ISLAMIC REPUBLIC OF MAURITANIA—PROGRAM NOTE

Current IMF-Supported Program: Three-year US$118.1 million arrangement under the Extended Credit Facility (ECF), approved by the IMF's Executive Board on March 15, 2010.

Background

Mauritania, rich in natural resources, rebounded vigorously from the global crisis, spurred by the commodity price boom in 2010 and 2011. Following a difficult period in the beginning of 2012 when the country was contending with a regionwide drought, the recovery is back on track. A comprehensive reform agenda aims at lowering unemployment and poverty, which are stuck at high levels, and at fostering private-sector development, which is lagging.

Role of the IMF

In support of the authorities' program, the IMF's Executive Board approved a three-year arrangement under the ECF totaling US$118 million, on March 15, 2010. Performance under the program has been good, and the IMF completed the sixth review on June 17, 2013, clearing the way for a sixth disbursement of roughly US$17 million. The IMF is also providing technical assistance in building capacity in public financial management, tax policy, and revenue administration; in strengthening the central bank's prudential and liquidity management framework; and in improving the production of economic statistics. Full implementation of this reform agenda will contribute to poverty reduction and make growth more inclusive.

Progress to Date under the ECF

The Mauritanian authorities have made good progress in anchoring macroeconomic stability. Inflation has been contained, and economic growth has picked up following the drought-related downturn in agricultural production. Unprecedented investments in mining capacity, as well as swelling food and energy imports and lower metal prices, led to a significant deterioration in the country's current account balance in 2012. However, large FDI and substantial mining inflows fully financed the current account deficit, allowing foreign exchange reserves to remain at record highs. Fiscal consolidation is continuing. Strong mining revenue, improvements in tax administration, and exceptional external assistance pushed the overall fiscal balance in 2012 into a surplus, the first time since 2006.

The Challenges Ahead

Preserving macroeconomic stability in the face of substantial financial buffers is the key short-term challenge. To sever the link between international commodity prices and fiscal policy, the 2013 budget appropriately targets fiscal aggregates that exclude mining revenue. Large Treasury account balances, ongoing revenue mobilization efforts, and exceptional external assistance created space to significantly ramp up domestically-financed investment spending. This increase should be aligned with Mauritania's large infrastructure needs, and should be consistent with absorptive capacity. However, Mauritania needs to be prepared to adjust its investment spending plans in the event that a sharper than anticipated slowdown in Europe and China puts additional pressure on the external and fiscal buffers built up over the past two years.

In addition, Mauritania continues to face several longstanding challenges stemming from a narrow production base, vulnerability to external shocks, a weak business climate, and high poverty levels. One out of two Mauritanians lives below the poverty line, and the country's food situation, though recently improved, remains structurally precarious, with a significant segment of the population (11 percent) subject to food insecurity.

Achieving broad-based growth will help address Mauritania's longer-term challenges and reduce vulnerabilities. This calls for continued progress on the structural reform agenda—including deepening financial intermediation, reforming the labor market, improving the business environment and physical infrastructure, and strengthening social protection—as well as timely financial support from the international community. A sound macroeconomic policy mix will also be crucial. Continued commitment to fiscal consolidation will help create additional fiscal space for urgently needed pro-poor spending, especially through better-targeted and more cost-effective social safety nets.