a surplus of 2.3 percent.

Improved external support is also expected to be among the major factors contributing to an improvement in the current account deficit from about 12.5 percent of GDP in 2009 to 8.8 percent in 2010. Prospects are also favorable for higher foreign investment aimed at financing an expansion of activity in the mining sector. Taken together, developments in the trade balance and prospects for external flows will contribute to a gradual improvement in reserve coverage.

Over the medium term, prospects for Mauritania's external sector will depend on the outlook for global metals prices and whether the envisioned expansion of domestic production materializes. Although the World Economic Outlook forecast for iron and copper prices implies some moderation from current levels, the substantial expansion of production volumes planned by mining firms suggest a continued expansion of exports through the medium term.

III. POLICY DISCUSSIONS

8. **The key objective of the government's economic agenda for 2011 is to support the recovery and poverty alleviation while containing inflation pressures.**

This requires (i) sustaining progress in fiscal adjustment while creating space for priority investment and well-targeted social assistance; (ii) pursuing prudent monetary policy to keep inflation around 5 percent; (iii) allowing greater flexibility in the exchange rate to facilitate external adjustments, contain the current account deficit and build up official reserves; and (iv) accelerating structural reforms, particularly in the financial sector, to stimulate private investment, raise economic activity, and further reduce poverty. The authorities remain fully committed to the policies and objectives outlined in the February 2010 MEFP.

A. Fiscal Consolidation and Reforms

9. **Fiscal consolidation remains a top priority.**

- Strong revenue performance and prudent expenditure plans have led to a downward revision of the projected 2010 basic non-oil deficit target to 3 percent of non-oil GDP, down from 3.8 percent.[4] Non-oil revenue has been revised upward by about 4.4 percent in nominal terms, reflecting unanticipated government receipts originating from the mining sector (bonuses and royalties from the copper and gold industry). Budget support has picked up in the third quarter and prospects for the remainder of the year are favorable.[5] The authorities intend to pass a supplementary budget for 2010, which will save the additional nontax revenue to help meet future financing needs, keep total expenditure broadly unchanged, but reshuffle appropriations to take into account the introduction of cash allowances for public servants for housing and transportation in lieu of transfers in kind and recent changes in ministerial responsibilities. It will also reallocate additional resources to the Food Security Agency to replenish the strategic stock of wheat. The authorities have set up an inter-ministerial committee to address the administrative, institutional, and absorptive capacity constraints, and improve public investment spending management and execution.

- The 2011 draft budget targets a basic non-oil deficit of 1.6 percent of non-oil GDP. Tax revenue is expected to rise by 0.3 percent of non-oil GDP but will not fully offset the

[4] Nominal non-oil GDP has been revised up on the back of higher deflator reflecting new WEO iron ore copper and gold prices. Using the original non-oil GDP, the basic non-oil deficit will decline to 3.3 percent.

[5] Budget support has been provided by bilateral partners, including France (US$17 million), Libya (US$25 million), and Saudi Arabia (US$5 million). The pledges at the June 2010 donors' round table in Brussels (US$3.2 billion) include previously undisbursed pledges from the December 2007 donors' round table, as well as a round of fresh pledges. A small share of these new pledges was firmly confirmed by donors and subsequently incorporated in the program financing. For the rest of the new pledges, the authorities are in discussions with their various partners on the disbursement patterns.

reduction in nontax revenue. Consequently, total non-oil revenue will decline by 1 percent of non-oil GDP. Current expenditures are projected to decrease by 1.3 percent of non-oil GDP, reflecting essentially a moderate growth in the wage bill. Capital expenditure will decline by 1.4 percent on non-oil GDP, mainly due to the completion of a major project in the water sector. Pro-poor spending will increase to 10.3 percent of non-oil GDP. The financing needs are expected to be filled largely by budget support. The projected deficit will contribute to lower government debt-to-GDP ratio to about 43.6 percent in 2011.

10. **Pursuing fiscal consolidation and increasing fiscal space for infrastructure and social spending in 2011 requires sustained efforts to increase tax revenue, contain non-poverty-related current spending, improve budget formulation, execution and reporting, and enhance the quality of public spending.**

- Reforms toward more robust tax and customs administrations include (i) a census of all businesses to broaden the tax base (September benchmark), (ii) the completion of the computerization of the General Directorate of taxes; and (iii) the full implementation and use of ASYCUDA++ in major customs offices (December benchmark) to strengthen revenue collection and enhance tax productivity (MEFP, ¶23).

- Public administration reform remains a priority to contain the wage bill which takes up more than 60 percent of tax revenue and almost 40 percent of total non-oil revenue. The authorities agreed that while the recent introduction of a new framework for cash allowances for housing and transportation improves the transparency and fairness of public compensation, it is not a substitute for a comprehensive restructuring of public employment and pay. They remain committed to speed up the modernization of the civil service (MEFP, ¶27). The update of the census of civil servants and the reconciliation of the payroll file with the civil service roster will help remove absentee workers from the public payroll.

- The authorities intend to introduce a Treasury Single Account (December benchmark), update and improve the medium-term expenditure framework to enhance budget planning and better align the budget with PRSP priorities, and limit the use of treasury advances for expenditures (MEFP, ¶26). Steps will be taken to strengthen public procurement as well as administrative and absorptive capacity to improve capital budgeting, spending, and execution.

B. Greater Flexibility of Monetary and Exchange Rate Policy

11. **Monetary policy remains geared towards restoring confidence in the financial system and keeping inflation in the low single digits.**

- Broad money growth will be limited to about 13 percent in 2011, in line with nominal non-extractive GDP growth. Given that the country is highly open and vulnerable to external shocks (Box 2), the BCM agreed with staff on the need to remain vigilant and respond appropriately to keep inflation around 5 percent if any signs of second round effects of higher food prices materialize or if pressures in the foreign exchange market intensify.

- There was a common view that further reforms are needed to better coordinate monetary and exchange rate policies, and strengthen liquidity management (MEFP, ¶30). To that end, in line with the recommendations of the May 2010 MCM TA mission, the BCM plans to review the consistency of its interest rate structure to improve the transmission of monetary policy (Box 2).

12. **The authorities showed strong determination to preserve exchange rate flexibility.**

They intend to further improve the functioning of the foreign exchange market and give the market a greater say in the day-to-day determination of the exchange rate, building upon key recommendations of the May 2010 MCM TA mission. BCM's interventions in the foreign exchange market should continue to aim at smoothing temporary excessive volatility.

C. Structural Reforms

13. **The authorities are committed to accelerating the implementation of their multi-pronged banking reform strategy.**

Efforts will focus on strengthening supervision, transparency, and internal control mechanisms, and consolidating commercial banks' financial situation (MEFP, ¶29). In this vein, the BCM plans to finalize all remaining implementing decrees of the new banking law. Banks' minimum capital will be raised to UM 5 billion (US$19 million) by end-2011 (December benchmark), and end-2010 commercial banks' financial statements will be audited by a firm hired through invitation to tender (September benchmark).

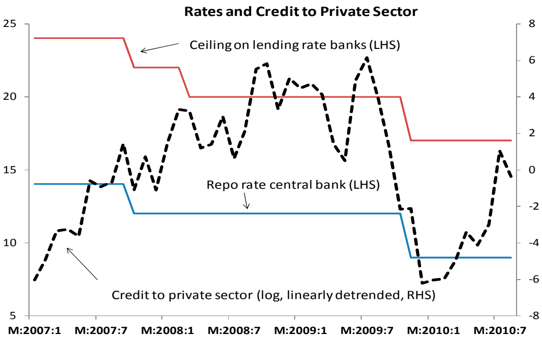
14. **The restructuring of major public enterprises is crucial to reduce budgetary transfers and improve the quality of public services.**

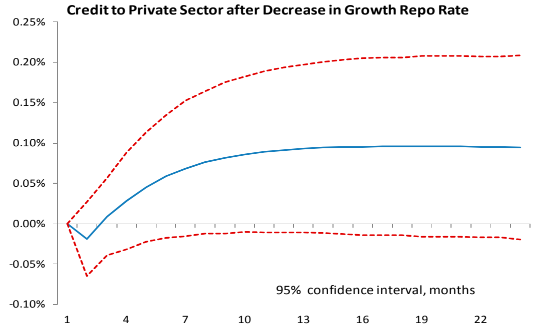
A master plan for the electricity sector has been finalized and the national electricity company is being restructured and recapitalized under a comprehensive plan supported by the French Development Agency (AFD) and the World Bank. Together with short-term measures to keep the utility firm operating, other measures have been identified to improve the management of the company, reduce costs, and expand capacity.

Box 2. Challenges for Monetary Policy

Transmission of Monetary Policy

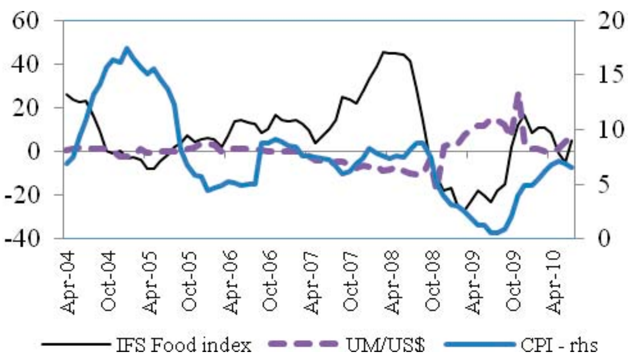
The rigidity of the interest rate structure complicates the transmission of monetary policy in Mauritania. The principal tool of the BCM is the repo rate at which banks can refinance. The most recent move in the repo rate was a three percentage point cut in November 2009. This decision helped lower the rate on the interbank market, the yield of government bonds, and the maximum lending rate. The impact of a change in the BCM's repo rate on the stock of credit to the private sector can be statistically examined with a Vector Auto-Regression (VAR) using a sample of monthly data for 2005m12-2010m8. Two important caveats to this type of analysis are the limited data span and the lack of hikes in the BCM's repo rates over the sample period. Impulse response functions suggest that lowering the repo rate has had a statistically significant expansionary effect on the stock of credit to the private sector.





Pass-through of external shocks to domestic prices

We analyze the impact of shocks in international food prices and the changes in exchange rate on domestic inflation in Mauritania, using the VAR methodology on monthly data over 1999-2010. Food represents more than half (53 percent) of the CPI basket. The share of imported goods in the CPI basket is estimated at around 37 percent. Two findings are worth emphasizing:



- The effects of shocks in international food prices are relatively moderate (10 percent for overall CPI and 27 percent of Food CPI), reflecting mainly the existence of administered prices and the policy responses to keep domestic prices low during the recent episodes of high food prices. The share of goods and services for which prices are administered represent about 20 percent of the CPI basket.

- The pass-through of the exchange rate to consumer prices is estimated at 39 percent over the period 1999-2010. The impact attains its maximum during the third quarter. The effect of a shock in the exchange rate on the food CPI index is estimated at 47 percent over a year.

The rising share of imports in the economy suggests that the pass-through will remain significant, while the paucity of local substitutes and the lack of a developed processing industry, especially in the food sector, do not drive a wedge between import prices and retail price of food products.

The authorities will launch a comprehensive study to review the financial situation of other major state-owned enterprises (December benchmark). The findings of that study will help prepare a recovery program that will sustain their long-term viability. Progress is also being made in strengthening the administrative unit in charge of state-owned enterprises' financial oversight.

15. **The authorities will pursue efforts to improve governance and the business climate.**

Key measures will focus on simplifying procedures to facilitate business operations (i.e., one-stop shop for opening and closing enterprises), improving the judicial and legal business environment (i.e., enforcement of contracts, protection of investors), and strengthening small and medium enterprises' capacity to produce credible and transparent financial statements (MEFP, ¶33). The government will also adopt a new investment code.

D. Other Issues

16. **The authorities are committed to preserve external debt sustainability.**

They plan to develop an external debt strategy (December 2011 benchmark) taking into account the recommendations of the recent World Bank management performance assessment (MPA) and medium-term debt strategy (MTDS) TA mission. The authorities have continued best efforts to reach agreements with the remaining external creditors in line with the Paris Club's comparability of treatment requirement. In this context, they reached an agreement on the external payment arrears accumulated vis-à-vis Libya and Abu Dhabi Fund on comparable terms with those of the Paris Club, and negotiations with Kuwait are ongoing.

17. **The authorities will press ahead with their plan to design a comprehensive social protection and safety net schemes.**

The strategy, in line with recent findings and recommendations of the study conducted with support of UNICEF, is expected to help better target social spending, create a consistent framework to help the poor, and improve poverty alleviation.

18. **The new poverty reduction strategy paper (PRSP) is expected to be finalized before the second review.**

Preparation of a new PRSP is well advanced, and a first draft has been shared with key partners, including the Fund, the World Bank, and the UNDP. The final version is on track to be finalized and sent to the Fund and the World Bank before the second review under the ECF.

IV. Program Design

The program design and monitoring mechanism will remain broadly unchanged. The program will be monitored on a semi-annual basis. The authorities are requesting modifications of the performance criterion for end-December 2010 to reflect the supplementary budget and the improving macroeconomic outlook. Quantitative performance criteria are being proposed for end-June 2011. Quantitative targets through end-September 2011 are presented in Table 1 of the MEFP. Quantitative performance criteria for end-December 2011 will be established at the time of the next program review. Structural benchmarks proposed for 2011 are macro relevant (MEFP, Table 2) and focus on revenue administration, public financial management, debt management, and transparency and accountability of the BCM.

19. **The BCM is committed to pursue the implementation of the 2010 updated safeguards assessment**.

Recommendations (MEFP, ¶29) include the appointment of an external auditor to continue the semi-annual audits of NIR and NDA data, and the timely publication of the reports (structural benchmarks).

20. **An ex-post assessment is expected to be completed by staff in the first quarter of 2011**, in view of Mauritania’s qualification as a member with a Longer-Term Program Engagement (LTPE).

V. Staff Appraisal

21. **The economy is recovering and the authorities have made good progress in reestablishing macroeconomic stability.**

Economic activity has picked up and the fiscal and external positions have improved on the back of a rebound in prices for Mauritania’s main exports. Consumer price inflation has increased in recent months, driven by higher energy and food prices, but remained in the low single digits.

22. **The new program is off to a good start with a strong resolve to implement the reform agenda.**

The program is on track and the structural reform agenda is advancing as planned.

23. **The commitment for continued fiscal consolidation is welcome.**

The draft 2011 budget is appropriate and consistent with medium-term sustainability. It preserves fiscal discipline and appropriately protects infrastructures and social spending. Strong and sustained effort are needed to increase tax revenue and contain nonpovertyrelated current spending. This will require (i) further strengthening the tax and customs administration to combat tax evasion and increase revenue; (ii) accelerating public service reform to contain the wage bill, and (iii) restraining and prioritizing other current spending. Improving budget formulation, execution and reporting, and enhancing the quality of public spending are also needed.

24. **The BCM has been able to strike the right balance between keeping inflation low and supporting growth.**

However, inflation is rising and the authorities will have to remain alert to respond appropriately if there are signs of second round effects from higher food prices or inflation pressures continue to build up. Further measures are needed to strengthen the BCM's operational independence, enhance its liquidity management, and reinforce banking supervision and regulation. We encourage the authorities to implement the recommendations of the 2010 update safeguards assessment in a timely manner.

25. **Exchange rate flexibility is essential to absorb external shocks and strengthen the economic recovery.**

Staff welcomes the authorities' willingness to implement key recommendations of the May 2010 MCM TA mission to further improve the functioning of the foreign exchange market and their intervention policy.

26. **The authorities need to maintain the momentum on structural reforms to promote a sustainable broad-based private sector growth.**

Further enhancing financial intermediation, putting major SOEs, including the national electricity company, on a sound financial footing, improving governance and the business climate should remain high on the authorities' agenda.

27. **Successful program execution will help strengthen the country' resilience to external shocks, improve the country's prospects for mobilizing external support, sustain economic growth, create jobs, and reduce poverty**.

The authorities' ownership of the program is strengthening, but key risks to the program remain the deterioration in security, possible external shocks, and persistent low administrative and institutional capacity.

28. **Staff recommends the completion of the first review under the ECF,** in light of the good performance through end-June and the authorities' strong commitment to the program.

Table 1. Mauritania: Selected Economic and Financial Indicators, 2008–13

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	CR/10/168	Rev. Prog.	CR/10/168	Rev. Prog.	Proj.	Proj.
National income and prices								
GDP at constant prices	3.5	-1.2	4.6	5.0	5.2	5.2	5.5	5.8
Non-oil GDP at constant prices	3.9	-1.1	5.2	5.6	5.3	5.5	5.6	5.9
Oil production (1000 barrels per day)	12.1	10.7	7.5	8.5	7.5	7.0	7.0	7.0
GDP deflator	12.4	-5.9	8.0	19.3	2.7	5.0	-0.6	0.1
Non-oil GDP deflator	13.0	-3.9	8.7	20.4	2.7	5.5	-0.5	0.1
Consumer price index (period average)	7.3	2.2	4.8	6.1	4.8	5.2	5.1	5.0
Consumer price index (end of period)	3.9	5.0	4.6	5.3	5.0	5.1	5.0	5.0
External sector								
Exports of goods, f.o.b. (percentage change in value)	27.5	-23.7	21.9	40.9	4.8	12.8	-1.7	4.3
Of which: Non-oil	37.5	-21.6	28.8	50.0	4.7	16.2	-2.1	4.6
Imports of goods, f.o.b. (percentage change in value)	21.7	-25.5	16.4	27.3	12.1	14.4	1.3	-2.5
Current account balance (in percent of GDP)	-15.8	-12.5	-11.9	-8.8	-15.1	-8.0	-10.3	-7.1
Official reserves								
Gross official reserves 1/								
In millions of US dollars, end-of-period	194.9	238.0	247.6	277.2	288.6	317.5	372.3	433.2
In months of following year's imports excluding extractive industries	2.1	2.2	2.5	2.5	2.7	2.7	3.0	3.3
Money								
Money and quasi-money (percentage change)	13.7	15.2	13.0	16.8	11.3	12.6	10.9	10.7
Credit to the private sector (percentage change)	23.6	3.9	11.4	11.7	8.4	9.9	8.1	6.9
Investment and savings								
Gross investment (percentage of GDP)	27.8	24.1	31.1	32.2	32.7	33.5	31.3	28.8
Gross savings (percentage of GDP)	12.0	11.6	19.2	23.4	16.2	25.5	21.0	21.8
Consolidated government operations (percent of non-oil GDP)								
Revenue and grants	25.9	26.7	27.8	26.7	25.8	24.0	23.4	23.3
Non-oil Revenue	22.9	24.1	23.5	23.2	23.4	21.2	21.4	21.4
Oil revenue	2.2	1.8	1.2	1.2	1.1	0.9	0.9	0.9
Expenditure and net lending	32.9	32.1	32.8	30.7	30.2	26.7	26.6	26.2
Basic non-oil balance; program definition 2/	-7.7	-5.3	-3.8	-3.0	-1.6	-1.6	-1.1	-1.0
Overall balance including grants	-7.0	-5.4	-5.0	-4.0	-4.3	-2.7	-3.2	-2.9
External debt								
PPG external debt (in percent of GDP)	80.8	92.9	58.8	55.2	55.3	49.0	49.6	49.5
Memorandum items:								
Ouguiya/US$ exchange rate (end-of-period)	261.5	262.0	--	--	--	--	--	--
Nominal GDP (in billions of UM)	854	794	896	995	968	1,100	1,154	1,222
Nominal non-oil GDP (in billions of UM)	797	758	868	962	938	1,072	1,125	1,193
Nominal GDP (in millions of US dollars)	3,536	3,031	3,421	3,609	3,695	3,989	4,185	4,432
Population (in millions)	3.1	3.2	3.3	3.3	3.4	3.4	3.5	3.5
GDP per capita (in US dollars)	1,123	940	1,036	1,093	1,093	1,180	1,209	1,250
Price of iron ore (US$/Ton)	140.6	101.0	80.0	148.0	77.5	145.0	130.0	122.0

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

1/ Excluding the oil account.

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

Table 2. Mauritania: Central Government Operations, 2008–13

(In billions of ouguiya, unless otherwise indicated)

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	CR/10/168	Rev. Prog.	CR/10/168	Rev. Prog.	Proj.	Proj.
Non-oil revenue and grants	189.0	188.5	231.0	245.7	231.7	246.9	252.6	266.8
Non-oil revenue	182.5	182.4	204.3	223.3	219.6	227.3	240.5	254.8
Tax revenue	114.6	106.6	128.5	128.5	143.3	146.1	156.1	169.1
Nontax revenue	67.8	75.8	75.7	84.8	76.3	81.1	84.5	85.7
Of which: Fish revenues	38.7	41.0	47.5	38.8	45.4	41.3	41.5	41.8
Exceptional revenue 1/	0.0	0.0	0.0	10.0	0.0	0.0	0.0	0.0
Total grants	6.5	6.1	26.7	22.4	12.1	19.6	12.1	12.0
Of which: Projects	4.0	3.7	9.7	9.7	7.8	7.8	7.6	7.5
Expenditure and net lending	262.0	242.9	284.4	295.7	282.9	286.2	299.4	312.4
Current expenditure	206.4	186.7	184.2	189.2	190.9	197.3	206.4	214.3
Compensation of employees	71.3	77.0	76.6	84.5	78.9	89.5	93.6	97.9
Goods and services	54.0	51.7	54.7	49.4	59.1	51.8	54.4	57.3
Subsidies and transfers 2/	42.8	20.3	15.3	15.3	16.4	16.4	17.2	18.1
Interest	16.5	16.2	16.4	16.4	21.8	20.1	22.3	23.1
External	5.8	5.1	4.9	4.9	11.4	8.4	11.6	9.7
Domestic	10.7	11.1	11.5	11.5	10.4	11.8	10.7	13.4
Special accounts and others	6.8	5.0	5.0	10.0	5.4	10.0	10.0	10.0
Capital expenditure	55.6	51.8	96.9	93.3	90.4	88.4	92.8	97.9
Foreign-financed investment	12.0	14.9	42.6	39.0	37.1	33.4	34.7	36.1
Domestically financed investment	43.6	36.9	54.3	54.3	53.2	55.0	58.0	61.8
Restructuring and net lending	0.0	4.4	3.3	13.3	1.7	0.5	0.3	0.1
Common reserves	15.1	16.6	16.2	13.6	9.4	9.4	8.9	8.0
Basic non-oil balance; program definition 2/	-61.8	-40.5	-32.6	-28.5	-14.8	-17.1	-12.5	-11.7
Net revenue from oil	17.4	13.7	10.0	11.4	10.6	10.1	10.5	10.8
Overall balance including grants (deficit -)	-55.6	-40.7	-43.3	-38.5	-40.6	-29.2	-36.3	-34.7
Financing	55.6	39.1	43.3	38.5	40.6	29.2	36.3	34.7
Domestic financing	43.2	22.2	7.3	3.8	11.1	7.0	8.6	7.8
Banking system	32.4	30.6	6.2	3.1	7.4	8.8	6.1	4.9
BCM	20.0	27.5	-3.5	0.0	0.0	3.9	0.0	0.0
Commercial banks	12.5	3.0	9.7	3.1	7.4	4.9	6.1	4.9
Nonbanks	14.8	-5.9	3.6	3.8	6.6	1.3	5.3	5.7
Privatization and other	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Domestic arrears	-1.2	0.3	0.3	-0.3	0.0	-0.3	0.0	0.0
External financing	12.7	16.9	36.0	34.8	29.5	22.2	27.7	27.0
Oil account (net)	3.3	3.4	2.6	1.2	2.6	0.0	0.0	0.0
Other (net)	9.4	13.5	33.4	33.5	26.9	22.2	27.7	27.0
Net borrowing (net)	4.1	8.9	28.2	28.5	19.0	13.4	20.3	19.0
Exceptional financing	5.4	4.7	5.2	5.1	7.8	8.8	7.5	7.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Table 2. Mauritania: Central Government Operations, 2008–13 (concluded)

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

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	CR/10/168	Rev. Prog.	CR/10/168	Rev. Prog.	Proj.	Proj.
Non-oil revenue and grants	23.7	24.9	26.6	25.5	24.7	23.0	22.5	22.4
Non-oil revenue	22.9	24.1	23.5	23.2	23.4	21.2	21.4	21.4
Tax revenue	14.4	14.1	14.8	13.4	15.3	13.6	13.9	14.2
Nontax revenue	8.5	10.0	8.7	8.8	8.1	7.6	7.5	7.2
Of which: Fish revenues	4.9	5.4	5.5	4.0	4.8	3.9	3.7	3.5
Exceptional revenue 1/	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0
Total grants	0.8	0.8	3.1	2.3	1.3	1.8	1.1	1.0
Of which: Project grants	0.5	0.5	1.1	1.0	0.8	0.7	0.7	0.6
Expenditure and net lending	32.9	32.1	32.8	30.7	30.2	26.7	26.6	26.2
Current expenditure	25.9	24.6	21.2	19.7	20.4	18.4	18.3	18.0
Compensation of employees	8.9	10.2	8.8	8.8	8.4	8.4	8.3	8.2
Goods and services	6.8	6.8	6.3	5.1	6.3	4.8	4.8	4.8
Subsidies and transfers 2/	5.4	2.7	1.8	1.6	1.7	1.5	1.5	1.5
Interest	2.1	2.1	1.9	1.7	2.3	1.9	2.0	1.9
External	0.7	0.7	0.6	0.5	1.2	0.8	1.0	0.8
Domestic	1.3	1.5	1.3	1.2	1.1	1.1	1.0	1.1
Special accounts and others	0.9	0.7	0.6	1.0	0.6	0.9	0.9	0.8
Capital expenditure	7.0	6.8	11.2	9.7	9.6	8.3	8.2	8.2
Foreign-financed investment	1.5	2.0	4.9	4.1	4.0	3.1	3.1	3.0
Domestically-financed investment	5.5	4.9	6.3	5.6	5.7	5.1	5.2	5.2
Restructuring and net lending	0.0	0.6	0.4	1.4	0.2	0.0	0.0	0.0
Common reserves	1.9	2.2	1.9	1.4	1.0	0.9	0.8	0.7
Basic non-oil balance; program definition 3/	-7.7	-5.3	-3.8	-3.0	-1.6	-1.6	-1.1	-1.0
Net revenue from oil	2.2	1.8	1.2	1.2	1.1	0.9	0.9	0.9
Overall balance including grants	-7.0	-5.4	-5.0	-4.0	-4.3	-2.7	-3.2	-2.9
Financing	7.0	5.4	5.0	4.0	4.3	2.7	3.2	2.9
Domestic financing	5.4	2.9	0.8	0.4	1.2	0.7	0.8	0.7
Of which: Banking system	4.1	4.0	0.7	0.3	0.8	0.8	0.5	0.4
External financing	1.6	2.2	4.1	3.6	3.1	2.1	2.5	2.3
Of which: Oil account	0.4	0.4	0.3	0.1	0.3	0.0	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)	796.8	757.6	867.7	962.5	938.1	1071.5	1125.1	1193.0
Total revenue	25.1	25.9	24.7	24.4	24.5	22.2	22.3	22.3
Oil fund balance (in billion of ouguiya)	11.7	8.7	6.1	6.1	3.5	6.4	6.4	6.4

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

1/ Tax arrears from national eletricity company.
2/ Including transfers to public entities outside the central government.
3/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investmentexpenditure and interest on external debt).

Table 3. Mauritania: Balance of Payments 2008–13
(in millions of U.S. dollars; unless otherwise indicated)

	2008	2009	2010	2010	2011	2011	2012	2013
	Act.	Prov.	CR/10/168	Rev. Prog.	CR/10/168	Rev. Prog.	Proj.	Proj.
Trade balance	-153.6	-82.8	6.3	81.3	-113.4	62.1	-0.8	145.9
Exports	1787.6	1364.2	1670.0	1922.8	1750.8	2168.4	2131.8	2224.5
Of which: Iron ore	823.4	521.6	627.0	920.0	647.5	1113.0	1070.3	1140.4
Imports, fob	-1941.2	-1447.0	-1663.7	-1841.5	-1864.2	-2106.3	-2132.7	-2078.5
Of which: imports of extractive industries	-717.9	-442.0	-572.9	-591.7	-716.8	-808.3	-756.5	-610.3
Services (net)	-630.8	-479.0	-590.3	-611.9	-587.8	-617.3	-575.6	-579.0
Income (net)	30.5	52.1	-29.9	35.8	-88.7	44.3	-14.7	-27.5
Of which: EU fishing compensation	117.0	107.5	135.2	92.5	126.0	92.9	92.9	92.9
Interest due on debt	-31.6	-22.4	-32.3	-36.2	-71.1	-39.7	-85.7	-99.6
Current transfers (net)	196.6	130.8	207.2	176.3	179.8	191.8	161.2	147.1
Of which: Official transfers	124.9	64.4	130.5	107.9	94.1	115.0	80.5	64.8
Current account balance	-557.3	-378.9	-406.7	-318.4	-610.2	-319.2	-430.0	-313.6
Capital and financial account	408.6	226.7	1460.6	1389.4	736.0	454.2	440.4	344.4
Capital account	30.9	0.0	1073.0	1073.0	143.3	143.3	0.0	0.0
Of which: MDRI and other debt stock relief 1/	30.9	0.0	1073.0	1073.0	143.3	143.3	0.0	0.0
Financial account	377.7	226.7	387.6	316.4	387.6	310.9	440.4	344.4
Direct investment (net)	338.4	-3.1	-2.7	56.6	109.2	74.2	121.7	200.3
Official medium- and long-term loans	200.5	187.2	381.9	353.6	424.2	429.3	390.8	127.5
Disbursements	280.7	240.7	423.5	409.5	514.8	503.7	471.8	231.0
Amortization	-80.2	-53.4	-41.7	-55.9	-90.5	-74.4	-81.0	-103.5
Other financial flows	-161.2	42.6	8.4	-93.8	59.3	-192.5	-72.1	16.6
Errors and omissions	103.3	143.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-45.4	-9.2	1053.9	1070.9	125.9	135.1	10.4	30.8
Financing	45.4	9.2	-1053.9	-1070.9	-125.9	-135.1	-10.4	-30.8
Net foreign assets	-9.1	-23.4	-10.8	-27.4	-22.7	-21.9	-37.5	-59.5
Central bank (net)	10.9	33.1	-0.8	-17.4	-12.7	-11.9	-27.5	-49.5
Use of Fund resources (net)	3.1	0.0	35.0	35.0	35.3	35.3	35.3	17.6
Commercial banks (net)	-20.0	-56.5	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0
Oil account flow	13.5	12.8	9.9	9.9	9.9	0.0	0.0	0.0
Exceptional financing 1/	41.0	19.7	-1053.1	-1053.4	-113.1	-113.2	27.1	28.7
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)	3536	3031	3421	3609	3695	3989	4185	4432
Trade Balance (in percent of GDP)	-4.3	-2.7	0.2	2.3	-3.1	1.6	0.0	3.3
Current account balance (in percent of GDP)	-15.8	-12.5	-11.9	-8.8	-16.5	-8.0	-10.3	-7.1
Gross official reserves								
In millions of US dollars	194.9	238.0	247.6	277.2	288.6	317.5	372.3	433.2
In months of imports excluding extractive industries	2.1	2.2	2.5	2.5	2.7	2.7	3.0	3.3
Oil account	46.1	33.3	23.4	23.4	13.5	23.4	23.4	23.4

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

1/ It includes, for 2010 and 2011, the assumed relief of the passive debt owed to Kuwait and Libya.

Table 4. Mauritania: Monetary Situation, 2008–11

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

	2008	2009	2010	2010	2011
	Act.	Prov.	CR/10/168	Rev. Prog.	Rev. Prog.
Monetary survey					
Net foreign assets	-9.5	-3.5	-0.7	6.4	12.5
Net Domestic Assets	250.1	280.6	313.7	317.3	352.1
Net domestic credit	368.1	408.2	452.3	444.9	479.7
Net credit to the government	141.7	172.9	190.0	182.2	191.0
Credit to the economy	226.4	235.3	262.2	262.8	288.8
Other items, net	-118.0	-127.6	-138.5	-127.6	-127.6
Broad money	240.6	277.1	313.1	323.7	364.6
Monetary authorities					
Net foreign assets	10.1	1.5	1.7	3.5	6.9
Net Domestic Assets	100.5	125.1	142.4	145.4	162.2
Net domestic credit	101.8	130.2	126.7	137.3	141.2
Net credit to the government	95.6	124.5	121.0	130.0	133.9
Other items, net	-1.3	-5.1	-5.1	-5.1	-5.1
Reserve money	110.6	126.5	144.1	149.0	169.1
Currency in circulation	70.0	82.2	93.6	96.8	109.9
of which : Banks deposits in Foreign currency	10.0	14.0	6.0	7.3	8.2
Commercial banks					
Net foreign assets	-19.6	-5.0	-2.3	2.9	5.7
Net domestic credit	269.6	280.7	328.3	312.1	343.0
Net credit to the government	46.1	48.5	69.1	52.2	57.1
Credit to the private sector	223.4	232.3	259.2	260.0	285.9
Other items, net	-116.7	-122.5	-133.4	-122.5	-122.5
Memorandum items:					
Velocity of broad money	3.3	2.7	2.8	3.0	2.9
Velocity of broad money (GDP exc, extractive industries)	2.5	2.2	2.1	2.1	2.1
Credit to the private sector/GDP (in percentage)	28.0	30.7	29.9	27.0	26.7
Net foreign assets of banks (in millions of U.S. dollars)	-74.8	-18.9	-8.9	10.3	20.3

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

Table 5. Mauritania: Indicators of Capacity to Repay the Fund , 2010–16 1/

	2010	2011	2012	2013	2014	2015	2016
	Projections						
Fund obligations based on existing credit (in million of SDRs)							
Principal	0.00	0.00	0.65	1.87	2.06	3.17	4.27
Charges and interest	0.05	0.19	0.24	0.23	0.23	0.22	0.21
Fund obligations based on existing and prospective credit (in millions of SDRs)							
Principal	0.00	0.00	0.65	1.87	2.06	3.17	7.58
Charges and interest	0.05	0.19	0.35	0.39	0.4	0.39	0.38
Total obligations based on existing and prospective credit							
In milions of SDRs	0.05	0.19	1.00	2.26	2.46	3.56	7.96
In millions of US$	0.08	0.29	1.52	3.44	3.75	5.43	12.15
In percent of exports of goods and services	0.00	0.01	0.07	0.14	0.14	0.20	0.40
In percent of debt service	0.10	0.34	1.23	2.83	3.17	4.01	8.18
In percent of GDP	0.00	0.01	0.04	0.08	0.08	0.11	0.22
In percent of Gross International Reserves	0.03	0.09	0.41	0.79	0.77	0.95	1.83
In percent of quota	0.08	0.30	1.55	3.51	3.82	5.53	12.36
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$	49.1	82.8	115.5	129.6	126.6	121.9	110.3
In percent of exports of goods and services	2.4	3.6	5.0	5.4	4.8	4.5	3.6
In percent of debt service	66.0	96.4	93.0	106.7	107.0	89.9	74.3
In percent of GDP	1.4	2.1	2.8	2.9	2.6	2.4	2.0
In percent of Gross International Reserves	17.7	26.1	31.0	29.9	26.1	21.2	16.6
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$)	2072.0	2327.0	2293.6	2389.6	2625.4	2722.1	3036.0
Debt service (in millions of US$)	74.4	85.9	124.2	121.5	118.4	135.6	148.5
Nominal GDP (in millions of US$)	3608.9	3989.3	4185.4	4431.8	4809.6	5121.1	5551.2
Gross international reserves (in millions of US$)	277.2	317.5	372.3	433.2	484.4	575.0	665.7
Quota (millions of SDRs)	64.4	64.4	64.4	64.4	64.4	64.4	64.4

Sources: IMF staff estimates and projections.

1/ Projections of interest payments incorporate the temporary interest relief initiative and interest rate structure under the new LIC financing architecture.

Table 6. Mauritania: External Financing Requirements, 2008–13
(In millions of US dollars)

	2008	2009	2010	2011	2012	2013
Total Requirements	619	413	372	380	498	377
Current account deficit	557	379	318	319	430	314
Scheduled public debt amortization 1/	62	34	54	61	68	64
Total Sources	619	413	372	380	498	377
Capital inflows	548	402	312	341	491	392
FDI, net	338	-3	57	74	122	200
Disbursements from official creditors (WB, AfDB, FADES)	261	193	233	191	202	201
Other flows	-51	213	23	75	167	-10
Of which: SNIM	20	27	142	300	270	30
Financing Items	44	41	89	78	62	46
IMF	3	0	35	35	35	18
France	0	0	13	13	0	0
Arab Monetary Fund	0	22	22	0	0	0
Exceptional financing	41	20	20	30	27	29
Change in oil account (- increase)	13	13	10	0	0	0
Change in reserves (- increase)	14	-43	-39	-39	-55	-61
Residual financing gap	0	0	0	0	0	0
Memorandum item:						
Overall balance	-45	-9	-2	-8	10	31

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

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

Table 7. 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.
November 19, 2010	11.04	17.1	Completion of the first review (relevant PCs for end-June 2010).
March 31, 2011	11.04	17.1	Completion of the second review (relevant PCs for end-December 2010).
September 30, 2011	11.04	17.1	Completion of the third review (relevant PCs for end-June 2011).
March 31, 2012	11.04	17.1	Completion of the fourth review (relevant PCs for end-December 2011).
September 30, 2012	11.04	17.1	Completion of the fifth review (relevant PCs for end-June 2012).
March 1, 2013	11.04	17.1	Completion of the sixth (final) review (relevant PCs for end-December 2012).
Total	77.28	120.0	

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

Appendix

Letter of Intent

Nouakchott, November 2, 2010

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

Dear Mr. Strauss-Kahn:

1. The political appeasement undertaken during the first year of the program supported by an arrangement under the Extended Credit Facility (ECF) for the 2010-12 period facilitated the restoration of macroeconomic stability and the recovery of economic growth, as evidenced by performance through end-June 2010. Real GDP growth was adjusted upward and is expected to reach 5.6 percent in 2010, compared with an initial projection of 5.2 percent, the basic non-oil fiscal deficit is forecast at 3 percent, against an original target of 3.8 percent of non-oil GDP, and inflation will be contained at around 5 percent. We have thus met all the performance criteria and all relevant structural benchmarks.

2. For 2011, we are committed to building upon these gains. In this context, we will continue to support the rebound in economic activity with a view to reaching a real GDP growth rate of 5.5 percent, ensuring price stability, enhancing fiscal sustainability by reducing the basic non-oil fiscal deficit to 1.6 percent of non-oil GDP, and rebuilding foreign exchange reserves to the equivalent of 2.7 months of imports. We also plan to accelerating structural reforms, including the reform of the civil service, rehabilitating the situation of public enterprises, modernizing the tax and customs administrations, reinforcing the financial system, improving the business environment, and enhancing good governance.

3. Consistent with our overall strategy, we will ensure that these objectives are in line with the guidelines set out in the new 2011-15 PRSP currently being finalized. We will also make the necessary efforts to mobilize the concessional resources pledged by our partners during the Brussels Round Table, with a view to financing the public investment program underpinning the new PRSP action plan.

4. To attain these objectives, we are committed to implementing prudent, appropriate, and consistent macroeconomic policies. The objective of our monetary policy will be to keep inflation under control with a view to creating conditions for sound growth. Exchange policy will be conducted with greater flexibility to restore confidence vis-à-vis the exchange market

and reduce external imbalances. Fiscal policy will aim at strengthening the process of fiscal consolidation by expanding the revenue base, improving revenue collection, rationalizing current spending, and enhancing capital spending efficiency. This will enable us to allocate more resources to poverty-reducing expenditure and facilitate attainment of the Millennium Development Goals (MDGs). Regarding external debt, we intend to pursue a prudent policy aimed at financing our public investment program within a framework of debt sustainability.

5. The attached Memorandum on Economic and Financial Policies sets out the main components of the program for 2011. It outlines the macroeconomic objectives, economic reforms, and quantitative indicators for the second year of the program supported by an arrangement under the ECF. The government believes that the policies described in this memorandum are appropriate for attaining the objectives of the program covering the second consecutive year. This memorandum represents a commitment by the government to reaffirm, in accordance with the IMF's policies on consultations, its readiness to consult with IMF staff before amending its content in any way. The government looks forward to receiving support from the International Monetary Fund under the three-year arrangement approved on March 15, 2010 by the Executive Board. It undertakes to provide IMF staff with all the data and information necessary to implement and monitor the program. The government requests the approval of the first review of the program, modification of the performance criteria for end-December 2010, and a disbursement in an amount equivalent of SDR 11.04 million.

Best regards,

/s/
Ahmed Ould Moulaye Ahmed
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

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES, 2011

November 2, 2010

I. INTRODUCTION

1. In reference to the memorandum of economic and financial policies (MEFP) attached to our February 23, 2010 letter accompanying our request for an arrangement under the Extended Credit Facility (ECF) to support the government reform program, we are pleased to report on progress made during the first six months of 2010 and the objectives and policies we intend to implement for the remainder of 2010 and 2011. The program design and monitoring will remain unchanged with semi-annual reviews. The second review under the program is expected to be completed by March 31, 2011, and the third review by September 30, 2011. The quantitative performance criteria for end-December 2010 have been revised to reflect the improving macroeconomic situation. New quantitative performance criteria have been set for end June 2011 and indicative targets for End-March 2011 and end-September 2011 (Table 1). Structural benchmarks have been set for 2011 (Table 2).

2. The government's actions in 2010 took place in a context of political stability, which paved the way for economic recovery and renewed cooperation with all our technical and financial partners. When combined with inclusive dialogue, the policy of openness toward the opposition parties is testimony of the government's determination to strengthen the democratic process and stabilize the political climate in order to direct all energies toward implementing the country's development strategy. The major focus of the president's program is overcoming the economic, social, and security challenges facing Mauritania.

3. Against this background, we are updating our poverty reduction strategy (PRS) and preparing the third action plan for the period 2011-2015. The strategic approach of the new PRS action plan is anchored around four pillars: (i) maintaining macroeconomic stability in order to create the conditions for more rapid growth; (ii) centering growth on economic areas benefiting the poor; (iii) developing human resources and expanding basic services; and (iv) improving governance and building capacities. Good governance plays a leading role in this strategy, a key objective of which is the adoption and effective implementation of a national anticorruption strategy.

4. In order to elicit support from our development partners for this new strategy, we organized a roundtable in June 2010 with assistance from the European Union, the World Bank, and the United Nations Development Program (UNDP). Numerous partners, including the IMF, provided technical assistance in preparing the roundtable, which resulted in financing commitments on the order of US$3.2 billion.

II. The Program for 2010: Economic Framework and Reforms

5. After a particularly difficult 2009, marked by a 1.1 percent contraction of non-oil GDP in the wake of the global economic crisis, the first program year witnessed a resumption of economic activity as reflected in a number of sector indicators during the first six months of the year. Economic growth was driven by the agricultural sector, as a result of good rainfalls, by the extractive industries (iron, copper, and gold), which grew in response to the recovery of global demand, by manufacturing industries, and by the construction sector. Oil production averaged roughly 8,740 barrels per day in the early months of the year, compared with an initial projection of 7,500 barrels per day. Year-on-year inflation reached 6.7 percent at end-June 2010, reflecting higher energy and food prices.

6. In the public finance area, tax and non-tax revenues were up sharply in the first half of 2010, driven by significant collection efforts by the tax and customs administration and by the economic recovery. Current expenditures were slightly above target, owing to an increase in the wage bill and outlays from special accounts. In contrast, under-execution of domestically-financed capital expenditures prevented the government from meeting its poverty-reducing expenditure objectives. The result was a basic non-oil fiscal surplus of UM 11 billion, compared to the UM 19 billion deficit projected under the program. This performance also resulted in limited use of the National Hydrocarbon Revenue Fund (FNRH) and higher deposits at for the public treasury account at the Central Bank of Mauritania (BCM).

7. In regard to the monetary accounts, the BCM's November 2009 easing of monetary conditions and lowering of the key policy rate (from 12 to 9 percent) to boost economic activity appear to have been fruitful. The recovery of economic activity in the early months of the year fueled an increase of credit to the private sector by 11.6 percent, up from 3.9 percent over the 12 months of 2009. Money supply contracted slightly, however, due to a fall in net foreign assets and net credit to the government during the first half of 2010.

8. The external current account deficit narrowed, as strong exports offset significantly higher imports associated with the economic recovery. Transfers also rose substantially. Official reserves stood at US$210.6 million, or 2.1 months of imports, at end-June 2010, compared with US$238 million at end-December 2009. This fall in reserves is attributable to lower-than-anticipated disbursements of foreign aid. In the event, the ouguiya fell by roughly 6 percent against the dollar during the first half of 2010, while the exchange premium between the official and parallel markets remained low.

9. Progress was made in the structural area. Measures introduced in public finance include (i) overhauling the framework for allocating transportation and utility benefits in a more equitable manner and in line with best budgetary practices; and (ii) implementing ASYCUDA++ at the Nouakchott Port customs office in order to increase tax revenues.

10. In the financial sector, we also implemented a number of reforms in line with the recommendations of the financial sector assessment program (FSAP) and the safeguards assessment. In particular, these reforms aimed at (i) strengthening banks' capital and establishing provisions for nonperforming loans; (ii) continuing the implementation of prudential, solvency, liquidity, and risk concentration ratios; (iii) continuing the auditing of the BCM's accounts, net international reserves (NIR), and net domestic assets (NDA); and (iv) pursuing efforts to improve the quality of bank portfolios to reduce the share of nonperforming loans. Reforms in the area of foreign exchange aimed at reinstating the foreign exchange auction system and eliminating all exchange restrictions. The BCM intervention policy was minimal and aimed essentially at mitigating excessive exchange rate fluctuations.

11. Moreover, we observed all end-June performance and all relevant structural benchmarks (Tables 1 and 2).

12. For the rest of 2010, the program will remain unchanged including the principal macroeconomic objectives. Most recent estimates suggest that real non-oil GDP growth will reach 5.6 percent, consistent with initial program projections. Overall real GDP is projected at approximately 5 percent. We expect tax and nontax revenue collection to remain strong for the remainder of 2010. Reflecting these expected developments and the upward revision of nominal GDP driven by higher commodity prices, the basic non-oil deficit is projected at 3 percent of non-oil GDP, compared with 3.8 percent under the initial program. In the interest of caution, we have decided to save the additional nontax revenue that is left after settling part of potential domestic payment arrears.

13. While it is established that the recent surge in international wheat prices should not adversely affect budgetary accounts in the short term, some risks remain. From a monetary policy stand point, the authorities will remain vigilant and ready to use all policy instruments, including the key rate, to address any inflationary pressure, particularly the second-round effects of the recent rise of international wheat prices. The chronic drought in Mauritania and the agricultural output gap call for caution, especially in light of anticipated fluctuations in international cereal markets; in this vein, we have prepared a specific project to create a strategic grain reserve and strengthen storage capacities and facilities for transportation and distribution of assistance in kind.

14. Structural reforms will continue, and we will improve the master plan and monitoring framework for those reforms. In particular, we will complete the review and overhaul of the payroll database, using the results of the census of civil servants and government employees, and improve payroll budgeting methods. We will coordinate with census operations to complete the issuance of new taxpayer identification numbers, beginning with companies covered by the Large Enterprises Directorate and the Medium-sized Enterprises Directorate. As part of the fight against import fraud, we will continue implementing the strategic customs reform plan, including completing the migration to ASYCUDA++ on a single

server, and improving management of human resources of the customs administration. We will also continue improving the cash management plan. To this end, we will hold regular weekly meetings of the fiscal and monetary policy coordination committee, and minutes of those meetings will be prepared with a particular focus on a review of the cash position and three-month rolling cash forecasts.

III. The Program for 2011

15. The program for 2011 remains consistent with the objectives initially set forth in the 2010-12 program and seeks to achieve real non-oil GDP growth of 5.5 percent, contain inflation around 5 percent, reduce the current account deficit to approximately 8 percent of GDP, and raise official reserves to approximately 2.7 months of imports. Achieving these objectives is highly dependent on the growth outlook for the global economy, the availability of external resources and the capacities needed to mobilize them, prudent macroeconomic management, and a firm commitment to pursuing structural reforms.

A. Macroeconomic Program

Budget policy

16. In the area of public finance, we plan to remain prudent and pursue our policy of fiscal consolidation in a context of growth resumption. These fiscal consolidation efforts will be guided by greater discipline in current spending and intensified revenue collection efforts. In this context, the objective of the draft 2011 budget is to reduce the basic non-oil deficit to 1.6 percent of non-oil GDP. To reach our non-oil revenue target (21.2 percent of non-oil GDP), we plan to strengthen the tax and customs administration and expand the tax base. On the expenditure side, measures aim at rationalizing current spending to create fiscal space for growth-oriented outlays, particularly infrastructure, reducing poverty, and moving toward achieving the Millennium Development Goals (MDGs). In the event of a revenue shortfall, we are committed to cutting spending in order to meet our deficit target.

Monetary and exchange rate policies

17. The objective of monetary policy is to keep inflation under control. The 2011 monetary program provides for a 12.6 percent increase in the money supply and a rise in credit to the private sector to support the economic recovery. However, the monetary authorities stand ready to tighten monetary policy, by increasing the key interest rate in particular, if signs of inflation appear. In addition, monetary and budgetary policies will be more closely coordinated.

18. Since the reintroduction of the foreign exchange auction system in December 2009, the current transactions are again free of all payment restrictions. In order to improve foreign exchange market operations, we are committed to implementing the recommendations of the

May 2010 mission by the IMF Monetary and Capital Markets Department (MCM) in particular to improve liquidity management and foreign exchange market operations. The BCM will refrain from any intervention that might distort market mechanisms and will limit its operations to smoothing excessive exchange rate fluctuations. We believe that greater flexibility in managing the exchange rate will instill greater confidence to the economic participants and help alleviate precautionary pressure from the latter on foreign exchange reserves.

External sector and debt management

19. Higher export prices in 2011, particularly for iron, copper and gold, are likely to generate additional revenue and reduce the current account deficit. The latter is expected to reach approximately 8 percent of GDP, below the initial program target for 2011. This deficit would be financed largely through increased foreign direct investment in the mining and petroleum sectors and additional external financing to be mobilized from donors that made commitments at the most recent roundtable in Brussels.

20. In regard to external debt, our objective is to finance our public investment program while ensuring debt sustainability. To this end, we are committed to seeking and mobilizing concessional resources. However, if nonconcessional resources must be used to finance certain projects, we will hold advance discussions on the relevance and feasibility of those projects with IMF and World Bank staff. Notable progress was made in the resolution of the stock of outstanding passive debt owed to bilateral creditors. Rescheduling agreements were signed with Libya and the Abu Dhabi Fund, and negotiations are at an advanced stage with Kuwait.

B. Structural Reforms

Strengthening public financial management

21. Successful public financial management (PFM) reforms will require improving their monitoring in cooperation with the development partners. In this connection, we propose to set up a dialogue framework by expanding participation in the technical monitoring committee (CTS) established in connection with the IMF Extended Credit Facility to all interested partners. That committee will monitor the progress and impact of reforms under a comprehensive program of PFM reforms coordinated by the Mauritanian government.

22. Effective execution of the government budget in 2010 and preparation of the 2011 budget as an instrument of macroeconomic management require measures to increase transparency, enhance revenue collection, and strengthen control of budget execution, in line with the recommendations of the recent IMF, West AFRITAC, World Bank, and UNDP technical assistance missions.

23. With respect to revenue, we intend to strengthen the tax and customs administrations, building upon the recommendations of the latest West AFRITAC technical assistance mission. To this end, we will activate a steering sub-committee within the CTS to oversee tax reform. In connection with the tax administration reform, the committee will (a) develop and implement the plan to computerize operations of the Directorate General of Taxes; (b) draw up a plan to recover tax arrears by end-June 2011 and implement it by end-December 2011; and (c) finalize the taxpayer census by end-September 2011. We will also strengthen customs administration by (a) supporting customs authorities in implementing their strategic modernization and reform plan by March 2011; (b) finalizing the migration to ASYCUDA++ to a single server by end-2011, which will help, inter alia, improve management of exemptions and implementation of digital archives; and (c) strengthening human resources at the customs administration through the creation of specialized training centers. We will also implement a forward management framework for customs staffing, jobs, and skills.

24. In addition, efforts to combat fraud will include the creation of a valuation unit, improved handling of so-called informal remittances, as recommended by recent IMF missions, and establishment of a database of import values. In this context, we will optimize our use of services under our contract with the inspection company Société Générale de Surveillance (SGS). We will also continue data reconciliation and implementation of an interface between customs and SGS. Finally, an additional component of customs administration reform seeks to overhaul the legal framework, through adoption of the draft customs code by end-2011.

25. Improving the decision-making framework and enhancing tools for active liquidity management are priorities for government action. To this end, the authorities will take the necessary steps to implement a single Treasury account by end-2011, as recommended by recent missions of the IMF Fiscal Affairs Department and the French Cooperation. Prior to implementation and as a first step, the cash management plan will be made operational, followed by the automated link between the central bank and the Directorate General of the Treasury. At the same time, the authorities will begin the task of diversifying the financial instruments used to finance public debt.

26. As they are aware of the need to improve budget reliability and streamline budget execution, the authorities will take all necessary steps to rehabilitate the budget as an instrument of macroeconomic management and update the medium-term fiscal framework by March 2011 or earlier to facilitate preparation of the 2012 budget proposal. The government is committed to gradually reducing the use of exceptional spending procedures and significantly cutting on the total volume of requests for immediate payment, transfers for the provision of cash ("*mises à disposition*"), and cash advances in 2011 relative to expenditures executed in 2010.

Controlling payroll costs and improving the quality of public service

27. We propose to continue and deepen the civil service reforms undertaken in 2010. Reconciliation of the payroll and civil service databases will provide accurate data on civil service staffing, thus facilitating control of the wage bill. In reforming existing benefits, our priorities are to contain payroll costs and transfers in order to rationalize operating expenditures and free up resources for poverty-reducing expenditure. In the context of the ongoing civil service reform, we are also committed to strengthening human and logistical capacities, modernizing the tools used for work to performance, and raising the level of ethics among government officials and employees to reduce the temptation to mismanage public assets.

28. With respect to payroll execution and management, the financial payroll information system will be modernized in conjunction with the implementation of the personnel management system with support from the World Bank. A payroll budget forecasting methodology will be prepared and implemented at the Ministry of Finance with the support of West AFRITAC.

Strengthening and reforming the financial sector

29. Reform of the financial sector will continue in line with recommendations of the FSAP and the 2010 technical assistance mission on safeguards assessment, in order to strengthen safeguard mechanisms and address identified weaknesses. To this end, we plan to continue implementing measures to improve access to financial services in a competitive environment. The implementing regulations under the new banking law, including regulations governing internal control and prudential standards (solvency and liquidity), will be promulgated. Bank supervision will also be enhanced through reorganization of the inspection division and strengthened human resources. To improve financial transparency, the BCM plans to bring its accounting system into compliance with the International Financial Reporting Standards. It will continue to have its financial statements, including reserves, audited by an international audit firm selected through an international invitation to tender. It will also ensure that commercial banks increase their capital to a minimum of UM 5 billion (about US$18 million) by end-2011.

30. To improve liquidity management and the effectiveness of monetary policy, we are committed to reviewing interest rates to ensure a consistent rate structure. We are also determined to improve the functioning of the foreign exchange market building upon the recommendations of the latest MCM technical assistance mission. These measures include (i) processing all orders submitted at the same price as the fixing price on a pro rata basis, instead of selectively filling them based on size or the order in which they were submitted; (ii) eliminating regulatory limits on commercial banks' weekly purchases of foreign currency from their clients; and (iii) providing primary banks with same day statements of account

transfers following foreign exchange transactions in accordance with the choice of day D for settlement.

Reforming the electricity sector

31. A study financed by the French Development Agency's financed study on the restructuring of the electricity sector and SOMELEC is being finalized, following two validation workshops in June and September 2010. We are committed to implementing the recommendations of the study. Building upon the latter, the government will launch an emergency investment program to increase the production capacity of the interconnected grid by 56 MW. The sector will continue to receive financial support from the government and support from our partners to clear SOMELEC financial deficits and arrears. With assistance from our development partners, we will finalize a sectoral master plan covering short-, medium-, and long-term objectives. The plan will propose a program to conduct a financial and technical overhaul of SOMELEC, clarify the relationship between SOMELEC and the government, and define a potential role for the private sector in electricity.

32. With support from our development partners, we are committed to reviewing the financial position of all major public enterprises. This will pave the way for subsequent clarification of the relationship between those enterprises and government, in particular, through program contracts to improve the enterprises' performance and reduce government transfers.

Improving the business climate and promoting the private sector

33. We are committed to addressing weaknesses in the investment climate and removing obstacles to private sector development. To this end, we are committed to passing a new investment code in 2011 and implementing the one-stop window to simplify the administrative procedures associated with new investments. A national skills development strategy adapted to private sector needs will also be implemented. In the same vein, we will simplify the tax system and promote access to credit for small- and medium-sized enterprises by improving their capacities to produce reliable financial statements and implement the action plan provided by the financial sector assessment program (FSAP).

Strengthening the social protection system and the fight against poverty

34. While a number of efforts were undertaken, social protection remains weak, marked by inadequate targeting of vulnerable populations, weak organizational capacities, lack of resources, and lack of an appropriate mechanism to coordinate the efforts of various programs and stakeholders. In this context and with support from UNICEF, the government prepared a diagnostic study to deepen its understanding of existing social welfare mechanisms and programs. The study, completed in September 2010, provides a detailed analysis of the social safety nets currently in place, assessed priority needs for strengthening

the social protection system, and made recommendations to guide the government and its partners in preparing a national social protection strategy. We propose implementing the recommendations of this study and preparing the national social protection strategy during 2011. We have made progress on a first draft of the new PRSP which we shared with key partners, including the Fund, the World Bank, and the UNDP. The final version is expected to be finalized and sent to the Fund management and the World Bank presidency before the second review under the ECF.

Improving economic statistics

35. We are aware of the crucial role of reliable statistical information in developing, monitoring, and evaluating macroeconomic policies, implementing the PRSP, and monitoring the achievement of MDGs. We plan to continue our efforts to improve the quality of the economic and financial statistics produced. To this end, we plan to undertake an organizational and institutional reform of the National Statistics Office and establish statistical operations within ministerial departments in order to improve collection and processing of data on macroeconomic aggregates, the national accounts, prices, debt, and balance of payments. In this context, we expect to request additional technical assistance from our partners to develop statistics and information systems.

C. Risks

36. Various risks may hamper the achievement of the program objectives, including (i) the Mauritanian economy’s vulnerability to exogenous shocks, such as price volatility of its principal export commodities (iron, copper, gold) or imports such as wheat or oil; (ii) insufficient mobilization of external financing; and (iii) the adverse effects on agriculture and livestock farming resulting from the vagaries of the climate. The government stands ready to take appropriate measures to mitigate the effects of such risks, should they materialize. Any such corrective measures will be taken in consultation with IMF staff.

Table 1 . Mauritania: Quantitative Performance Criteria and Indicative Targets for the Program under the ECF Arrangement 1/
(Cumulative change from end-December 2009 and from end-December 2010)

	End-Dec. 2009	End-Mar. 2010			End-Jun. 2010			End-Sep. 2010			End-Dec. 2010	End-Mar. 2011	End-Jun. 2011	End-Sep. 2011	End-Dec. 2011
	Initial level	Indicative Target	Indicative Target adjusted	Actual	Performance criteria	Performance criteria adjusted	Actual	Indicative Target	Indicative Target adjusted	Actual	Performance criteria	Indicative Target	Performance criteria	Indicative Target	Indicative Target
Net international reserves of the BCM (floor); in million of US$ 2/	-47.8	6.9	-11.2	-7.2	24.1	-3.3	2.4	37.1	17.1	18.9	34.4	4.4	6.6	31.9	8.4
Net domestic assets of the BCM (ceiling); in billions of ouguiyas 2/	125.1	10.5	15.2	3.8	10.3	17.5	-10.9	11.3	16.5	-2.6	20.4	4.7	8.5	1.9	16.8
Basic non-oil balance (floor) ; in billions of ouguiyas		-10.5	-10.5	8.9	-19.2	-19.2	11.0	-19.2	-19.2	6.4	-28.5	-8.6	-12.4	-1.1	-17.1
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government , BCM, or state-owned enterprises, excluding SNIM (continuous quantitative performance criterion) (ceiling)		0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
New external arrears on nonreschedulable debt (continuous quantitative performance criterion)		0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Poverty-related expenditures, in billions of ouguiyas (indicative target)		21.9		9.4	53.3		29.8	87.8		67.6	106.7	19.6	47.8	77.0	108.3
Adjustors (in million of US$)															
Net international assistance	…	2.9		-5.3	2.1		-14.4	15.8		6.9	35.4	6.9	10.9	13.8	-3.4
Cumulative disbursements of official loans and grants in foreign currency	…	8.1		0.0	19.2		5.8	38.2		33.3	76.6	13.9	36.6	46.2	55.8
Impact of any additional debt relief	…	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	…	-5.2		-5.3	-17.2		-20.1	-22.5		-26.4	-41.2	-7.0	-25.7	-32.4	-59.2
FNRH contribution to the budget	65.1	19.8		10.0	42.4		31.4	42.5		31.4	47.2	13.0	22.6	27.8	36.2
Cumulative disbursements of official grants in foreign currency		8.1		0.0	19.2		5.8	38.2		35.2	46.9	13.7	23.2	32.7	42.2
Memorandum item:															
UM/$ exchange rate (program)	262.0														

1/ For definitions, see Technical Memorandum of Understanding.
2/ Adjusted upw ard (NIR) and dow nw ard (NDA) by net international assistance and FNRH contribution to the budget.

Table 2a. Mauritania: Structural Benchmarks, 2010

Measure	Date	Rationality	Status
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.	Met
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		Met
December 31, 2008	End-March 2010		Met
December 31, 2009	End-June 2010		Met
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.	Met
Conduct an audit of NIR and NDA data of the BCM as of June 30, 2010.	End-September 2010	Improve BCM accountability and safeguard data reporting process.	Met

Table 2b. Mauritania: Proposed Structural Benchmarks, 2011

Measures	Timing	Rationale
Conduct an audit of NIR and NDA data of the BCM as of end-December 2010	End-March 2011	Improve BCM accountability and safeguard data reporting process
BCM should publish on its website audited financial statements together with audit opinion as of December 31, 2010	End-June 2011	Promote transparency and governance of the central bank
Conduct an audit of NIR and NDA data of the BCM as of end-June 2011	End-September 2011	Improve BCM accountability and safeguard data reporting process
Census of all businesses, including medium-size enterprises	End-September 2011	Increase number of registered taxpayers
Conduct an audit of commercial banks' financial statements by a firm hired through invitation to tender, as of end-December 2010	End-September 2011	Safeguard the financial sector
Full implementation and use of ASYCUDA++ in major customs offices	End-December 2011	Strengthen revenue collection
Introduction of a Treasury Single Account	End-December 2011	Improve budget execution and liquidity management
Design an overall external debt management strategy	End-December 2011	Provide the framework for debt sustainability
Increase bank minimum capital to UM 5 billion ($19 million)	End-December 2011	Improving banks' financial position
Complete the study on the financial situation of major public enterprises	End-December 2011	Improve public sector management

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 debt to non-residents, 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, Point 9, as revised on August 31 and effective December 1, 2009-(decision No.09/91); see Annex) but also to commitments contracted or guaranteed for which value has not been received. The national industrial and mining company (SNIM) is excluded from the ceiling on medium- and long-term nonconcessional external debt because the firm does not pose fiscal risks and can borrow without government guarantee.

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

8. **The short-term nonconcessional debt** is defined as the stock of debt with nonresidents, with original maturity of less than one year, contracted or guaranteed by the government or the 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.

9. **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.

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

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

B. Structural Benchmarks

12. **Structural benchmarks for the 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.

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

- Conduct by end-March 2011 an audit of NIR and NDA data of the BCM as of end-December 2010.

- BCM should publish by end-June 2011 on the website audited financial statements together with audit opinion as of December 31, 2010.

- Conduct by end-September 2011 an audit of NIR and NDA data of the BCM as of end-June 2011.

- Conduct a census of all businesses, including medium-size enterprises by end-September 2011.

- Conduct by end-September 2011 an audit of commercial banks' financial statements by a firm hired through invitation to tender, as of end-December 2010.

- Full implementation and use of ASYCUDA++ in major customs offices by end-December 2011.

- Introduction of a Treasury Single Account by end-December 2011.

- Design by end-December 2011 an overall external debt management strategy.

- Increase by end-December 2011 bank minimum capital to UM 5 billion (US$19 million).

- Complete by end-December 2011 the study on the financial situation of major public enterprises.

II. PROGRAM ADJUSTORS

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

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

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

III. Reporting Requirements

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

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 30 days at the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:

- The external debt data file: service of the external debt of the 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**

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

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

IV. Central Government Operations Table

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

- **Grants** are defined as a sum of foreign project grants (grants used in the execution of the foreign-financed investment projects included in the central government and the *EPA* parts of the consolidated investment budget and (*parties BE et BA*)); and foreign program grants for budget support including the multilateral HIPC debt relief on the government external debt budget and HIPC debt relief on the external debt of 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 to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.

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

INTERNATIONAL MONETARY FUND EXTERNAL RELATIONS DEPARTMENT

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IMF Executive Board Completes First Review Under ECF Arrangement for Mauritania and Approves US$17 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) completed its first review of Mauritania's economic performance under a program supported by the Extended Credit Facility[6] arrangement (ECF). The decision enables Mauritania to draw an additional SDR 11 million (US$17 million), bringing total disbursements under the arrangement to an amount equivalent to SDR 22 million (US$34 million). The Board's decision was taken on a lapse of time basis.[1]

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

Mauritania's economy is recovering after the 2009 recession triggered by the global economic slowdown. Economic activity has picked up, credit to the private sector has strengthened, and fiscal and external balances are improving. Consumer price inflation has increased in recent months, driven by higher energy and food prices, but remained in the low

[6] The Extended Credit Facility (ECF) has replaced the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for medium-term financial support to low-income countries by providing a higher level of access to financing, more concessional terms, enhanced flexibility in program design features, and more focused streamlined conditionality. Financing under the ECF carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years (http://www.imf.org/external/np/exr/facts/ecf.htm). The Fund reviews the level of interest rates for all concessional facilities every two years.
The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

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single digits. The outlook for 2010 and 2011 remains favorable on the back of a rebound in prices for Mauritania's main exports.

The draft 2011 budget preserves fiscal discipline and appropriately protects infrastructures and social spending. Efforts are underway to further strengthen the tax and customs administration, accelerate public service reform to contain the wage bill, and restrain and prioritize other current spending. It is also important to improve budget formulation, execution and reporting, and enhance the quality of public spending.

The structural program continues to focus on improving the business climate and promoting private sector-led growth. Reforms are essential to further enhance financial intermediation, put major public enterprises on a sound financial footing, improve governance, and take steps to facilitate private sector investment.

Successful program execution will help strengthen the country's resilience to external shocks, improve the country's prospects for mobilizing external support, sustain economic growth, create jobs, and reduce poverty.