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Islamic Republic of Mauritania: First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania

In the context of the first review under the three-year arrangement under the Poverty Reduction and Growth 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 Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on February 20, 2007, with the officials of the Islamic Republic of Mauritania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on April 3, 2007. 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 view of the Executive Board as expressed during its April 23, 2007 discussion of the staff report that completed the review; and

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

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

First Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the Middle East and Central Asia Department
in collaboration with other departments

Approved by Amor Tahari and Anthony R. Boote

April 3, 2007

- Discussions for the first review under the three-year PRGF arrangement were held in Nouakchott from February 6–20, 2007. The arrangement, in an amount of SDR 16.1 million (25 percent of quota), was approved on December 18, 2006. The staff team comprised Mr. Le Dem (head, MCD) and Mses. Hijazi (MCD), Al-Zein (PDR), and Lacoche (FAD). Messrs. Tahari (MCD) and Sidi Bouna (OED) participated in policy discussions. The mission was assisted by the resident representative, Mr. Carre, and worked with World Bank staff in the field. The mission overlapped with a safeguards assessment mission.

- The mission met with Prime Minister Ould Boubacar; Central Bank Governor Kane; Ministers Ould Abed (Economic Affairs and Development) and Ould Cheikkh-Sidia (Finance); other cabinet members and senior officials; and representatives of the donor and banking communities.

- In the attached letter (Attachment I), the authorities inform the Managing Director of the progress in implementing the PRGF-supported program.

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Executive Summary

Performance under the PRGF-supported program has been satisfactory. All end-December 2006 quantitative and structural performance criteria were met. The higher-than-expected treasury float at year-end subsided in January 2007 and the underspending of poverty reducing outlays is being addressed. One of the measures covered by the end-January structural benchmarks was implemented, while the two others will be fully implemented shortly.

Notwithstanding the lower-than-projected economic growth in 2006, macroeconomic and structural developments were largely in line with projections. Although still high by historical standards, economic growth was affected by persistent oil production problems and a disappointing performance in several other sectors. Despite a substantial oil revenue shortfall, the fiscal deficit target was met and significant reserves were maintained in the oil fund. The prudent monetary stance contributed to strengthening confidence in the ouguiya and reining in inflation. The external position improved by more than expected, making possible the successful launch of foreign exchange auctions in January 2007.

Further downward revisions in oil revenue projections call for the continuation of prudent macroeconomic policies in 2007. The mobilization of higher non-oil tax revenue should allow for the full execution of budget spending, the attainment of the public debt reduction objectives, and the protection of most of the reserves accumulated in the oil fund at end-2006 (which will help to deal with any further potential revenue shortfall). The authorities intend nonetheless to execute cautiously nonpriority budget spending during the first half of 2007.

The new government that will take over after the recently held presidential election will face a number of other challenges:

- Efforts need to be intensified on the structural front, particularly in implementing public sector reforms. These efforts should focus on strengthening budget preparation, execution, and control to ensure that public spending contributes efficiently to the attainment of the PRSP objectives.

- The full implementation of the FSAP recommendations is critical to creating the conditions for high private sector-led growth. In particular, progress is necessary in recapitalizing domestic banks, reducing nonperforming loans, improving judicial enforcement, modernizing the payment system, strengthening bank supervision, and developing the foreign exchange market;

- The authorities will need to pursue efforts to mobilize concessional support to finance their poverty reducing strategy and reach agreements with the bilateral creditors that have not yet provided HIPC debt relief.

I. RECENT DEVELOPMENTS AND PERFORMANCE UNDER THE PROGRAM

1. **Former Cabinet Minister Sidi Ould Cheikh Abdallahi won last March presidential election and will be sworn in on April 19, 2007.** International observers expressed satisfaction with the transparency and fairness of the election, the final step in the transition to a democratically elected government initiated in August 2005. The president-elect has expressed the intention to pursue policies based on sound macroeconomic management, private sector-led development, and good governance.

2. **Performance under the PRGF-supported program was satisfactory (Tables 1 and 2).** The authorities met all the end-December quantitative and structural performance criteria. They only missed the end-December indicative targets related to the treasury float and poverty reducing expenditures. The government implemented, with some delay, one of the measures covered by the end-January structural benchmarks, and intends to fully implement the two others shortly (see paragraph 7).

3. **Although significantly higher than its historical average, real economic growth was lower than projected in 2006** because of persistent oil production problems and disappointing performance in several other sectors (Table 3). Reflecting delays in the development of a new well, oil production declined further in the fourth quarter. Non-oil GDP grew by 4.4 percent (compared with a projection of 6.1 percent), reflecting a weather-related decline in agricultural output and stagnant fishing, manufacturing, and construction outputs. Year-on-year inflation amounted to 8.9 percent at year-end, significantly lower than projected (9.8 percent; Figure 1).

4. The 2006 fiscal outturn was broadly in line with program projections (Table 4). The fiscal deficit target was met. Stronger-than-projected non-oil tax revenue more than offset lower nontax revenue and higher domestically financed spending, particularly on goods and services.[1] The poverty reducing expenditure indicative target was not met, however, owing to social departments' weaknesses in executing procurement procedures. Financing from the oil fund (FNRH) was lower than budgeted, allowing significant reserves in the fund despite the adverse oil production developments. The disbursement of the EU fishing compensation in late December and unexpected spending controls at the payment stage by the General State Inspectorate strained the treasury's liquidity management capacity, resulting in a higher-than-projected treasury float. Despite a nominal increase of about 36 percent compared to 2005, externally financed investment was significantly lower than anticipated, due to delays in project implementation.

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[1] To meet program targets, the authorities stopped payment orders amounting to 0.7 percent of non-oil GDP before their registration by the treasury. They will use 2007 budget appropriations to pay for these expenditures.

Central Government Operations, 2006–07

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

	2006		2007	
	IMF Country Report No 07/43	Actual	IMF Country Report No 07/43	Rev. Proj.
Non-oil revenue and grants	70.2	72.9	25.0	27.3
Tax revenue	16.0	17.4	13.5	15.0
Nontax revenue	10.2	10.1	9.6	10.3
Grants (including MDRI)	44.0	45.4	1.9	2.0
Expenditure and net lending	37.5	37.1	33.2	33.8
Primary domestically financed	29.1	30.4	25.6	27.1
Of which: goods and services	11.2	12.9	9.2	9.7
Domestic interest	1.6	1.5	1.4	1.2
Others	6.9	5.1	6.2	5.5
Of which: foreign-financed investment	5.3	3.7	5.5	4.7
Basic non-oil balance	-4.4	-4.4	-3.9	-3.1
Oil revenue	11.3	10.9	5.7	4.1
Overall balance (including grants)	44.0	46.7	-2.4	-2.4
Memorandum items:				
Oil revenue transfer to the budget	8.5	8.5	5.7	4.6
Oil account balance (e.o.p; in millions of US$)	60.7	48.8	60.7	37.0
Treasury float (e.o.p.; in billions of UM)	7.0	12.5	7.0	7.0
Stock of treasury bills (in billions of UM)	52.1	40.0	39.5	39.4
Poverty reducing expenditure	9.2	9.0	9.5	10.0
Oil production (in barrels per day)	37,824	36,159	29,863	21,000
Oil sale price (in US$ per barrel)	60.0	60.1	56.3	53.8

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

5. **Prudent monetary policy helped improve confidence in the domestic currency and rein in inflation (Table 5 and Figure 2).** Broad money growth was limited to 15 percent in 2006, broadly in line with nominal non-oil GDP growth, while credit to the economy expanded by 7 percent. The slow settlement of government expenditures and the improvement of commercial banks' net foreign position squeezed banks' liquidity towards year-end, leading to lower-than-projected treasury bill subscriptions, while interest rates remained relatively stable in the 11–12 percent range. The exchange rate remained broadly stable against the dollar and the premium on the parallel foreign exchange market remained negative.

6. **Mauritania's external position strengthened by more than expected in 2006 (Table 6).** Substantial informal capital inflows (reportedly used in part to finance candidates' electoral campaigns), lower imports of consumption goods, and higher repatriation of receipts by the national mining company (SNIM) boosted gross official reserves to $194 million at end-December ($20 million more than projected), equivalent to 2.5 months of imports. The authorities remained current on their external debt service payments.[2]

7. **Progress in implementing structural reforms was broadly satisfactory.** The promulgation, following their timely adoption by the cabinet, of the three financial

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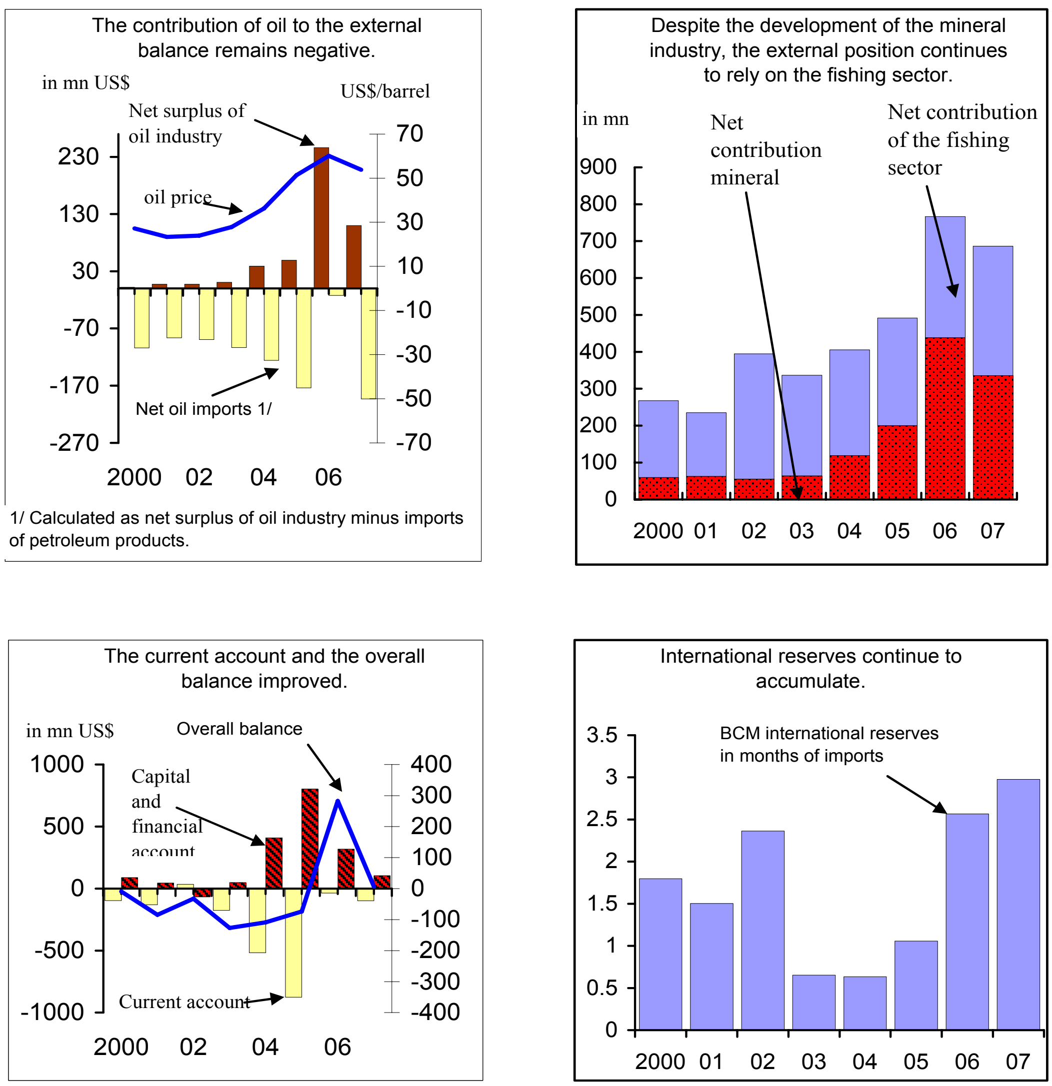
[2] In January 2007, the authorities proposed to the OPEC Fund that the second tranche of the debt relief granted in 2002 in the context of the enhanced HIPC initiative, which had hitherto not been earmarked, be used to reschedule existing loans. Pending a reply from the OPEC Fund, the to-be-rescheduled debt was serviced with a slight delay.

ordinances launched a deep overhaul of the financial sector's legislative framework.[3] One application of these ordinances was the establishment of a monetary policy committee. In March, the authorities adjusted water and electricity tariff rates, by 6 percent and 8 percent respectively, to eliminate potential operational losses in 2007. The computerized monthly monitoring of budget execution is expected to become fully effective by end-March. Lastly, the foreign exchange auction market was successfully launched in late January and operates in line with Fund recommendations.

External Sector Developments and Projections, 2000–07



[3] The commercial banking ordinance was revised slightly following its cabinet adoption, notably to provide for a recourse mechanism against BCM decisions on individual banks.

II. The Program for 2007

A. Macroeconomic Outlook

8. **Real GDP growth is projected to drop to 2 percent in 2007, due to a decline in oil production.** The belated coming on line of a new well, in March, will result in a lower-than-anticipated annual oil output in 2007.[4] However, non-oil sector growth is expected to strengthen to 5.5 percent, driven by the positive impact, particularly on manufacturing, of the expected elimination of power shortages, and a rebound in construction. Consistent with the envisaged prudent macroeconomic policies and favorable outlook for non-oil exports, the inflation and official reserves objectives were kept broadly unchanged from the original projections under the program, at 7 percent year-on-year and three months of imports, respectively.

B. Fiscal Policy

9. **The overall fiscal deficit (including grants) was kept unchanged at 2.4 percent of non-oil GDP in 2007, as higher revenue and lower externally financed investment would compensate for lower oil output and prices.** About half of the oil revenue shortfall,[5] estimated at about 1.6 percent of non-oil GDP, would be offset by a continued strong tax revenue performance, higher nontax revenue from the fishing sector, and lower domestic interest payments. Domestically financed expenditures were kept unchanged from the original projections, while externally financed investment was revised downward in view of the lower-than-projected implementation in 2006. The lower basic non-oil deficit would allow the authorities to reduce the oil fund transfer to the budget, and thereby to protect most of the reserves accumulated at end-2006, while keeping the targeted reduction in domestic debt unchanged.

10. **In view of the uncertainties associated with oil revenues, the authorities agreed to execute the 2007 budget cautiously**. End-June targets were set assuming that spending on goods and services for the first half of the year will be limited to 45 percent of annual envelopes.

11. **Preparation for the envisaged further reforms in the fiscal area is underway** (Attachment I, paragraphs 10, 11, and 13). The modernization of the tax and customs administrations will continue. Measures to ensure that the recently introduced functional classification is used at all stages of the expenditure cycle, improve expenditure quality, and

[4] Oil output program projections were kept largely unchanged from 2008 onward.

[5] The authorities reduced the shortfall by moving on budget revenue related to staff training and oil sector promotion and earmarking only a small portion for this purpose (Attachment I, paragraph 7).

reduce fraud, should help contain spending on goods and services, while improving absorptive capacity for poverty reducing expenditure. The mission also discussed the preparatory work for reforms to improve governance and build capacity in the public administration, including in the area of oil revenue management (Box 1).

12. **Progress is being made in strengthening state-owned enterprises' financial oversight.** Performance contracts will be prepared in the coming months with World Bank assistance. A close monitoring of the financial situation of these enterprises should help the new authorities take timely action to prevent any further drains on the budget.[6]

C. Monetary and Exchange Rate Policies and Financial Sector Reforms

13. **The authorities are committed to maintaining a prudent monetary policy, while gradually moving to a more flexible exchange rate policy.** The revised monetary program targets a broad money expansion of 15 percent, in line with non-oil GDP growth projections. Given the lower revenue prospects, the authorities concur with the staff view that the securitization of existing Central Bank of Mauritania (BCM) claims on the government is most appropriate to manage liquidity in the medium term. Pending this securitization, the BCM will establish the operational framework for central bank bills by end-April 2007 to address possible liquidity absorption needs. The BCM will limit its interventions on the foreign exchange auctions to the smoothing of day-to-day fluctuations.

14. **Financial sector reforms aim primarily at developing the foreign exchange market and strengthening the commercial banks' financial situation.** The BCM is considering progressively enhancing market participation (through measures such as the reduction of BCM transaction fees, currently at ¾ percent, and the repatriation of all SNIM's export proceeds) and preparing for the development of an interbank market. In addition, the BCM will seek to enforce the recently promulgated financial ordinances and prepare a plan to address nonperforming loans. Reacting to staff's concerns on the provision of the new banking ordinance that requires a higher minimum capital for banks with foreign majority interest, the authorities argued that the provision will not immediately apply to existing banks and that all banks will be progressively aligned to the higher minimum capital requirements.

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[6] This is particularly relevant for Air Mauritanie's ongoing restructuring, which is partly financed through a recent government-guaranteed loan from commercial banks.

Box 1. Public Administration: Sustaining the Momentum Toward Good Governance

Since taking office, good governance has been one of the transition government's priorities. To complement the new PRSP, the authorities are preparing an anti-corruption strategy through a broad consultative process. The new government will need to address the challenges of sustaining the momentum in this area by implementing the following measures:

Oil revenue and natural resources management. The government has started to implement the Extractive Industries Transparency Initiative: the first annual report, covering 2005, was published on March 8.[1/] Detailed monthly reports on the oil sector are posted on the treasury's website. A reputable international firm is conducting the audit of the FNRH's 2006 accounts. This and the audit of the national hydrocarbon company's 2006 accounts will be published. The new government is expected to seek parliamentary endorsement by end-September 2007 of an oil revenue management law that will strengthen, in line with Fund recommendations, the principles adopted in a 2006 ordinance, including the transfer to the FNRH of all government revenues from the hydrocarbon sector.

Public expenditure management. Budget execution and monitoring has been strengthened, including through the computerization of the expenditure chain and the enhancement of budget control institutions, whose annual reports are expected to be published, with a view to deterring public funds misuses. Revisions to strengthen the procurement code are being reviewed. With World Bank assistance, medium-term expenditure programming will be revived with a view to aligning budget spending with PRSP priorities.

Civil service. The remuneration system has been streamlined and wages have been substantially increased to limit corruption incentives. The code of ethics for government employees was promulgated. The new government now needs to address the civil service substantial overstaffing. A plan in that sense, based on a comprehensive census of government employees and on an assessment of functional needs by ministry, is to be prepared by September 2007.

1/ www.mauritania.mr/itie/index.php.

D. Other Issues

15. **The authorities are pursuing efforts to resolve the substantial arrears to non-Paris Club creditors.** They are confident that the forthcoming government will be in a good position to make decisive progress toward bilateral agreements. Moreover, in response to the Organization of Arab Petroleum-Exporting Countries' demand that a hitherto unclaimed debt of $7.2 million be repaid, the authorities requested debt relief under the enhanced HIPC terms.[7]

[7] Details on these arrears are provided in paragraph 28 and footnote 13 of IMF Country Report No. 07/43.

16. **The BCM intends to strengthen its control framework in line with the findings of the safeguards assessment (Box 2).** Broad-based efforts aimed at improving economic data are also expected to continue (Attachment I, paragraph 18). Following the recent establishment of the PRSP monitoring and evaluation unit, the authorities have started developing a standardized reporting and monitoring system of key measurable indicators.

Box 2. Main Recommendations of the Safeguards Assessment[1/]

The 2007 recent update safeguards assessment mission found that, while steps have been taken to improve the BCM's safeguards since the initial assessment conducted in 2004, some vulnerabilities remained. To address these vulnerabilities, the mission staff recommended the prompt implementation of the following priority measures:

- adoption by the BCM's general council of formal audit firm selection procedures to ensure that the annual external audit be conducted by an international audit firm in line with International Standards of Auditing;

- establishment by the BCM of an action plan and a timetable for the implementation of a new integrated accounting system in line with international financial reporting standards; and

- continuation of special external audits of international reserves data for each test date under the PRGF arrangement.

1/ This assessment is expected to be completed by the time of the Board discussion.

III. Staff Appraisal

17. **The transition authorities leave the Mauritanian economy on a strong footing at the eve of the transfer of power to a democratically elected government.** In the context of election-related uncertainties and oil revenue volatility, the authorities achieved a solid growth performance, consolidated progress in controlling inflation, and strengthened the country's external position. Good governance practices in public administrations and key structural reforms in the financial sector were initiated. These policies have laid the foundations for the achievement of the PRSP goals.

18. **With all end-December 2006 performance criteria met, the PRGF-supported program is on track.** The temporary increase in the treasury float observed in late 2006 has subsided and quarterly monitoring government reports will be prepared to monitor closely the execution of poverty reducing spending in 2007. The authorities have adjusted water and electricity tariffs. Over the next few weeks, the budget execution system and a new monetary instrument will be made operational.

19. **The new authorities will need to monitor closely the oil revenue outlook.** In 2006, Mauritania experienced the difficulties of fiscal management when faced with highly volatile resources, as oil revenue prospects were substantially revised upward, then downward. Although the additional spending provided for by last summer's supplementary budget law has not produced the expected results on activity, the authorities managed to keep the fiscal deficit under the program limits and leave some resources in the oil fund. Looking forward, the cautious execution of nonpriority spending during the first half of 2007 will help the authorities deal with potential revenue shortfalls. However, the new government will need to ensure that the projected increase in non-oil revenue materializes.

20. **Notwithstanding the progress made so far, efforts should be intensified on the structural front, in particular in implementing public sector reforms.** Particular care should be devoted to strengthening budget preparation and execution capacity, both in the ministry of finance and in the line ministries, notably to ensure that public spending contribute efficiently to poverty reduction. The government employees' census and staffing needs assessment should be undertaken without delay so that decisions toward a leaner but stronger civil service can be taken in the context of the next budget. The monitoring of state-owned enterprises needs to be enhanced, as some of these enterprises (including Air Mauritanie) continue to represent serious risks for the budget.

21. The full implementation of the FSAP recommendations is critical to creating the condition for high private sector-led growth. The recent overhaul of the financial sector legislative framework is a big step forward. Further progress will need to be made, with Bank and Fund assistance, in recapitalizing domestic banks, reducing nonperforming loans, improving judicial support to banks' mobilization of loan guarantees, modernizing the payment system, and strengthening banking supervision. The development of market-based foreign exchange transactions and the gradual move toward a more flexible exchange rate policy will help better manage external shocks.

22. **With more modest oil revenue prospects and still significant debt sustainability constraints, Mauritania needs to continue to mobilize concessional support to finance its poverty reduction strategy.** To this end, significant progress in implementing externally financed projects and in monitoring progress toward the PRSP objectives should be achieved. Consistent with sound external debt management, the new authorities should use the opportunity of a fresh start in the discussions with bilateral creditors that have not yet provided HIPC debt relief to press for rapid agreements on comparable terms.

23. In light of these considerations, the staff recommends the completion of the first review under the PRGF-supported program.

Attachment I

March 27, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431
USA

Dear Mr. de Rato:

1. To supplement our letter of November 29, 2006 and the Memorandum of Economic and Financial Policies (MEFP) that accompanied it, we wish to inform you of the progress made in implementing the three-year program that the International Monetary Fund has decided to support under the Poverty Reduction and Growth Facility.

2. Macroeconomic performance in the fourth quarter of 2006 was broadly consistent with program targets, except for the economic recovery, which showed up belatedly. The decline in agricultural production resulting from poor rainfall, the difficult conditions in other sectors (oil, fisheries, construction, and public works), and the wait-and-see approach to investment in the run-up to the elections made it impossible to achieve program projections for 2006. Furthermore, the measures included in the July 2006 supplementary budget ordinance and aimed at promoting growth an employment have not yet had the anticipated impact. Overall, economic growth should nevertheless exceed 11 percent, while that of the non-oil sector should reach 4.4 percent. In contrast, the inflation outturn was better than anticipated (on a year-on-year basis, price increases remained below 9 percent in December) while our external position strengthened more rapidly than anticipated. Both the fiscal deficit and money supply growth were held within program limits.

3. All the end-December quantitative performance criteria were met. In particular, we kept the basic non-oil government balance above the programmed floor level, owing in particular to a solid performance in tax collection. Foreign exchange reserves significantly exceeded the end-December target despite the elimination of the central bank's (BCM) foreign exchange rationing in October 2006 and the abolition in December of the requirements to partially surrender fish export foreign exchange proceeds to the BCM. This solid outturn is a reflection of restored confidence in the ouguiya, thus favoring the return of informal capital, as well as greater-than-anticipated repatriations of receipts of the national mining company (SNIM). However, two indicative targets could not be achieved. First, the treasury float (*instances de paiement du Trésor*) overshot the projected level owing to the receipt of the European fishing compensation payment late in December and to the controls performed by the State Inspectorate General (IGE) on the validity of authorized payment

orders. These temporary difficulties have been addressed and the size of the treasury float fell to less than UM 6 billion at end-January 2007. Second, some ministries did experience problems with executing poverty-reducing expenditures. Measures to build up absorptive capacity will be taken as regards both the programming and the execution monitoring of some of these expenditures. In particular, in the health area, a close monitoring of poverty reducing spending will be implemented though the preparation of quarterly reports that will identify existing problems and propose remedial actions. The first report, covering the first quarter of 2007, will be released within three months.

4. We have also pursued the program of structural reforms, and all structural performance criteria were observed. The adoption by Cabinet in late December of three draft ordinances reforming the statutes of the central bank and the legal framework for credit institutions and microfinance institutions will enable the financial sector to serve as a driving force in the pursuit of the objectives of our new poverty reduction strategy framework. The three ordinances were promulgated. The foreign exchange market was launched successfully in late January 2007, permitting an optimal allocation of foreign exchange and the gradual introduction of a more flexible exchange rate policy. So as to strengthen the monetary policy institutional framework, a monetary policy committee was established and held its first meeting on March 21.

5. In contrast, delays were experienced in meeting the three end-January 2007 structural benchmarks. The introduction of a new monetary policy management instrument fell behind schedule, owing in part to the lack of a legal framework enabling the central bank to issue negotiable debt instruments. The operational framework for this instrument will be established by the monetary policy committee by April 18 2007, and will be preceded by the preparation of a quarterly timetable for treasury bill auctions. The projected 2007 budgets for the major public enterprises will be discussed with the supervisory ministries concerned; already, new water and electricity tariff rates have been adopted with a view to bring back into balance the operating accounts of SOMELEC and the SNDE. Execution of the 2007 budget will for the first time feature the transfer to line ministries of the payment order authority and the simplification of the expenditure circuit, thanks to the ongoing deployment of the RACHAD software package in all ministries. Owing to the complexity of this reform, the report on the computerized monitoring of budget tracking will only become available on March 31, 2007.

6. Outside the oil sector, the outlook for 2007 is good, and we expect to achieve non-oil GDP growth of about 5 ½ percent. Conversely, problems with extraction from the Chinguetti oilfield and delays in the development of a new operational well will substantially reduce annual oil production, and overall GDP growth is not expected to exceed 2 percent. Regarding inflation, we anticipate remaining below our objective of 7 percent year-on-year.

7. The drop in oil prices and output will have a negative impact on the budget in 2007. The reduction in revenue from Chinguetti will be partially offset by the increase in government revenue related to the staff training and promotion of the oil sector, which is up sharply. This revenue ($3.1 million in 2006) had hitherto been paid into ministry of energy and petroleum accounts with the BCM. Special earmarked accounts (CASs) were opened for this purpose in late 2006. We intend to request that such revenue, estimated at $23 million in

2007, be brought back under the coverage of the National Hydrocarbon Revenue Fund (FNRH) and that transfers from the fund to these CASs be limited to $5 million in 2007. Despite these additional resources, oil revenue will fall short of projections by about UM 12.4 billion in 2007. This decline will be partially offset by a continued solid performance of tax receipts and by higher nontax revenue from the fisheries sector. The remainder will be financed, so as to keep unchanged our objective of reduction of the government's domestic debt for 2007. In any case, the balance of the treasury's current account with the central bank will remain positive. The drawings on the FNRH called for under the budget will be reduced in order to maintain an end-year reserve level of at least UM 9.9 billion.

8. The BCM will continue to pursue a prudent monetary policy that is consistent with our objective of reducing inflation. Money supply growth is not expected to exceed 14.8 percent in 2007. We will actively manage bank liquidity in keeping with this objective, including, if need be, by issuing central bank bills. In close coordination with the monetary policy, the BCM will adapt its interventions on the new foreign exchange market so as to implement a more flexible exchange rate policy and preserve the competitiveness of the Mauritanian economy.

9. Macroeconomic policies in the first half of 2007 will be implemented in accordance with the quantitative performance criteria and indicative targets for end-June, as defined in the attached table. The criterion on the government balance reflects the desire to execute the budget prudently through end-June, taking into account the lingering risks on the revenue side; in particular, the share of the budget allocations for expenditure on goods and services that will be released to the ministerial departments will be capped at 45 percent.

10. The reforms of the tax and customs administrations will continue. The collection of the taxes and levies concentrated in the Treasury has been transferred to the General Tax Directorate and new administrative organization charts have been adopted; in accordance with the MEFP, each collection unit has been assigned a detailed control program. By end-June 2007, we will also have drawn up a list of tax exemptions and measured their cost, so as to initiate actions aimed at reducing them beginning with the 2008 budget. In the customs area, we intend to complete the implementation of the new version of the ASYCUDA software by June 2007, which will enable us, among other things to enhance our cooperation with SGS as regards the control of transaction values.

11. Improving public finance management remains one of the priorities of the government's efforts. The de-concentration of budget execution and improved monitoring of budgetary spending will be accompanied, on the one hand, by a significant strengthening of controls, especially as regards the accuracy of expenditure on government goods and services, and, on the other hand, by training new payment authorization officers and enhancing their accountability. Moreover, the functional classification will gradually be extended to the tracking of budget execution at the various stages. Access to this tracking will be made available to the IGE, which will develop a control program at the expenditure commitment stage. We will also examine the possibility of introducing administrative penalties in the event of fraud (by maintaining a negative list of government suppliers by name). Furthermore, all the ministerial departments' and government entities' autonomous

accounts (with the exception of external financing) that have yet to be transformed into divisionary treasury accounts will be converted, so as to restore the integrity of the government treasury.

12. The government intends to fully carry out its oversight role over the financial equilibrium and sound management of all public enterprises. To this end, a monthly tracking of the public enterprises' bank borrowing has been introduced. As regards the extension of health insurance coverage to all government employees and retirees as of January 1, 2007, we will fully exercise our oversight function in the months ahead in order to ensure that the services offered are consistent with the announced risk coverage and that financial equilibrium is achieved as projected.

13. We will continue our efforts in the area of sound management and transparency in the extractive industries. The EITI report for 2005 has been published, and the audit of the FNRH at end-2006 is in progress. We will propose waiting until the recoverable level of oil reserves reaches the equivalent of 400 million barrels before applying an optimal oil revenue management system. In the meantime, we trust that the draft law on the management of oil resources that will be submitted to the new parliament will strengthen the existing ordinance on the FNRH in accordance with the recommendations of the recent mission of the IMF's Fiscal Affairs Department (FAD). The draft law will in particular aim at integrating FNRH management into medium-term budget programming and at improving transparency in the management of this revenue. To this end, by end-July 2007 we will publish the audit of the end-December 2006 accounts of the national hydrocarbon company (SMH).

14. The civil service reforms will continue. Personnel by-laws for all civil service categories (*corps*) have been adopted. By end-March 2007, with World Bank support, the government will launch the process of selecting the operators responsible for conducting a census of government employees, reconciling the payroll and civil service files, and initiating an assessment of the personnel requirements of each ministry.

15. With technical support from the World Bank and in consultation with the banks, the BCM will prepare (a) the implementing provisions of the ordinances on credit institutions and microfinance institutions, including the instructions relating to prudential rules, licensing requirements, and the chart of accounts; and (b) a plan for improving the situation of banks' nonperforming assets.

16. We will continue our efforts to consolidate the viability of the external debt and finding a negotiated solution regarding the outstanding debt vis-à-vis some of our multilateral and bilateral partners, in particular Kuwait and Libya, envisaging terms comparable to those of the Paris Club. With regard to our arrears vis-à-vis the OAPEC ($7.2 million), which were recently confirmed, we have requested World Bank assistance to reach a solution in the context of the HIPC Initiative.

17. The BCM will speed up the implementation of the recommendations of the safeguards assessment missions, in particular those related to the strengthening and bringing up to IFRS standards of the accounting procedures, to the effective launching of internal

auditing, and to the ongoing efforts to address the external auditor's reservations about the central bank's accounts. The semi-annual confirmation of the BCM's foreign exchange reserves by an internationally recognized audit firm will be continued.

18. The improvement of the coverage and quality of statistical data is crucial for program monitoring purposes. Progress has been made in the public finance and external debt areas with the harmonization of BCM and ministry of finance data. The definitive national accounts for 2003, semi-definitive accounts for 2004, and provisional accounts for 2005 will be finalized by end-March. We will focus our efforts in other areas on reviewing the price index methodology, introducing by end-July a simplified industrial production index on a quarterly basis (beginning with the second quarter of 2007), and the regular publication of quarterly foreign trade data beginning in June 2007. The list of PRSP monitoring indicators will be drawn up, and a first reading of these indicators at end-December 2006 will be available by end-2007.

19. The government believes that the policies set forth in this letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in this letter, in accordance with the Fund's policies on such consultation.

20. On the basis of performance under the program, and on the strength of the policies set forth in this letter, we request that the IMF complete the first review under the PRGF arrangement and approve the second disbursement in the amount of SDR 1.93 million.

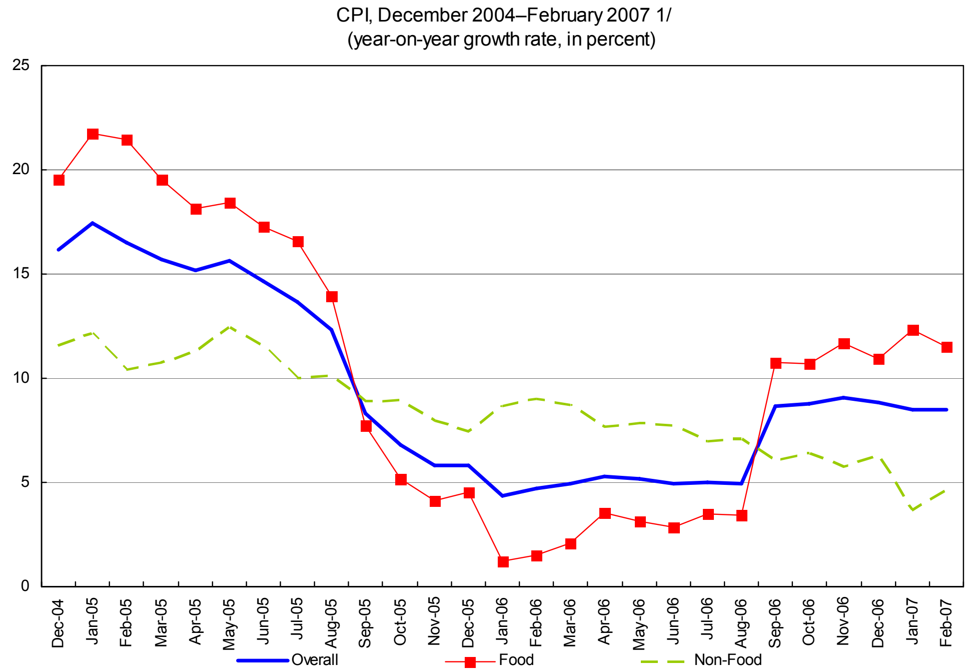
Sincerely yours,

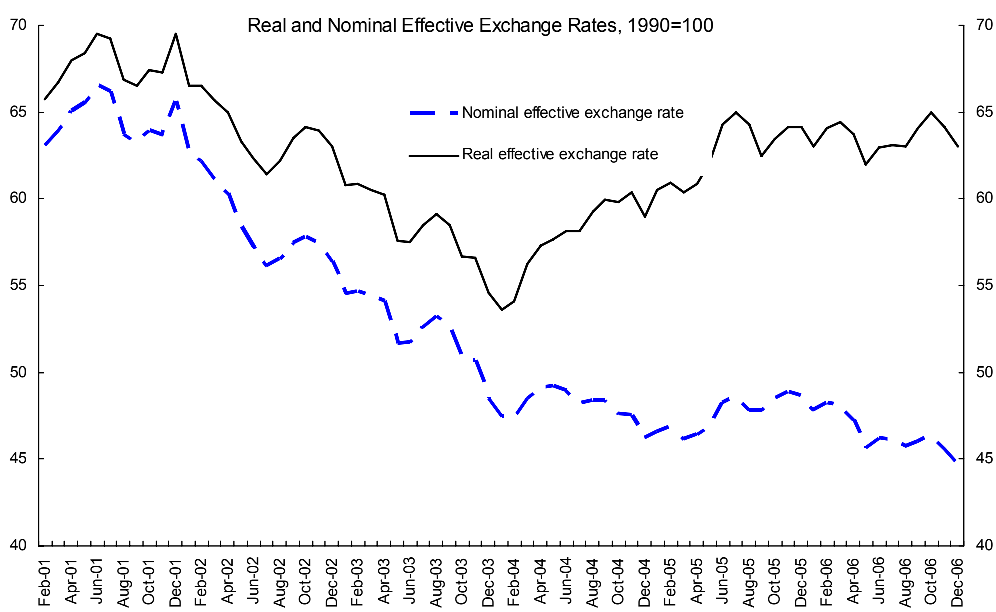
/s/
Ousmane Kane
Governor of the Central Bank of Mauritania

/s/
For Mohamed Ould Abed
Minister of Economic Affairs and Development

/s/
Abdallah Ould Souleymane Ould Cheikkh-Sidia
Minister of Finance

Figure 1. Mauritania: Price Developments and Exchange Rate Indices

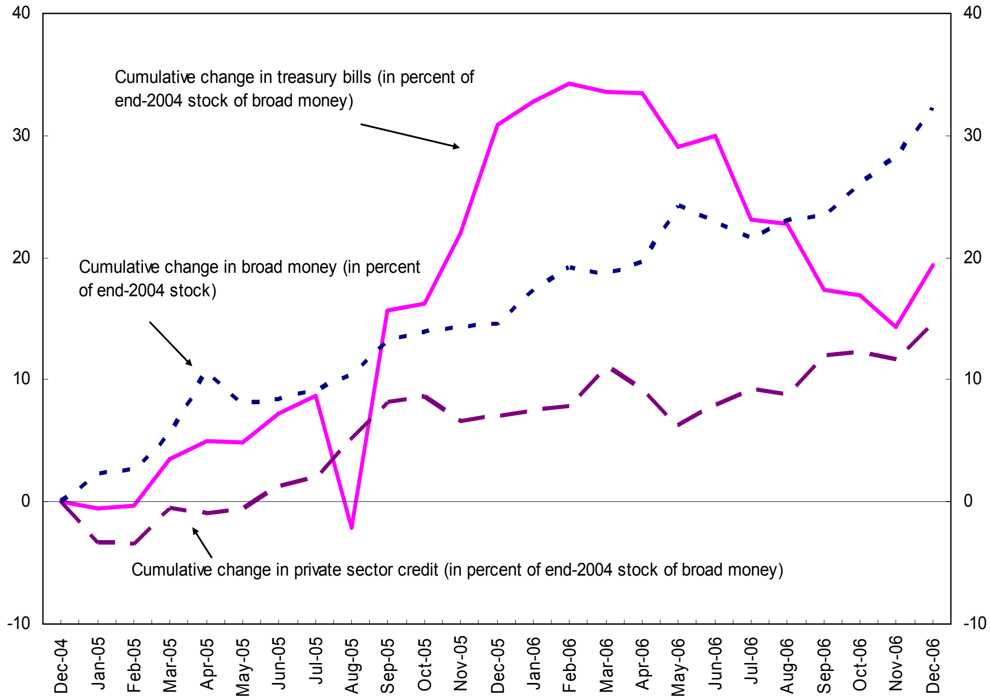


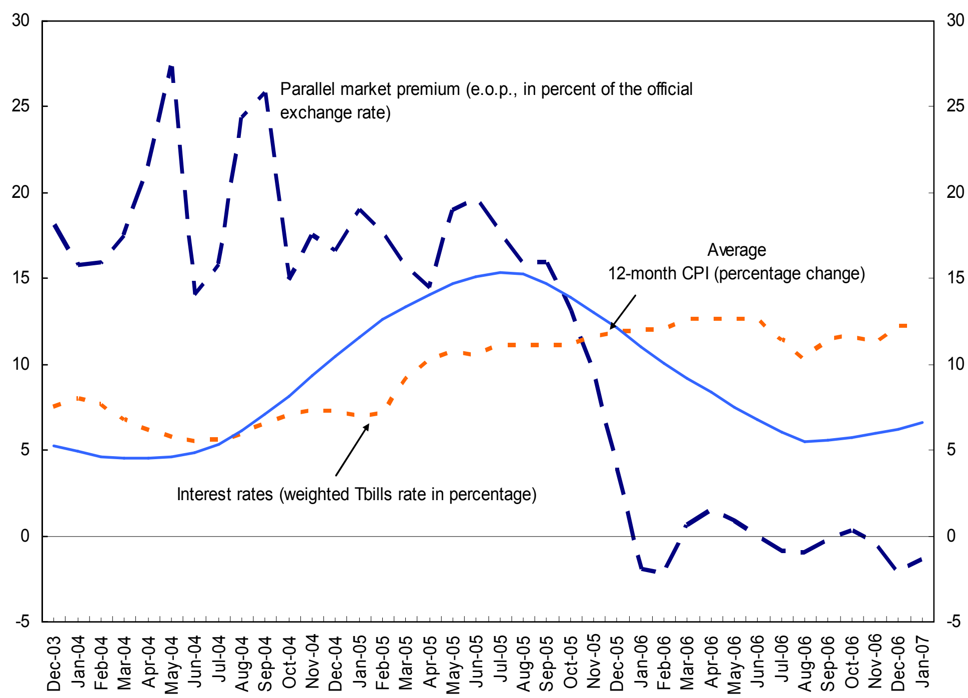


Sources: Mauritanian authorities; and Fund staff estimates.

1/ Following discussions engaged by the new transition government, wholesale traders agreed to eliminate noncompetitive practices in the meat industry, resulting in a substantial decline in retail prices for meat in September 2005.

Figure 2. Mauritania: Monetary Developments





Sources: Mauritanian authorities; and Fund staff estimates.

Table 1. Quantitative Performance Criteria and Indicative Targets for the First Year of the PRGF-Supported Program 1/

(Cumulative change from end-June 2006 for the 2006 targets, and from end-December 2006 for the 2007 targets)

	End-June 2006	End-September 2006	End-December 2006 2/			End-December 2006	End-March 2007	End-June 2007	End-September 2007	End-December 2007
	Initial Stock	Actual	Target	Adjusted target	Actual	Initial Stock	Program	Program 2/	Program	Program 3/
Quantitative targets										
Net international reserves of the BCM (floor); in millions of US$	-103.7	30.6	88.4	81.7	107.3	3.6	2.5	-1.5	76.7	66.2
Net domestic assets of the BCM (ceiling); in billions of UM 4/	95.9	-1.6	-16.9	-15.2	-17.3	78.6	1.1	-1.3	-17.6	-12.9
Basic non-oil government balance (floor); in billions of UM 5/	-12.4	-19.4	-13.0	-13.0	-12.0	...	-9.8	-9.1	-0.7	-19.6
New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in millions of US$	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term debt (ceiling); in millions of US$	10.9	24.7	31.6 5/	31.6	31.6	42.5	-2.4	-2.4	-34.6	-42.5
New external payments arrears (continuous ceiling); in millions of US$	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Treasury float (ceiling); in billions of UM 7/	6.2	7.7	1.8	1.8	6.3	12.5	-1.8	-6.0	-6.1	-5.5
Poverty reducing expenditures (floor); in billions of UM 5/ 7/	20.8	…	32.0	32.0	29.1	...	12.9	31.1	46.1	64.1
Adjustors (in millions of US$)										
Net international assistance	0.0	-2.9	-9.3	…	-9.5	...	-2.8	-8.9	-11.7	-19.8
Cumulative disbursements of official loans and grants in foreign currency	0.0	0.0	0.0	…	0.0	...	0.0	0.0	0.0	0.0
Impact of any additional debt relief	0.0	0.9	0.9	…	0.9	...	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	0.0	-3.8	-10.2	…	-10.4	...	-2.8	-8.9	-11.7	-19.8
FNRH contribution to the budget	57.2	39.8	125.8	…	119.3	...	27.5	55.1	82.6	110.1
Memorandum item:										
UM/$ exchange rate (program)	268.6	…	…	…	…	268.6	…	…	…	…

Sources : Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding (Country Report No. 07/43).
2/ Performance criteria, unless otherwise indicated.
3/ Will be revised and set as performance criteria at the time of the second review.
4/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.
5/ The end-June 2006 figure corresponds to the flow over the first six months of 2006.
6/ A last disbursement of $8 million was made in early October 2006 under a short-term nonconcessional facility of $40 million that was granted by the Islamic Development Bank in 2006 to strengthen official reserves before the launching of the foreign exchange market.

Table 2. Structural Performance Criteria and Benchmarks for the First Year of the PRGF-Supported Program

	Date	Status
Prior action:		
• Government adoption of 2007 budget ordinance consistent with paragraphs 25–29 of the MEFP.	Approval of the arrangement	Completed
Performance criteria:		
• Elimination of the requirement to partially surrender fish export proceeds to the BCM.	End-December 06	Met
• Adoption by Cabinet of ordinance on the statutes of the central bank that will establish price stability as the primary objective of the BCM, protect the governor of the central bank from arbitrary dismissal, and place stronger limits on direct monetary financing of the government.	End-December 06	Met
• Adoption by Cabinet of ordinance on commercial banking that will limit loans to related parties and ensure separation between bank managers and owners.	End-December 06	Met
Structural benchmarks:		
• Introduction of a new instrument for bank liquidity management.	End-January 07	Not met 1/
• Semiannual adjustment of water and electricity rates based on the estimated operating balance.	End-January 07	Not met 2/
• Transmission to Fund staff of the computerized monthly monitoring of budget execution with a lag of no more than a month (budget allotments, commitments, payment orders).	End-January report available at end-February 2007	Not met 3/
• Publication of the audit of BCM's 2006 financial statements.	End-June 07	
• Submission to parliament of a draft law on a transparent and optimal oil revenue management, consistent with paragraph 32 of the MEFP.	End-August 07	

Sources: Mauritanian authorities; and Fund staff.

Table 3. Selected Economic and Financial Indicators, 2001–07

	2001	2002	2003	2004	2005	2006 IMF Country Report No. 07/43	2006 Prel.	2007 Proj.
	(Percentage changes; unless otherwise indicated)							
National income and prices								
GDP at constant prices 1/	2.9	1.1	5.6	5.2	5.4	13.9	11.7	1.9
Non-oil GDP at constant prices	2.9	1.1	5.6	5.2	5.4	6.1	4.4	5.6
GDP deflator 1/	7.9	7.8	2.5	11.5	18.0	31.4	29.8	-2.6
Non-oil GDP deflator	7.9	7.8	2.5	11.5	18.0	9.3	8.1	8.8
Consumer price index (period average)	7.7	5.4	5.3	10.4	12.1	6.4	6.2	7.9
Consumer price index (end of period)	4.1	8.4	2.9	16.1	5.8	9.8	8.9	7.0
External sector								
Exports of goods, f.o.b. (percentage change in US$)	0.2	-6.6	-4.1	38.1	42.2	137.4	118.6	4.1
Of which: non-oil	0.2	-6.6	-4.1	38.1	42.2	24.9	15.9	39.6
Imports of goods, f.o.b. (percentage change in US$)	2.4	-7.3	25.7	70.3	54.7	-12.5	-18.3	5.8
Imports of goods, f.o.b. (percentage change in US$) 2/	-7.0	-7.6	22.1	33.7	24.8	25.2	8.5	7.8
Official transfers (in percent of GDP)	6.9	5.1	6.9	4.1	5.4	3.5	3.5	3.5
Current account balance (in percent of GDP)	-11.7	3.0	-13.6	-34.6	-47.2	-3.1	-1.3	-3.7
Current account balance (in percent of GDP) 2/	-6.7	7.6	-7.1	-11.9	-7.4	-8.9	-3.8	-3.3
Overall balance (in percent of GDP)	-7.6	-2.8	-9.9	-7.3	-4.0	9.8	12.1	0.2
Official reserves								
Gross official reserves (in millions of US$, end-period) 3/	40	74	32	39	70	174	194	228
In months of following year's imports of goods and services 2/	1.5	2.4	0.7	0.6	1.1	2.3	2.6	3.0
Money and interest rates								
Money and quasi-money	34.3	23.8	25.5	13.5	14.6	15.8	15.5	14.8
Currency in circulation	17.6	17.7	47.5	-3.4	14.8	15.8	34.7	-1.5
	(In percent of non-oil GDP)							
Consolidated government operations								
Revenue and grants	24.7	34.8	35.4	32.9	26.6	39.7	83.8	31.4
Revenue and grants (excluding oil)	24.7	34.8	35.4	32.9	26.6	28.4	72.9	27.3
Idem, excluding grants	20.7	30.4	30.7	29.7	24.5	26.2	27.6	25.3
Oil revenue 4/	...	...	...	...	...	11.3	10.9	4.1
Expenditure and net lending	35.0	37.6	47.2	37.7	33.7	37.5	37.1	33.8
Overall balance including grants	-10.3	-2.9	-11.8	-4.8	-7.1	2.2	46.7	-2.4
Overall non-oil balance excluding grants	-14.3	-7.2	-16.5	-8.0	-9.2	-11.3	-9.5	-8.5
Overall non-oil balance including grants	-10.3	-2.9	-11.8	-4.8	-7.1	-9.1	35.9	-6.5
Memorandum items:								
Ouguiya/US$ exchange rate (end of period)	264.1	268.7	265.6	256.2	268.6	268.6	268.6	...
Exports, f.o.b. (in millions of US$)	355	332	318	440	625	1,484	1,367	1,423
Imports, f.o.b. (in millions of US$) 2/	415	383	468	625	781	974	847	914
Nominal GDP (in billions of UM)	287	312	338	397	493	744	715	710
Nominal non-oil GDP (in billions of UM)	...	...	...	...	...	576	557	639
Nominal GDP (in millions of US$)	1,122	1,150	1,285	1,495	1,857	2,770	2,663	2,644
Population (in millions)	2.57	2.63	2.69	2.76	2.82	2.89	2.89	2.96
GDP per capita (in US$)	437	437	477	542	658	958	921	893
REER (12-month percentage change; end of period)	4.5	-9.3	-13.4	8.0	8.8	2.0	-2.9	...
Price of oil (US$/barrel): APSP baseline: February 28, 2007	...	...	...	...	...	64.4	64.3	60.8
Annual production of oil (in millions of barrels)	...	...	...	...	...	11.7	10.7	7.7

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

1/ The large increase in the GDP deflator in 2006, and the relatively low increase in real GDP for this year, reflect the authorities' choice of 1998 as the base year for the calculation of national accounts at constant prices. Oil prices were at a low in 1998.

2/ Excluding oil exploration/production and other mining (copper, gold)-related activities, and imports financed in FDI and aid.

3/ Excluding oil account.

4/ Including oil signature bonuses.

Table 4. Central Government Operations, 2003–09 1/

(In billions of ouguiya, unless otherwise indicated)

	2003	2004	2005	2006 2/ IMF Country Report No. 07/43	2006 2/ Prel.	2007 Projections	2008 Projections	2009 Projections
Non-oil revenue and grants	119.7	130.4	131.3	404.6	406.0	174.3	177.8	185.1
Non-oil revenue	103.9	117.9	121.0	151.2	153.5	161.5	173.2	180.5
Tax revenue 3/	44.9	59.2	76.0	92.4	97.1	95.7	103.3	110.1
Of which : recovery of tax arrears	...	...	1.3	8.2	6.9	0.0	0.0	0.0
Nontax revenue	59.1	58.7	45.0	58.9	56.4	65.7	69.9	70.4
Of which: EU fishing compensation 4/	25.1	29.2	27.4	28.0	30.4	29.5	29.7	29.8
SNIM dividend	...	...	...	8.1	8.3	9.7	8.4	7.7
Total grants	15.7	12.5	10.3	253.4	252.5	12.8	4.7	4.6
Of which: multilateral HIPC assistance	9.3	8.2	7.6	5.7	5.7	3.4	2.7	2.7
MDRI	...	...	...	240.9	240.9	...	...	...
Expenditure and net lending 5/	159.6	149.4	166.3	216.3	206.4	216.1	223.4	237.8
Current expenditure 6/	114.2	106.2	126.7	158.4	157.9	154.3	160.5	167.6
Compensation of employees	30.8	33.7	38.9	52.1	52.8	60.2	63.8	66.7
Goods and services	49.1	51.8	65.6	64.8	71.6	61.9	63.1	67.2
Of which: electoral process	…	…	…	7.3	7.1	3.6	…	…
Subsidies and transfers 7/	23.4	6.4	5.0	20.0	15.1	15.2	14.8	15.8
Interest	9.3	11.9	16.1	16.2	13.5	11.9	12.5	11.5
External	6.7	7.3	8.3	7.2	5.0	4.1	4.1	3.9
Domestic	2.6	4.7	7.8	8.9	8.5	7.8	8.4	7.6
Special accounts and others	1.7	2.4	1.1	5.4	4.8	5.2	6.3	6.3
Of which : oil sector development	...	...	...	...	...	1.3	1.3	1.3
Capital expenditure	44.0	43.0	36.6	54.1	44.6	61.7	62.9	70.2
Foreign-financed investment 8/	18.6	18.5	15.2	30.5	20.7	30.0	28.9	34.1
Domestically financed investment	25.4	24.6	21.4	23.6	23.9	31.7	34.0	36.2
Restructuring and net lending	1.4	0.2	2.9	3.8	3.8	0.0	0.0	0.0
Non-oil balance excluding grants	-55.6	-31.6	-45.3	-65.1	-52.9	-54.6	-50.2	-57.3
Non-oil balance including grants	-39.9	-19.2	-34.9	188.2	199.6	-41.8	-45.5	-52.6
Basic non-oil balance; program definition 9/	...	...	...	-25.4	-24.4	-19.6	-17.2	-19.3
Net revenue from oil	...	...	...	65.3	60.5	26.4	26.2	24.5
Overall balance excluding grants	-55.6	-31.6	-45.3	0.2	7.6	-28.2	-24.0	-32.8
Overall balance including grants	-39.9	-19.2	-34.9	253.5	260.1	-15.3	-19.3	-28.1
Financing	39.9	19.3	34.9	-253.5	-260.1	15.3	10.8	16.0
Domestic financing	25.1	-5.3	20.6	-36.5	-38.7	-8.2	-12.6	-11.2
Banking system	20.5	-4.0	33.1	-35.6	-47.7	-3.5	-12.7	-11.2
BCM	18.7	-6.3	-6.3	-27.6	-27.3	0.0	-5.5	-7.6
Of which: MDRI (IMF)	…	…	…	-13.0	-13.0	…	…	…
Commercial banks	1.8	2.2	39.3	-8.0	-20.3	-3.5	-7.2	-3.6
Nonbanks	0.1	0.2	2.9	4.7	4.6	3.0	0.0	0.0
Privatization and other 10/	0.0	0.0	0.0	22.2	22.2	0.0	0.0	0.0
Domestic arrears	4.4	-1.5	-15.4	-27.7	-17.8	-7.7	0.0	0.0
External financing	14.0	13.6	11.1	-216.3	-223.9	23.6	23.4	27.2
Oil account	...	...	...	-16.2	-13.1	3.2	-0.3	-1.0
Net revenue from oil	...	...	...	-65.3	-60.5	-26.4	-26.2	-24.5
Oil account contribution to the budget	...	...	...	49.1	47.4	29.6	25.9	23.5
Other	14.0	13.6	11.1	-200.1	-210.8	20.4	23.7	28.2
Net borrowing	0.7	-0.1	-3.8	14.0	6.4	12.1	16.7	21.8
Exceptional financing	13.3	13.6	14.9	13.7	10.7	8.3	7.0	6.4
MDRI (IDA and AfDF)	0.0	0.0	0.0	-227.9	-227.9	0.0	0.0	0.0
Errors and omissions	0.8	10.9	3.3	-0.8	2.5	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	8.5	12.1
Memorandum items:								
Oil revenue (in millions of US$)	…	…	…	241.6	223.4	96.1	95.9	89.4
Oil account balance (e.o.p., in millions of US$)	…	…	…	60.7	48.8	37.0	38.2	42.1
Stock of treasury bills	...	...	55.4	52.1	40.0	39.4	32.3	28.7
Of which : commercial banks	...	13.6	52.3	44.3	32.3	28.8	21.6	18.0
Stock of (identified) domestic arrears 11/	...	50.2	34.7	7.0	14.6	7.0	7.0	7.0
Treasury float (registered payment orders) 12/	...	21.2	8.7	7.0	12.5	7.0	7.0	7.0
Poverty reducing expenditure 13/	...	...	...	52.8	49.9	64.1	80.0	100.0
MDRI savings	...	...	...	3.1	3.1	5.9	6.2	6.5

Table 4 (concluded). Central Government Operations, 2003–09 1/

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

	2003	2004	2005	2006 2/ IMF Country Report No. 07/43	2006 2/ Prel.	2007	2008	2009
						Projections		
Non-oil revenue and grants	35.4	32.9	26.6	70.2	72.9	27.3	26.0	25.4
Non-oil revenue	30.7	29.7	24.5	26.2	27.6	25.3	25.3	24.8
Tax revenue 3/	13.3	14.9	15.4	16.0	17.4	15.0	15.1	15.1
Of which: recovery of tax arrears	...	...	0.3	1.4	1.2	0.0	0.0	0.0
Nontax revenue	17.5	14.8	9.1	10.2	10.1	10.3	10.2	9.7
Of which: EU fishing compensation 4/	7.4	7.4	5.6	4.9	5.5	4.6	4.3	4.1
SNIM dividend	...	...	...	1.4	1.5	1.5	1.2	1.1
Total grants	4.7	3.1	2.1	44.0	45.4	2.0	0.7	0.6
Of which: multilateral HIPC assistance	2.7	2.1	1.5	1.0	1.0	0.5	0.4	0.4
Expenditure and net lending 5/	47.2	37.7	33.7	37.5	37.1	33.8	32.6	32.6
Current expenditure 6/	33.8	26.8	25.7	27.5	28.4	24.1	23.4	23.0
Compensation of employees	9.1	8.5	7.9	9.0	9.5	9.4	9.3	9.1
Goods and services	14.5	13.1	13.3	11.2	12.9	9.7	9.2	9.2
Of which: electoral process	...	...	...	1.3	1.3	0.6	...	...
Subsidies and transfers 7/	6.9	1.6	1.0	3.5	2.7	2.4	2.2	2.2
Interest	2.7	3.0	3.3	2.8	2.4	1.9	1.8	1.6
External	2.0	1.8	1.7	1.3	0.9	0.6	0.6	0.5
Domestic	0.8	1.2	1.6	1.6	1.5	1.2	1.2	1.0
Special accounts and others	0.5	0.6	0.2	0.9	0.9	0.8	0.9	0.9
Capital expenditure	13.0	10.9	7.4	9.4	8.0	9.7	9.2	9.6
Foreign-financed investment 8/	5.5	4.7	3.1	5.3	3.7	4.7	4.2	4.7
Domestically financed investment	7.5	6.2	4.3	4.1	4.3	5.0	5.0	5.0
Restructuring and net lending	0.4	0.1	0.6	0.7	0.7	0.0	0.0	0.0
Non-oil balance excluding grants	-16.5	-8.0	-9.2	-11.3	-9.5	-8.5	-7.3	-7.9
Non-oil balance including grants	-11.8	-4.8	-7.1	32.7	35.9	-6.5	-6.6	-7.2
Basic non-oil balance; program definition 9/	...	...	...	-4.4	-4.4	-3.1	-2.5	-2.6
Net revenue from oil	...	...	...	11.3	10.9	4.1	3.8	3.4
Overall balance excluding grants	-16.5	-8.0	-9.2	0.0	1.4	-4.4	-3.5	-4.5
Overall balance including grants	-11.8	-4.8	-7.1	44.0	46.7	-2.4	-2.8	-3.9
Financing	11.8	4.9	7.1	-44.0	-46.7	2.4	1.6	2.2
Domestic financing	7.4	-1.3	4.2	-6.3	-6.9	-1.3	-1.8	-1.5
Of which: banking system	6.1	-1.0	6.7	-6.2	-8.6	-0.6	-1.8	-1.5
External financing	4.2	3.4	2.3	-37.5	-40.2	3.7	3.4	3.7
Of which: MDRI (IDA and AfDF)	...	...	...	-39.6	-41.0	...	...	...
oil account	...	...	...	-2.8	-2.4	0.5	0.0	-0.1
Errors and omissions	0.2	2.8	0.7	-0.1	0.4	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	1.2	1.7
Memorandum items:								
Non-oil GDP (In billions of UM)	338.0	396.6	493.3	576.3	556.5	639.1	685.1	728.8
Non-oil primary balance including grants	-9.1	-1.8	-3.8	35.5	38.3	-4.7	-4.8	-5.6
Total Revenue	30.7	29.7	24.5	37.6	38.4	29.4	29.1	28.1
Total public debt e.o.p. 14/	...	240.0	213.9	135.8	136.7	117.7	110.3	106.2
Of which : central government domestic debt	...	43.8	43.1	27.0	26.2	22.4	19.1	16.4
Idem, in months of nonwage, noninterest expenditure	...	...	1.1	0.7	1.3	0.7	0.7	0.7
Poverty reducing expenditure	...	...	...	9.2	9.0	10.0	11.7	13.7

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

1/ Cash basis adjusted for extrabudgetary spending until 2004, payment order basis thereafter.
2/ In 2006, reflects MDRI debt relief stock operation. Program presentation (IMF Country Report No. 07/43) was revised accordingly.
3/ A new external tariff schedule was introduced in 2007. See Box 1 in IMF Country Report No. 07/43 for more details.
4/ Excludes disbursements made directly by EU fishing companies under the agreement.
5/ Payment orders registered by the treasury. Program definition will be revised when the computerized expenditure system is operational to take into account payment orders as soon as they are recorded in the system.
6/ Reflecting the authorities new classification, which is closer to GFS standards; estimates for 2003–06.
7/ Including transfers to public entities outside central government.
8/ Starting in 2006, including public investment from public enterprises financed through the government onlending of foreign assistance.
9/ Non-oil government revenue (excluding grants) minus government expenditure (excluding foreign-financed investment and external interest).
10/ Including telecom license proceeds equal to $103 million in 2006.
11/ Treasury "float" plus payment obligations, which have neither been budgeted nor paid for, that have been ackowledged by the state.
12/ Outstanding payment orders registered by the treasury.
13/ Based on the new functional classification.
14/ Starting in 2006, after MDRI stock of debt operation. Domestic debt excludes the "float".

Table 5. Monetary Accounts, 2003–07

(In billions of ouguiya at end-of-period exchange rates)

	2003	2004	2005	2006		2007 1/			
				Dec.	Dec.	Mar.	Jun.	Sep.	Dec.
				IMF Country Report No.					
	Dec.	Dec.	Dec.	07/43	Prel.	Program			
Monetary survey									
Net foreign assets	-57.5	-68.5	-71.0	-8.2	0.7	-0.4	-0.7	21.1	14.5
BCM	-48.3	-47.0	-38.9	-0.7	4.6	5.3	4.2	25.2	22.4
Commercial banks	-9.1	-21.4	-32.1	-7.5	-3.9	-5.7	-5.0	-4.1	-7.9
Net domestic assets	175.7	202.7	224.8	186.3	176.9	184.7	191.2	177.4	189.5
Domestic credit	198.9	264.0	303.1	274.2	266.2	272.6	279.0	265.2	277.4
Net credit to the government	82.0	129.9	159.7	124.2	112.3	117.6	115.5	99.7	108.7
Of which: central government	82.0	129.9	162.9	127.2	115.4	120.7	118.6	102.8	111.8
Claims	129.9	143.4	181.9	148.5	158.5	137.4	135.3	132.8	128.5
Deposits	-47.9	-13.6	-22.3	-24.3	-46.2	-19.8	-19.8	-33.1	-19.8
Credit to the economy	116.9	134.1	143.5	150.0	153.9	155.0	163.6	165.5	168.7
Other items net	-23.2	-61.3	-78.4	-87.9	-89.3	-87.9	-87.9	-87.9	-87.9
Broad money	118.3	134.3	153.8	178.1	177.6	184.4	190.4	198.5	204.0
Currency in circulation	44.3	42.8	49.1	56.9	66.1	65.0	63.3	64.0	65.1
Demand deposits	55.8	68.0	79.2	91.7	82.3	88.8	95.5	101.6	105.0
Term deposits	18.1	23.5	25.5	29.6	29.2	30.6	31.6	32.9	33.9
Monetary authorities									
Net foreign assets	-48.3	-47.0	-38.9	-0.7	4.6	5.3	4.2	25.2	22.4
Assets	8.4	10.0	18.9	46.6	52.2	52.2	54.6	66.1	61.4
Liabilities 2/	-56.7	-57.0	-57.7	-47.3	-47.6	-46.9	-50.4	-40.9	-38.9
Net domestic assets	109.7	117.0	106.9	79.0	79.3	80.4	78.0	61.8	66.4
Net credit to the government 2/	76.5	122.2	112.6	85.2	85.4	85.4	83.0	69.8	85.4
Of which: central government	76.5	122.2	115.9	88.2	88.5	88.5	86.1	72.9	88.5
Claims	124.3	135.3	134.6	109.1	131.0	104.6	102.2	102.2	104.6
Deposits	-47.8	-13.1	-22.0	-24.0	-45.6	-19.2	-19.2	-32.4	-19.2
Claims on private sector	2.7	3.3	3.5	1.8	2.0	2.0	2.0	2.0	2.0
Claims on commercial banks	1.3	0.8	0.0	0.0	0.3	0.0	0.0	-3.0	-14.0
Of which: BCM bills	…	…	…		…	0.0	0.0	-3.0	-14.0
Other items net	29.2	-9.2	-9.2	-8.0	-8.3	-6.9	-6.9	-6.9	-6.9
Reserve money	61.4	69.9	68.0	78.3	84.0	85.8	82.3	87.0	88.9
Currency in circulation	44.3	42.8	49.1	56.9	66.1	65.0	63.3	64.0	65.1
Reserves of banks	17.1	27.1	18.9	21.4	17.8	20.8	19.0	23.0	23.7
Commercial banks									
Net foreign assets	-9.1	-21.4	-32.1	-7.5	-3.9	-5.7	-5.0	-4.1	-7.9
Assets	6.8	7.8	16.5	18.7	30.1	30.1	30.1	30.1	30.1
Liabilities	-16.0	-29.3	-48.6	-26.2	-34.0	-35.8	-35.1	-34.2	-38.1
Net domestic assets	83.1	112.9	136.8	128.7	115.4	125.1	132.1	138.6	146.8
Domestic Credit	119.7	138.6	187.0	187.3	178.8	185.2	194.0	193.5	190.0
Net credit to the government	5.4	7.7	47.0	39.0	26.8	32.1	32.4	29.9	23.3
Claims	5.6	8.1	47.4	39.4	27.5	32.8	33.1	30.6	24.0
Of which: treasury bills	8.1	13.6	52.3	42.8	32.3	37.6	37.9	35.4	28.8
Deposits	-0.1	-0.4	-0.3	-0.3	-0.7	-0.7	-0.7	-0.7	-0.7
Credit to the economy	114.2	130.9	140.0	148.2	151.9	153.0	161.6	163.6	166.7
Net claims on the BCM	15.8	26.4	18.9	21.4	17.5	20.8	19.0	26.0	37.7
Total Reserves	17.1	27.1	18.9	21.4	17.8	20.8	19.0	23.0	23.7
Credit from BCM	-1.3	-0.8	0.0	0.0	-0.3	0.0	0.0	3.0	14.0
Of which: BCM bills	…	…	…	…	…	0.0	0.0	3.0	14.0
Other items net	-52.4	-52.0	-69.2	-79.9	-80.9	-80.9	-80.9	-80.9	-80.9
Deposit liabilities to nonbank residents	74.0	91.5	104.7	121.3	111.5	119.4	127.1	134.5	138.9
Memorandum items:									
Currency/Deposits (in percent)	59.9	46.8	46.9	46.9	59.3	54.4	49.8	47.6	46.9
Broad money (in percent) 3/	25.5	13.5	14.6	15.8	15.5	3.5	6.9	11.4	14.8
Credit to private sector (in percent) 3/	21.9	14.7	7.0	4.5	7.2	0.7	6.3	7.6	9.6
Broad money/non-oil GDP (in percent)	35.0	33.8	30.9	30.9	31.9	28.8	29.8	31.1	31.9
Gross international reserves (in millions of US$)	31.7	38.8	70.2	173.5	194.4	194.4	203.3	246.2	228.4
Net international reserves (in millions of US$)	-197.7	-210.7	-162.5	-15.3	7.8	10.3	6.3	84.5	74.0
Net foreign assets of banks (in millions of US$)	-34.4	-83.6	-119.4	-27.9	-14.5	-21.1	-18.5	-15.3	-29.6

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

1/ At program exchange rates.
2/ Starting in 2006, reflects MDRI debt relief from the Fund.
3/ Change relative to the end of the previous year.

Table 6. Mauritania: Balance of Payments, 2003–09

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

				2006		2007	2008	2009
	2003	2004	2005	IMF Country Report No. 07/43	Prel.		Projections	
Trade balance	**-223.8**	**-483.8**	**-803.2**	**234.7**	**199.6**	**188.9**	**31.9**	**-307.9**
Exports	318.2	439.6	625.1	1484.3	1366.6	1423.2	1417.9	1323.9
Of which: Iron ore	163.9	230.2	389.4	490.3	467.2	525.0	502.3	477.3
Fish	131.5	172.6	172.7	188.5	200.6	205.9	211.6	217.7
Crude oil	...	...	...	703.5	642.1	412.0	407.1	327.8
Copper	...	...	...	42.5	5.6	144.0	108.0	84.0
Gold	...	...	...	9.8	1.6	91.3	139.9	147.6
Imports, fob	-542.1	-923.4	-1428.3	-1249.5	-1167.0	-1234.3	-1386.0	-1631.8
Petroleum products	-100.3	-145.0	-196.4	-244.1	-227.4	-266.9	-276.0	-292.5
Equipment for mining and extractive industries 1/	-182.7	-414.9	-797.6	-451.2	-434.4	-408.4	-525.2	-719.1
Other	-259.1	-363.4	-438.5	-554.2	-505.2	-559.0	-584.7	-620.2
Services and income (net)	-84.8	-142.0	-234.6	-477.7	-393.9	-457.2	-501.9	-531.7
Services (net)	-142.5	-207.6	-299.2	-347.4	-319.6	-379.1	-374.6	-431.1
Credit	44.2	52.0	79.6	90.5	86.7	101.1	111.3	114.1
Of which: Fishing licenses	27.5	22.1	31.6	37.5	33.7	48.1	56.7	57.9
Debit	-186.6	-259.6	-378.7	-437.9	-406.3	-480.2	-486.0	-545.2
Income (net)	57.7	65.6	64.6	-130.3	-74.3	-78.1	-127.2	-100.6
Credit	94.6	104.5	108.6	118.6	119.0	151.6	142.7	131.3
Of which: EU fishing compensation	93.4	103.2	103.3	107.5	108.0	111.9	112.4	112.8
Capital income on oil account	...	...	...	0.5	1.9	2.0	1.7	1.9
Debit	-36.9	-38.9	-44.0	-248.9	-193.3	-229.7	-269.9	-231.8
Of which: Interest due on public debt	-36.9	-38.9	-41.7	-23.4	-27.4	-23.6	-19.1	-17.6
Oil sector profits and salaries 2/	...	...	...	-197.1	-160.0	-115.4	-142.0	-114.4
Current transfers (net)	133.2	108.7	161.0	157.7	158.7	170.1	144.2	137.3
Private unrequited transfers (net)	45.0	47.7	60.0	60.0	66.5	68.5	69.2	69.9
Official transfers	88.3	61.0	101.0	97.7	92.1	92.4	75.0	67.4
Of which: Multilateral HIPC assistance 3/	35.2	30.9	28.7	21.5	14.3	8.5	6.2	6.0
Current account (including transfers but excluding oil)	**-90.7**	**-178.4**	**-144.8**	**-277.9**	**-120.9**	**-144.9**	**-238.6**	**-330.1**
Current account balance	**-175.3**	**-517.1**	**-876.8**	**-85.3**	**-35.6**	**-98.2**	**-325.7**	**-702.3**
Capital and financial account	**140.7**	**427.1**	**763.5**	**258.2**	**257.8**	**104.9**	**286.9**	**627.7**
Capital account	0.0	15.5	0.0	1107.2	1107.2	…	…	…
Of which: MDRI relief from the IMF 4/	…	…	…	48.5	48.5	…	…	…
from IDA 4/	…	…	…	607.3	607.3	…	…	…
from AfDF 4/	…	…	…	241.3	241.3	…	…	…
Other (oil bonuses, license sales)	…	…	…	210.2	210.2	…	…	…
Financial account	140.7	411.6	763.5	-849.0	-849.4	104.9	286.9	627.7
Direct investment (net)	101.9	391.6	814.1	57.0	154.6	141.4	290.1	579.3
Of which: Oil exploration (net) 2/	95.4	362.1	731.1	-21.8	1.6	153.2	291.9	576.1
Official medium- and long-term loans	1.7	19.9	-28.0	-752.2	-835.7	28.0	44.9	66.4
Disbursements	86.9	95.2	52.6	141.9	73.8	80.3	96.3	115.6
Amortization	-85.2	-75.3	-80.6	-894.1	-909.5	-52.3	-51.5	-49.2
Other financial flows	37.1	0.1	-22.5	-153.8	-168.3	-64.5	-48.0	-18.0
Of which: change in private external arrears	...	...	...	-90.5	-74.1	0.0	0.0	0.0
Errors and omissions	**-92.4**	**-19.2**	**39.4**	**98.8**	**60.2**	**0.0**	**0.0**	**0.0**
Overall balance	**-127.0**	**-109.2**	**-73.8**	**271.7**	**282.3**	**6.7**	**-38.8**	**-74.6**
Financing	127.0	109.2	73.8	-271.7	-282.3	-6.7	38.8	74.6
Net foreign assets	61.1	50.9	10.7	-303.8	-315.7	-39.6	-36.5	-10.5
Central bank (net)	46.5	1.7	-29.4	-151.5	-162.0	-66.4	-36.3	-11.5
Assets	42.2	-7.2	-33.0	-106.5	-124.2	-34.2	-24.6	-15.7
Liabilities	4.3	8.8	3.6	-45.1	-37.8	-32.2	-11.8	4.3
Commercial banks (net)	14.6	49.2	40.1	-91.5	-104.9	15.1	1.0	4.8
Oil account flow	...	...	...	-60.7	-48.8	11.7	-1.2	-3.9
Exceptional financing	65.9	58.3	63.1	14.0	33.4	32.9	43.8	39.9
Financing gap (shortfall +) 4/	...	...	...	18.1	...	0.0	31.5	45.2
Unidentified	...	...	...	...	...	0.0	31.5	45.2
Memorandum items:								
Current account balance (in percent of annual GDP)	-13.6	-34.6	-47.2	-3.1	-1.3	-3.7	-11.4	-23.9
Idem, excluding oil and other mining (except SNIM)	-7.1	-11.9	-7.4	-8.9	-3.8	-3.3	-6.5	-9.4
Gross official reserves	**31.7**	**38.8**	**70.2**	**173.6**	**194.4**	**228.6**	**253.2**	**268.9**
In months of imports 5/	0.7	0.6	1.1	2.3	2.6	3.0	3.1	3.1
Oil account	**...**	**...**	**...**	**60.7**	**48.8**	**37.0**	**38.2**	**42.1**
Net BOP impact of oil operations	10.7	39.0	49.3	265.6	246.1	110.1	109.9	103.9
PPG external debt (in percent of annual GDP)	218.6	203.2	168.9	84.3	85.9	85.8	81.4	82.7
Debt service after debt relief (in percent of exports of goods and services)	11.0	8.7	6.3	4.8	5.6	3.9	3.7	2.1

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

1/ Figures based on staff estimates and projections, for lack of data provision from the respective FDI companies.

2/ Oil-related outflows comprise profit transfers and negative FDI, the latter capturing the amortization of investment (cost oil) in line with the March 2006 agreement between Mauritania and the foreign oil operator.

3/ Excluding HIPC grants on debt service that has fallen subject to MDRI relief.

4/ MDRI debt relief is treated as a one-time stock operation. Offsetting positions are shown in the amortization of official medium- and long-term loans (IDA and AfDF) and the change in liabilities of the central bank (IMF).

Table 7. Millennium Development Goals, 1990–2015

	1990	1996	2000	2002	2004	PRSP 2010	PRSP 2015	MDGs 2015
	(In percent of total population)							
1. Eradicate extreme poverty and hunger								
Overall poverty incidence	56.6	54.3	51.0	...	46.7	35.0	25.0	28.3
Incidence of poverty in Nouakchott	36.1	25.4	29.2	...	25.9	...	...	...
Prevalence of child malnutrition	47.6	...	32.0	...	30.2	26.0	21.0	23.8
	(In percent of primary school age group)							
2. Achieve universal primary education								
Gross primary enrollment ratio	46.0	82.0	87.0	88.0	95.1	98.0	100.0	100.0
	(In percent of students enrolled in first grade)							
Retention rate at the entrance of the 5th grade in primary education	….	….	55.0	48.0	48.8	68.8	100.0	100.0
	(In percent of total enrollment)							
3. Promote gender equality								
Share of girls in total primary enrollment	42.0	46.0	48.0	49.0	49.8	49.0	50.0	50.0
	(Per 1,000 live births)							
4. Reduce child mortality								
Child mortality (under five years)	137.0	122.0	135.0	...	...	128.0	55.0	45.7
	(Per 100,000 live births)							
5. Improve maternal health								
Reduce the rate of maternal mortality	...	...	747.0	...	...	400.0	300.0	...
	(In percent of ages 15–24)							
6. Combat HIV/AIDS, malaria, and other diseases								
Reduce by half the incidence of HIV/AIDS	...	...	0.5	0.6	0.5	<1.1	<1.0	1.0
	(In percent of population)							
7. Ensure environmental sustainability								
Access to improved water source	...	...	60.4	...	63.7	65.0	75.0	...
Access to electricity	...	...	18.0	...	23.8	...	...	...
Memorandum items:								
Population (in millions) 1/	1.96	2.27	2.51	2.63	2.82	...	...	...
UNDP Human Development Index	0.387	0.423	0.449	0.465	...	...	...	...
Gini index of inequality	...	0.34	0.39	...	0.39	0.40	0.41	...
Child vaccination rate (in percent)	...	30	40	70	93	...	...	...

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

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

Goal 1: Halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day.
Goal 2. Ensure that, by 2015, children will be able to complete a full course of primary schooling.
Goal 3. Eliminate gender disparity in primary and secondary education.
Goal 4. Reduce by two thirds, between 1990 and 2015, the under-five mortality rate.
Goal 5. Reduce by three quarters, between 1990 and 2015, the under-five mortality rate.
Goal 6. Have halted the spread of HIV/AIDS, incidence of malaria and other major diseases and begin to reverse.
Goal 7. Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water.

Table 8. Reviews and Disbursements Under the PRGF Arrangement, 2006–09

Date	Action/Status	Disbursement	In percent of quota 1/
December 18, 2006	Board approval of a PRGF arrangement	SDR 4.52 million 2/	7.0
April 2007	Completed first review based on end-December 2006 performance criteria	SDR 1.93 million	3.0
October 2007	Completed second review based on end-June 2007 performance criteria	SDR 1.93 million	3.0
April 2008	Completed third review based on end-December 2007 performance criteria	SDR 1.93 million	3.0
October 2008	Completed fourth review based on end-June 2008 performance criteria	SDR 1.93 million	3.0
April 2009	Completed fifth review based on end-December 2008 performance criteria	SDR 1.93 million	3.0
October 2009	Completed sixth review based on end-June 2009 performance criteria	SDR 1.93 million	3.0
Total		**SDR 16.1 million**	**25.0**

Source: Fund staff.

1/ Mauritania's quota is SDR 64.4 million.
2/ This disbursement took place on January 12, 2007.

ANNEX I. MAURITANIA: RELATIONS WITH THE FUND

As of February 28, 2007

I.	**Membership Status**: Joined: September 10, 1963		Article VIII
II.	**General Resources Account**	**SDR Million**	**% Quota**
	Quota	64.40	100.00
	Fund holdings of currency	64.40	100.01
	Reserve Position	0.00	0.00
III.	**SDR Department**	**SDR Million**	**% Allocation**
	Net cumulative allocation	9.72	100.00
	Holdings	0.03	0.34
IV.	**Outstanding Purchases and Loans**	**SDR Million**	**% Quota**
	PRGF Arrangements	4.52	7.02

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Dec. 18, 2006	Dec. 17, 2009	16.10	4.52
PRGF	Jul. 18, 2003	Nov. 07, 2004[8]	6.44	0.92
PRGF	Jul. 21, 1999	Dec. 20, 2002	42.49	42.49

VI. Projected Payments to Fund

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	0.00	0.00	0.00	0.00	0.00
Charges/Interest	0.33	0.44	0.44	0.44	0.44
Total	0.33	0.44	0.44	0.44	0.44

[8] Cancellation date.

VII. Implementation of HIPC Initiative

	Enhanced Framework
I. Commitment of HIPC assistance	
Decision point date	Feb. 2000
Assistance committed by all creditors (US$ millions)[9]	622.00
Of which: IMF assistance (US$ millions)	46.76
(SDR equivalent in millions)	34.80
Completion point date	Jun. 2002
II. Disbursement of IMF assistance (SDR millions)	
Assistance disbursed to the member	34.80
Interim assistance	16.88
Completion point balance	17.92
Additional disbursement of interest income[10]	3.63
Total disbursements	38.43

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

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

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

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

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

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million)[11]		32.91
Of which:	MDRI	30.23
	HIPC	2.68

II. Debt Relief by Facility (SDR Million):

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

IX. Safeguards Assessments

A full safeguards assessment of the BCM was completed on May 21, 2004. The assessment identified serious vulnerabilities in the central bank's safeguards framework, most critically in the areas of financial reporting (including reporting of monetary data to the Fund) and controls, and made specific recommendations to address these vulnerabilities. An update assessment was conducted in early 2007 and found that while steps had been taken to improve the BCM's safeguards, several previously recommended safeguards measures had not been effectively implemented, including those related to the establishment of an investment committee and an internal audit department and the implementation of the IFRS. In view of these gaps and of uncertainties about the external audit arrangements for 2007 and beyond, the assessment recommended the continuation of special reviews of monetary data, the expeditious appointment of an international auditor for 2007–09, and the implementation of the IFRS.

X. Exchange Arrangements

The currency of Mauritania is the ouguiya (UM). In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second imposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. In July 2005, this surrender requirement was reduced to 60 percent. In July 2006, the surrender requirement was cancelled for small-scale pelagic fish exports and in October 2006, it was further reduced to 25 percent for exports of the public trading company SMCP. The BCM eliminated in October 2006 foreign exchange rationing, which constitutes a restriction on the making of payments and transfers for current

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

international transactions under Article VIII, section 2 (a). From October 2005 to January 2007, the ouguiya has been de facto pegged to the U.S. dollar, at an exchange rate of UM 268.6 per dollar. The BCM launched a foreign exchange auction market in late January 2007. The exchange rate against the dollar has been broadly stable since, and amounted to UM 268.5 per dollar on March 6, 2007.

XI. Last Article IV Consultation

Discussions for the 2006 Article IV consultation were held in Nouakchott, from April 26 to May 9, 2006. The staff report (IMF Country Report No 06/272) was considered by the Executive Board on June 21, 2006. The Executive Board approved the HIPC Completion Point document for Mauritania on June 7, 2002.

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

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

- The financial sector, while not exhibiting any sign of distress, does not support economic development and presents significant challenges.
- Banks are vulnerable and inefficient; they primarily serve their affiliated economic groups.
- Nonbank financial intermediaries are underdeveloped; microfinance is emerging, with institutions depending on subsidies.
- Financial sector regulation still needs some additional improvement and enforcement, in spite of recent progress, is still weak.
- The financial sector infrastructure needs to be modernized—including the legal and judicial framework, accounting and auditing practices, and the payment system.

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

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

XIII. Technical Assistance (since 2005)

1. MFD (formerly MAE)

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

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

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

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

2. FAD

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

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

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

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

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

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

3. LEG

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

4. STA

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

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

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

5. AFRITAC

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

XIV. Resident Representative

Mr. Marc Carre was appointed resident representative in Mauritania in January 2007.

ANNEX II. MAURITANIA: RELATIONS WITH THE WORLD BANK GROUP

As of March 20, 2007

Partnership in Mauritania's Development Strategy

1. Mauritania's second PRSP (PRSP-2), which was discussed by the Boards of the IMF and the World Bank in December 2006 and January 2007, respectively, builds on the lessons learned from the implementation of the first PRSP and was prepared in a participatory way. Covering the period 2006–10, one of the central themes in the PRSP-2 is the transparent and prudent management of the country's new oil wealth, with the objective of maintaining macroeconomic stability and achieving broad-based growth.

2. Under the transition government, an ambitious program aimed at improving public financial management, strengthening the rule of law and re-establishing democracy has begun to be implemented. The progress made to date was acknowledged at a stock taking meeting between the government and Mauritania's development partners, held on March 6, 2007. The governance environment is also improving considerably, thanks to several important initiatives including the adherence to the Extractive Industries Initiative (EITI) and the launch of a National Anti-Corruption Strategy (currently under preparation). The transition to democracy is now almost complete and a new, democratically elected government is scheduled to take office in April 2007.

3. The World Bank and the IMF continue to cooperate closely in assisting the Government of Mauritania to implement its medium-term poverty reduction strategy with each institution taking the lead in the policy dialogue in its areas of expertise. The Bank leads the policy dialogue on sectoral structural reforms, including the financial sector, private sector development and poverty monitoring and evaluation. The two institutions cooperate closely in advising the government on the implementation of the PRSP. Other areas of close collaboration include public financial management, the oil sector, the financial sector, external debt sustainability, poverty and social impact analysis, and private sector development.

Bank Group Country Assistance Strategy

The Country Assistance Strategy

4. The World Bank supported the implementation of the government's PRSP through its Country Assistance Strategy (CAS, FY03–05—extended to cover FY06). The CAS program of lending and nonlending operations was specifically designed to support implementation of the four strategic axes of the PRSP, with particular emphasis on capacity building. In the 2002 CAS it was assumed that a series of Poverty Reduction Support Credits (PRSCs) would gradually become the main pillars of the lending program, but this shift did not materialize, mainly as a result of the deterioration of macrobudgetary discipline, which emerged in 2004.

5. The next CAS (FY08-11) is currently under preparation and due to be discussed by the Board in July 2007. It will present a Bank program that is closely aligned with the priorities of the second PRSP and will outline the Bank's strategy for transitioning to Mauritania's possible graduation from IDA to IBRD. Taking into account the Bank's comparative advantages, the CAS will put particular emphasis on four priority sectors: (a) private and financial sector development; (b) urban development; (c) rural development; and (d) public sector and governance. It also envisages a continued engagement in the social sectors and support in the area of oil revenue management.

The Bank Portfolio

6. To date, the World Bank has approved 59 projects in Mauritania for a total of $1,040 million. The current portfolio has 11 operations (including a GEF project) for a total of $294.9 million, with an undisbursed balance of $175.8 million as of March 16, 2007. The portfolio also includes three regional projects, for which Mauritania's share is $66.9 million. With the regional program, the total Mauritania portfolio is $361.8 million. The Bank's program concentrates on rural development, urban development and social sector operations (health and education), with other specific investments in growth-stimulating sectors, such as mining, energy, and transport. In FY06, the Bank delivered the second Health and Nutrition Project ($10 million), a GEF Community-based Watershed Management Project ($6.4 million) and two regional projects: (a) the Senegal River Basin Multi-Purpose Water Resources Development Project—Credit to Mauritania ($31.78 million); and (b) the Hydroelectric Project—Credit to Mauritania ($25 million). In the first quarter of FY07 the Bank also delivered a Capacity Building Project (PRECASP—$13 million), and an Additional Financing Credit to the Second Mining Sector Capacity Building Project ($5 million) to provide technical assistance to the oil sector.

7. The Bank's program also encompasses non-lending services including Economic and Sector Work (ESW), the provision of Institutional Development Facility (IDF) grants and Trust Funds (TF). A Public Expenditure Review update—which benefited from the revision of all main economic data—was completed in FY06, along with an update of the 2003 Country Economic Memorandum (CEM), focusing chiefly on natural resources management (oil and mining). An Investment Climate Assessment (ICA) and a Gender Assessment are expected to be completed in FY07. The current ESW portfolio also includes a Study on Corruption in Mauritania, which will serve as an input into the government's Anti-Corruption Strategy, a Poverty Assessment and a Sources of Growth study, to be completed in FY08. Land tenure and fisheries studies, and a Country Procurement Assessment are also planned in FY08. The Bank provided $448,000 in an IDF for the Justice Sector (which closed in September 2005). In addition, the Bank is currently providing $273,000 through an IDF to support the accountancy profession and $349,000 through an IDF to strengthen the public procurement function. A Trust Fund for Statistical Capacity Building ($105,930) was approved in September 2005 and aims at supporting the development of a statistical master plan. A PHRD to prepare a Public Sector Capacity Building project ($549,825) closed on September 4, 2006 and a PRSP-TF ($496,900) closed on December 31, 2005.

Main Policy Reform Areas

8. The Bank supports the authorities in the implementation of the four priority areas at the core of the PRSP-1 and PRSP-2.

9. **Accelerate growth and maintain macroeconomic stability**. One of the key objectives of the government is to strengthen macroeconomic policy, to optimize the impact of oil production on growth, and to stimulate private sector development. The Bank's policy dialogue in this area focuses, inter alia, on: (a) identifying and implementing structural reforms and macroeconomic policies, through the PRECASP project and the ESW program (including the Sources of Growth and fisheries studies); (b) improving access to financial services; and (c) improving the business environment through legal and judicial reform, and through a detailed analysis of the ICA. The Bank is also promoting the growth agenda in its rural operations, particularly through the activities supported by the PDIAIM project, which works with private sector operators in the Senegal valley area. IFC will coordinate its interventions with the Bank in supporting government reforms, privatization and investment opportunities.

10. **Anchor growth in the economic sphere of the poor**. This requires (a) renewed efforts to ensure a sustainable urban development; and (b) a comprehensive approach to rural development. In the urban sector, following the successes of the ongoing UDP project, a second phase project will be prepared in FY08, with the participation of other donors, which will continue to address economic development of the cities, improvement of urban management with greater devolution of management and resources to the municipalities. In the rural sector, the government has prepared a review of the sector as a first step towards the preparation of a comprehensive rural development strategy. Bank support will be aligned with this strategy. This would include measures to increase productivity in the livestock and agricultural sectors, which employ a large swathe of the rural poor. In livestock, the policy dialogue centers, on the one hand, on growth and poverty reduction, paying particular attention to key value chains identified in the strategy, such as meat export, cattle and leather production. On the other hand, the Bank will push for a concrete application of the new Livestock Code elaborated with the assistance of the German cooperation agency. In agriculture, attention is being paid to improving farm productivity by easing access to inputs and credit and promoting training schemes for farmers. Efforts are also being undertaken to improve living conditions at the local level (village communities) by stimulating income generating activities, expanding access to basic socio-economic services and roads, and improving natural resource management practices. Bank support will also promote decentralization and local development with particular focus on direct transfer of funds to poor rural communities, including through access to micro finance, which will prevent the marginalization of the sector and rural poor.

11. **Develop human resources and provide access to basic social services**. *Education*. The Bank's operations and policy advice support the objectives of the National Program for

the Development of the Education Sector (PNDSE 2002–10). Main actions have led to: (a) the expansion of infrastructure to boost access to schools; (b) the recruitment of new tutors and teachers; (c) the reform of the teacher training institutions in line with the bilingual teaching requirements; and (d) the implementation of training schemes for teachers to strengthen education quality. The Bank also supports higher education reform through the Higher Education Development Project, including technical assistance and the construction of a new university campus. Mauritania has also benefited from the Education for All Fast Track Initiative to accelerate the implementation of the national education program (receiving a total of $9 million in 2004–05), and it currently is in the process of requesting additional assistance for 2007.

12. *Health*. Additional efforts are needed to accelerate progress toward the health and nutrition related MDGs targets. Actions—which will continue to be supported by the Bank mainly through the upcoming Health and Nutrition Support Project—have resulted in: (a) greater access to primary health; (b) improvements in the quality of health services, especially for the poor; (c) the establishment of new benefit packages to attract health personnel in rural areas; and (d) the recruitment of additional health personnel. The authorities have adopted a multisectoral approach to combat HIV/AIDS, which is supported by the Bank's ongoing Multisector HIV/AIDS Control Project. The leadership for this program is located in the prime minister’s office and has translated to date in strong cross-sectoral response at both the central and local levels.

13. **Promote good governance and institutional capacity building**. The government has made good governance one of its key priorities for the transition period and has taken an important first step by signing the UN Convention against Corruption. It plans to elaborate a national Anti-corruption Strategy before the end of the transition, which the Bank will support through a comprehensive anti-corruption study. The Bank also advises the government on its Anti-Money Laundering (AML) program, following the recently passed AML legislation and Mauritania’s adherence to the Financial Action Task Force Against Money Laundering for the Middle-East and North Africa (MENAFATF). Finally, the PRECASP project supports governance reforms in a number of areas, including public expenditure management, decentralization, modernization of public administration and strengthening of civil society capabilities.

Bank-Fund Collaboration in Specific Areas

14. As part of its overall assistance to Mauritania—through lending, country analytical work, and technical assistance—the Bank supports policy reforms in close collaboration with the Fund, in the following areas:

15. ***Public Expenditure Management.*** The Fund and Bank jointly emphasize the need to significantly improve public expenditure management (PEM), accountability, and transparency. Substantial progress has been made in key areas of PEM, most notably (a) the

preparation of monthly treasury balances and fiscal reports, reconciled with the Central Bank (BCM); (b) the adoption of a functional classification to facilitate public expenditure tracking; (c) an update of the global Medium-Term Expenditure Framework (MTEF); (d) the new Automated Expenditure Chain Network (RACHAD), put in place in November 2005 on a pilot basis, which integrates all budget execution procedures; and (e) the deconcentration of authority over payment orders to the ministerial level.

16. ***Oil.*** The government has established a National Hydrocarbon Revenue Fund (FNRH), an off-shore account administered by the Central Bank, which will receive all government oil revenues. The transparency surrounding oil revenues has also been strengthened through the transparent treatment of oil revenues in the 2006 and 2007 budgets; and the government's commitment to adhere to the EITI. Further progress is required to elaborate, finalize and enact the National Hydrocarbon Law. The Bank and Fund actively support the authorities in the implementation of the EITI, the management of oil revenues, and in defining the role of the National Hydrocarbon Society (SMH). The World Bank Treasury is also providing technical assistance to the BCM in the area of reserve management, following a specific request from the authorities and in agreement with the IMF.

17. ***Financial Sector Reform.*** As part of the CAS, the Bank, in close collaboration with the Fund, is helping the authorities in improving financial sector intermediation for private sector development, and mobilizing savings, while promoting competition in the financial sector. A Financial Sector Study was completed in 2004. A joint Bank/IMF in-depth review of the financial sector (FSAP) took place in late March/early April 2006 and found that: (a) Financial services in Mauritania are underdeveloped, with the banking system still accounting for an overwhelming share of the financial sector; (b) Credit risk, including risk concentration, is Mauritanian banks' main vulnerability; (c) Banking supervision has been strengthened but the regulatory framework still lags significantly behind international standards; and (d) Nonbank financial services (e.g., microfinance, insurance) are at an early stage of development. The authorities have asked the bank to assist with the implementation of the FSAP proposed action plan and a proposed financial/private sector and judicial project is under preparation for delivery in FY08.

18. ***Poverty and Social Impact Analysis (PSIA)***. The Bank and Fund have agreed to review closely the poverty and social impact of reforms that are being implemented. To date, benefit-incidence analysis has been conducted in the health and education sectors to assess the welfare impact of public spending on different groups of people. In the mining sector, a PSIA has been conducted to evaluate the impact of reducing the auxiliary services provided by the national mining company (SNIM) to different groups of people (electricity and water). Additional poverty-related analytical work includes: (a) a survey on the dynamics of rural labor markets (finalized); and (b) the elaboration of poverty maps (ongoing). An in-depth poverty assessment is scheduled for delivery in FY08.

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FOR IMMEDIATE RELEASE
April 23, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under the PRGF Arrangement with Mauritania and Approves US$2.9 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Mauritania's economic performance under the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the release of an amount equivalent to SDR 1.93 million (about US$2.9 million). This brings total disbursements under the arrangement to SDR 6.45 million (about US$9.8 million).

The PRGF arrangement was approved on December 18, 2006 in an amount equivalent to SDR 16.1 million (about US$24.5 million)-See Press Release 06/288.

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"Mauritania's economy continues to perform well despite some difficulties in the nascent oil sector. Sound macroeconomic policies helped keep inflation under control, improve confidence in the domestic currency, and enhance the country's external position. There has been substantial progress in the financial sector area, including the promulgation of key financial sector ordinances and the successful debut of the foreign exchange market.

"The new authorities intend to achieve Mauritania's ambitious poverty-reduction goals through sound macroeconomic management, the promotion of private sector-led development, and good governance.

"In the short term, sound macroeconomic policies will require a close monitoring of the oil revenue outlook, a cautious execution of non-priority spending, and efforts to enhance non-oil revenues. Improved oversight of state-owned enterprises will also be necessary to reduce the risks on the budget.

“Private sector-led growth will require further progress in the financial sector area, with a focus on strengthening supervision, improving the commercial banks’ financial position, and developing the foreign exchange market.

“Improved governance is a key element of the public sector reform agenda. The authorities are committed to reforms in this area, including the further strengthening of budget preparation, execution, and control capacity. This is an important condition to help the authorities meet their poverty-reducing spending objectives and work towards attaining the Millennium Development Goals. The authorities’ program also envisages the finalization and implementation of the anti-corruption strategy, the further strengthening of the oil revenue management legislation, and the streamlining and modernization of the civil service.

“To ensure external sustainability, the authorities will need to rely on concessional external financing and seek agreements with the creditors that have not yet provided debt relief under the Heavily Indebted Poor Countries (HIPC) initiative,” Mr. Portugal said.

Statement by Laurean W. Rutayisire, Executive Director for Islamic Republic of Mauritania April 23, 2007

1. The presidential elections held in Mauritania on March 25, 2007 marked the end of the political transition period. Two years ago, in August 2005, Mauritania's new authorities launched comprehensive reforms and deep institutional changes aimed at improving the country's governance and transparency. While making rapid progress in their reform agenda, they have received praise for fulfilling their pledge to turn over power to a democratically-elected government within a period of less than two years. These achievements would not have been possible without the support of all of Mauritania's development partners. They are especially grateful to the Fund's support, at all levels, staff, management, and the Board.

2. The newly elected President now faces the formidable challenge of preserving and consolidating these gains. As such, Mauritania's new President announced recently that he would build on the achievements of his predecessors, notably through preserving close ties with the Fund and the World Bank. He also declared that the fight against poverty and the improvement of the population's living standards will top his economic agenda. This task is made difficult by the fact that it is incumbent on the new authorities to manage the hopes and expectations arising from oil discovery last year, now that oil prospects have been revised downward substantially. Against this backdrop, they rely on the continued and close support of the international community to help preserve the gains achieved so far. Another key issue will be to address rapidly the significant outstanding debt vis-à-vis a number of bilateral creditors that have not yet provided post-HIPC and MDRI debt relief. On my authorities' behalf, I call on the cooperation of all creditors concerned to provide debt relief as soon as possible, and support Mauritania's efforts and achievements in managing soundly the country's economy.

Recent Economic Developments and Performance Under the Program

3. The Mauritanian economy witnessed a moderate slowdown in 2006, compared to 2005. Non-oil real GDP growth reached 4.4 percent, slightly below the 2005 level of 5.4 percent and the level of 6.1 percent initially projected under the program. A number of sectors have underperformed, including agriculture –as a result of a disappointing rainy season–, but also construction and fishing. Oil production continued to be revised downward as a result of persisting technical difficulties experienced by the operator Woodside in the sole oil well currently being operated offshore. The level of oil production now stands at approximately 22,000 barrels per day against 75,000 projected at the start of oil production, in February 2006. Economic growth –including oil– reached 11.7 percent, slightly lower that the 13.9 percent initially projected. Nonetheless, reserves accumulated in the oil fund remain high as a result of the authorities' efforts to limit their

resorting to financing through this fund. Furthermore, other important macroeconomic aggregates i.e., inflation, the current account deficit, and the fiscal deficit have all performed better than anticipated.

4. Important progress was made to further liberalize the economy and promote a free-market agenda. The requirement from private fishing companies to surrender part of their fish export proceeds to the central bank has been eliminated in December 2006. All other quantitative and structural performance criteria under the program at end 2006 were met despite the substantial drop in oil production. Key measures implemented in the past few months include the launching of a foreign exchange market in January 2007 which represents an important step towards the implementation of a more flexible exchange rate regime. Also important was the liberalization of all current account transactions thereby eliminating remaining restrictions under the Fund's Article VIII. The adoption of new statutes for the central bank that will enhance the independence of the institution vis-à-vis the government was also among the key measures implemented. Furthermore, and in order to promote financial market competition, the authorities have recently licensed new foreign banks. As for the issue of higher minimum capital requirements for foreign banks, the authorities maintain the assurances given to staff that all banks will be progressively aligned to the higher minimum capital requirements.

5. However, for reasons in part outside the authorities' control, two quantitative benchmarks were not met (late disbursal of EU fishing compensation led to higher than programmed stock of Treasury float) or because overestimation of some departments' absorptive capacity (some Ministries had difficulty carrying out poverty reduction expenditures). The delays encountered in meeting two structural benchmarks (monthly monitoring of budget execution and introduction of the central bank's new liquidity instrument) are currently being addressed.

Economic Prospects and the Implementation of the Program

6. Economic prospects for 2007 continue to be affected by the developments in the oil sector. The downward revision of oil revenue projections has also led to a revision of broad money and liquidity growth. While this will help to contain inflation within the 7 percent level projected under the program –further reinforced by the authorities' continued commitment to a prudent monetary policy stance–, it will have a more adverse impact on other aggregates such as the fiscal and external balances. It has also caused an important downward revision of in real GDP growth for 2007. With regard to the fiscal sector, the large oil revenue shortfall expected from oil exports will be, in part, offset by an increase in revenues derived from the buoyant oil exploration activities –both on- and off-shore–, and from the expected resumption of growth in other sectors, notably fishing. Nonetheless, the authorities remain committed to avoiding resorting to central bank

financing and to transfers from the oil fund to the budget. In this regard, they have agreed with staff on a specific amount that has to remain in the oil fund account by end-2007.

7. Given the uncertainties related to fiscal revenues' performance, and in an effort to pursue a prudent budget implementation in accordance to the objectives of the program, expenditures allocated to the various Ministries will be limited by the end of the first semester, to a maximum of 45 percent of the total current expenditure envelope for the year (poverty reducing expenditures are protected by a floor under the program). In addition to those limits set forth by the authorities, they will reinforce their control over expenditures, to which the *Inspection Générale de l'Etat* will be more closely associated. Other important measures in the fiscal area include identifying, before the end of June 2007, a list of fiscal exonerations that will be eliminated by 2008. In addition, progress is being made to overhaul public administration with the launching soon of a census of all government employees that will give a better picture of the current situation in terms of government staffing with the objective of better defining the needs of the administration.

8. Notwithstanding the substantial decrease in oil revenues, the authorities will not alter their efforts to enhance transparency in the management of oil revenues. Their control over oil revenues will be further reinforced once the new law on the management of oil revenues is adopted by the new legislature, taking into account IMF's FAD recommendations. Mauritania also continues to make progress on EITI requirements following its adhesion to the initiative in 2005. In this regard, the EITI report for year 2005 has been published.

9. The authorities welcome the findings of the FSAP mission and will continue to collaborate closely with the IMF and the World Bank to implement the recommendations made in the report, some of which have already been implemented (new banking laws). Others are underway (strengthening banking supervision). Furthermore, the authorities have taken important steps to strengthen the central bank's safeguards in accordance with the recommendations of the assessment recently conducted in Mauritania. They will continue to work on a more effective implementation of remaining recommendations.