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Islamic Republic of Mauritania: 2008 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Supplement; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for the Islamic Republic of Mauritania

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2008 Article IV consultation with the Islamic Republic of Mauritania and the third 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 2008 Article IV Consultation and Third 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 March 20, 2008, 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 May 5, 2008. 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 staff supplement on the joint IMF/World Bank debt sustainability analysis.

- A Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its May 19, 2008, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

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

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

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

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

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INTERNATIONAL MONETARY FUND

ISLAMIC REPUBLIC OF MAURITANIA

2008 Article IV Consultation and Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Amor Tahari and Anthony R. Boote

May 5, 2008

- Discussions were held in Nouakchott from March 9–20, 2008. The mission met with the President, the Prime Minister, the Governor of the Central Bank of Mauritania, the Ministers of Economy and Finance, Petroleum and Mining, Agriculture and Livestock, Commerce and Industry, the National Delegate for private investment, and development partners.
- The staff team comprised Messrs. Guillaume (head), Saadi Sedik (MCD), Berndt (PDR), and Michel (FAD), and Mses. Hijazi and Vimond (MCD). Mr. Tahari (MCD) joined the mission for policy discussions. Mr. Frécaut (MCM) overlapped and liaised with the mission to provide assistance on bank restructuring. The mission was assisted by the resident representative in Mauritania, Mr. Carre. Mr. Sidi Bouna (OED) also participated in the mission.
- At the conclusion of the last Article IV consultation on June 21, 2006, Executive Directors noted that Mauritania should focus on consolidating macroeconomic stability and strengthening the external position through prudent budgetary use of new oil revenue. Since then, the authorities have achieved some macroeconomic stability and engaged in a comprehensive reform agenda. They are now facing new challenges with a possible food access crisis and diminished oil production prospects in the next few years.
- Mauritania accepted the obligations of Article VIII, Sections 2 (a), 3, and 4 in 1999. The exchange rate is now de facto classified as a managed float with no pre-announced path, by contrast to a peg to the U.S. dollar during the last Article IV consultation.
- Despite shortcomings in national accounts, fiscal and balance of payments statistics, data provision to the Fund is broadly adequate for surveillance purposes.
- The PRGF arrangement covering October 2006–September 2009, in an amount of SDR 16.1 million (25 percent of quota), was approved on December 18, 2006. Completion of this review would enable Mauritania to request a disbursement in an amount equivalent to SDR 1.93 million. 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

Background

Mauritania's macroeconomic performance was satisfactory, despite a steeper-than-expected decline in oil production reflecting persistent technical problems, and difficult external environment. All end-December 2007 quantitative and structural performance criteria and benchmarks were met. The real non-oil GDP growth is estimated to have increased to 5.9 percent in 2007, driven by a rebound in agriculture and new mining projects. Sound macroeconomic policies contributed to a decline in inflation despite an acceleration in the second half of 2007 resulting from higher food and oil import prices. The current account deficit deteriorated, reflecting higher food prices and lower oil exports. Gross international reserves position strengthened to 1.9 months of imports of goods and services at end-December 2007. The budget deficit was held within the limits set in the program.

Views of the authorities

The government is strongly committed to the reform program supported by the PRGF arrangement, while underlining the need to take measures to avoid a potential food access crisis, which could cause social and political unrest if not addressed.

The authorities are aware of the need to accelerate economic growth to raise the standard of living of Mauritanians, in the context of limited oil revenue prospects for the next few years. To this end, the government intends to promote private sector development by improving the business climate, fostering investment, and strengthening the competitiveness of the economy. Accordingly, they plan to make the tax framework more favorable to investment, facilitate access to credit by strengthening commercial banks, develop basic infrastructures, and enhance governance and the effectiveness of the judicial system.

Staff recommendations

The authorities' response to the potential food access crisis is comprehensive, but they should monitor closely the situation.

Reducing poverty will require the implementation of policies to enhance growth and encourage private sector investment, including maintaining macroeconomic stability and enhancing competitiveness. Measures to consolidate banks and expand the financial sector should be implemented, including the restructuring of banks' loan portfolio. The authorities should also urgently finalize and implement a restructuring strategy for key public enterprises.

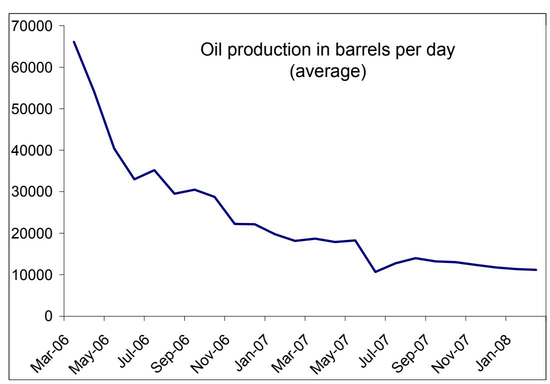
I. INTRODUCTION

1. **The democratization process that was initiated by transition authorities has been successful.** Steps toward democracy included a referendum on constitutional amendments in June 2006, followed by parliamentary elections in November 2006, and culminating in the election of Sidi Mohamed Ould Cheikh Abdallahi as president in March 2007. International observers expressed satisfaction with the transparency and fairness of the elections. The new president appointed Zeine Ould Zeidane, a former central bank governor, as prime minister and a new government was formed in April 2007.

2. **Poverty incidence remains high at about 47 percent, with 75 percent of the poor living in rural areas.**[1] Real GDP growth averaged 4.7 percent in the period 2001–07, which translated into an average per capita real GDP growth of 2.2 percent. However, despite progress over the past few years, Mauritania ranked 137 out of 177 countries according to the Human Development Index in 2007. The probable hike in inflation caused by high international food and fuel prices is expected to adversely affect poor households and could increase the share of population living below the poverty line.

3. **Medium-term oil production perspectives have been substantially revised downward since the last Article IV consultation.** This reflects both technical difficulties encountered in Chinguetti, the first offshore field that went into production in early 2006, and uncertainties on the timing of the beginning of the exploitation of the Tevet and Tiof oilfields, which is likely to be delayed until 2012. Oil production averaged 36,000 barrels a day in 2006 and 15,000 in 2007, far below the original projections of 59,000 barrels per day for 2006 and 63,000 for 2007.

4. **The authorities have engaged in a comprehensive reform agenda to stimulate non-oil growth and reduce poverty in the context of the PRGF-supported program.** In particular, they intend to improve infrastructure, enhance competitiveness, promote private sector development, improve fiscal management, fight corruption, maintain macroeconomic stability, and increase government's efficiency in delivering public services. To support their development plan, the authorities successfully organized a consultative group meeting in Paris in December 2007, where they received financial pledges amounting to $2.1 billion.



[1] Figures are based on a 2004 household survey.

5. **The president and the prime minister reiterated the government's strong commitment to the reform program supported by the PRGF arrangement**, while underlining the need to take measures to avoid a potential food access crisis, which could cause social and political unrest if it remained unaddressed.

II. Recent Developments

6. **Notwithstanding a steeper-than-expected decline in oil revenue, macroeconomic developments remain broadly in line with program objectives (Table 1)**. Real GDP growth is estimated at 1 percent in 2007, compared to 11.4 percent in 2006, despite an increase in real non-oil GDP growth from 4.1 percent in 2006 to 5.9 percent in 2007 driven by a rebound in agriculture and new mining projects. The current account deficit increased from 1.3 percent of GDP in 2006 to 11.4 percent in 2007, reflecting higher food prices and lower oil exports. Gross international reserves amounted to $208.8 million (equivalent to about 1.9 months of imports of goods and services) at end-December 2007, as the negative impact of a shortening of oil import credit was partly compensated by higher repatriation of profits from the public iron company SNIM.

7. **The partial pass-through of increases in international food and petroleum prices led to large-scale demonstrations in November 2007.** In response, the authorities adopted additional fiscal measures in the 2008 budget to alleviate the social impact of price increases while maintaining the non-oil fiscal balance unchanged.[2] By end-2007, year-on-year inflation had picked up from 5.9 percent in September to 7.4 percent in December, but was still lower than the 7.9 percent program estimate for 2007, and the 8.9 percent realized in 2006.

8. **All the quantitative performance criteria at end-December 2007 were met (Attachment I, Table 1)**. In particular, the basic—excluding foreign-financed spending—non-oil fiscal deficit reached 2.5 percent of non-oil GDP (compared to 2.9 percent envisaged under the program), reflecting higher-than-expected tax revenues as a result of more efficient tax collection. Both quantitative indicative targets were also met. First, the stock of outstanding payments at the treasury was cleared due to improved monitoring of the cash position, and computerization and deconcentration of the expenditure process; second, poverty related spending also exceeded the program target as pro-poor spending accelerated in the second half after some initial difficulties in implementing poverty reduction programs in the first half of the year.

9. **The authorities have maintained a prudent monetary policy stance (Table 4)**. The Central Bank of Mauritania (BCM) absorbed commercial banks' excess liquidity through the issuance of treasury bills in coordination with the ministry of finance. Treasury bills rates remained relatively stable in the 10–11 percent range and the discount rate was unchanged at 12 percent. The exchange rate vis-à-vis the dollar appreciated from UM/$268.6

[2] See the supplement to the Letter of Intent (Country Report No. 07/375).

at end-2006 to UM/$252 at end-2007, as a result of increased confidence in the domestic currency and occasional BCM's intervention to limit the inflationary impact of the Euro appreciation against the dollar. The parallel market premiums have remained insignificant since February 2007.

10. **Structural performance criterion and benchmarks were also met (Attachment I, Table 2).** VAT and custom duties exemptions were eliminated on a list of essential goods; a centralized taxpayer database covering the main cities, Nouakchott and Nouadhibou, was introduced in December; and the BCM addressed all external audit qualifications on its 2006 financial statements within its immediate control.[3] Transparency in the oil sector was further enhanced by the finalization of the audit of the 2006 financial statements of the national hydrocarbon company (SMH) and the publication of oil production sharing contracts. A new mining code setting a clear regulatory and fiscal regime that is favorable to investors was transmitted to parliament.

III. Policy Discussions

11. **While medium-term prospects are favorable with** (a) the expected disbursements of financial pledges made during the recent consultative group meeting; (b) the projected exploitation of new oil—and potentially gas—fields; and (c) progress made in maintaining macroeconomic stability, **the Mauritanian economy will remain vulnerable in the next few years because of limited oil revenue prospects, and increasing inflationary pressures resulting from high international food and fuel prices.** In this context, and given the pressing need to reduce poverty, policy discussions centered on: (a) maintaining macroeconomic stability; (b) enhancing competitiveness and accelerating growth; and (c) consolidating the financial sector.

A. Maintaining Macroeconomic Stability

12. **Mauritania has reached some macroeconomic stability in the last couple of years.** In particular, the authorities have (a) contained the non-oil primary deficit through enhancing revenue collection and prioritizing spending, notably via the adoption of a Medium-Term Expenditure Framework (MTEF); (b) accumulated some oil revenue in the oil fund as a liquidity buffer; (c) reduced inflation to single digit levels; (d) introduced a flexible exchange rate policy; and (e) strengthened the level of official reserves.

13. **Government policy is geared toward maintaining macroeconomic stability by continuing prudent and coordinated fiscal, monetary, and exchange rate policies.** Real non-oil GDP growth is projected to be sustained at 6.2 percent per year on average over 2008–12, reflecting the step-up in public investment related to consultative group and an

[3] During the upcoming financial audit of the BCM, auditors are expected to confirm that they are satisfied with the measures taken by the BCM.

increase in mining production capacity. With oil production expected to rebound with the exploitation of new fields in 2012, real GDP growth is projected to average 7.1 percent per year in the medium term, though it would remain at 5.9 percent in the next four years. After a peak in 2008 resulting from high international food and fuel prices, inflation is projected to decline gradually to 5 percent by 2012. The level of international reserves should strengthen to about 3.5 months of imports of goods and services by 2011.

14. **With limited oil revenue prospects in the immediate period ahead, the government will continue to pursue cautious fiscal policy in the medium term despite some small relaxation of the fiscal stance in 2008 in response to escalating fuel and food prices.** The basic non-oil fiscal deficit is projected to remain in the range of 1.7–2.2 percent of non-oil GDP in 2009–13. This prudent fiscal stance is key to the authorities' plan to foster externally financed investment by improving the credibility of their policies and investors' confidence.

- **On the revenue side, the authorities will take measures to improve domestic taxation, aiming at broadening the tax base, promoting investments, and reducing the share of the informal sector.** However, total non-oil revenue should remain broadly stable, as the increase in tax revenue will be offset by a decline in nontax revenue, reflecting notably a decrease of fishing exploitation rights paid by the European Union. Grants are expected to hover around 3 percent of non-oil GDP between 2008 and 2012 pushed up by disbursement of pledges from donors at the December 2007 consultative group meeting.

- **On the expenditure side, the government will continue to increase capital and poverty reducing expenditures and contain current expenditures.** Capital expenditures should increase gradually to 11 percent of non-oil GDP by 2012, reflecting disbursements from pledges made during the consultative group meeting and an increase in domestically financed investment that results from better expenditure prioritization. Poverty reducing expenditures will benefit from high investment spending and will double between 2008 and 2013 in nominal terms. The implementation of the civil service reform, conducted with the assistance of the World Bank, will be key to modernize public administration and control the wage bill, which is expected to decline slightly between 2008 and 2013 as a percent of non-oil GDP.

15. **The authorities will continue to implement a monetary policy consistent with their macroeconomic stabilization objectives in the context of a flexible exchange rate.** Money supply should increase in line with non-oil GDP growth over the medium term. Market-determination of the exchange rate, with central bank intervention aimed at achieving its international reserve objective, limiting inflation, and smoothing daily exchange rate volatility, is consistent with a *de facto* classification of the exchange rate as a managed float, rather than a peg as indicated in the last Article IV consultation.

16. **Mauritania's exchange rate is currently in line with fundamentals (Box 1).** Whilst the analysis suffers from the absence of reliable long-term time series, results from the implementation of the CGER-type methodologies indicate that misalignment estimates lie within the range of statistical error.[4] These results are confirmed by the absence of a significant premium on the parallel exchange rate market since the introduction of the foreign exchange market auctions in January 2007.

17. **Notwithstanding the impact of food and oil price increases, the medium-term external outlook is positive.** The hitherto dependence on fishing and iron as the predominant sources of export receipts to finance Mauritania's balance of payment has been eased by increased receipts from aid, oil, copper, and gold exports since 2006–07. While the current account deficit has been fully financed by aid and FDI since 2006, it remains very volatile due to Mauritania's great dependence on imported essential goods such as food.

18. **The results of the debt sustainability analysis indicate that Mauritania's risk of external debt distress remains moderate (Appendix IV).** This assessment is based on relatively conservative assumption on the volume of prospective oil exports, reasonable non-oil growth assumption, and a positive outcome of current negotiations of debt in arrears,[5] which had not been treated under the Heavily Indebted Poor Countries (HIPC) Initiative in 2006. These arrears constitute about half of Mauritania's external debt. Stress tests indicate, however, that Mauritania remains somewhat vulnerable to adverse shocks, notably to the risk of lower-than-projected growth of GDP and exports, including of oil. However, there is a significant upward risk resulting from the expected materialization of ongoing discussions with large foreign investors, which is yet to be quantified. In the absence of a resolution of the arrears, the NPV of external debt would exceed all thresholds.

B. Enhancing Competitiveness and Accelerating Growth

19. **Medium-term growth prospects are likely to be enhanced by higher public and private investment levels.** Following the consultative group meeting organized in December 2007 where donors pledged $2.1 billion, several financing agreements have already been signed. Foreign investors, particularly from Gulf countries, have expressed their intention to start investing in banks, tourism, construction, mining, transport, fisheries, and agriculture. To support further growth, the government intends to promote the development of the private sector by improving the business climate, fostering investment, and strengthening the competitiveness of the economy.

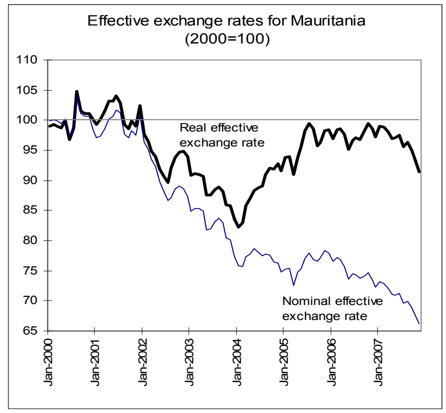
[4] Due to uncertainties in Mauritanian historic data, the analysis is based on estimated relationships from other cross-country studies ("Methodology for CGER Exchange Rate Assessments; November 2006").

[5] The authorities have sent letters to Kuwait and Libya proposing the cancellation or rescheduling of debt under the enhanced HIPC initiative.

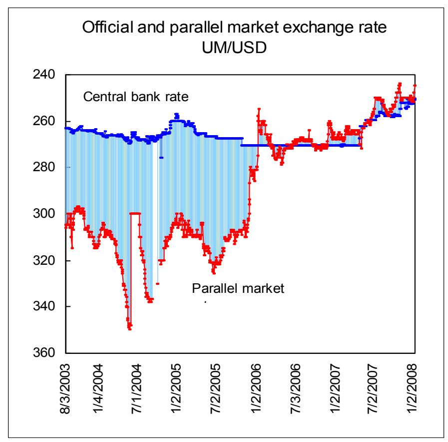
Box 1. Assessment of the Real Effective Exchange Rate

There are no signs of exchange rate misalignment. Parallel market premiums are insignificant and results from the CGER-type analyses indicate that the Mauritanian real exchange rate is in line with fundamentals.[1]

Over the course of 2007, Mauritania's real effective exchange rate has depreciated by about 4 percent, mainly as a result of a nominal depreciation. This development reversed a trend of real appreciation since 2004 caused by increases in relative prices in the course of 2004 and 2006. The recent effective nominal depreciation was mainly due to a depreciation against the Euro, which denominates more than half of Mauritania's trade, outweighing the nominal appreciation against the U.S. dollar.



The central bank has successfully moved toward a more flexible exchange rate regime in mid-2007, with parallel market premiums virtually disappearing since end-2006. After having kept the exchange rate stable for more than 18 months, since April 2007 the central bank has started to gradually allow the Mauritanian ouguiya to appreciate against the U.S. dollar. The comovement of the parallel and market rates is an indication of the successful implementation of the new more flexible regime.

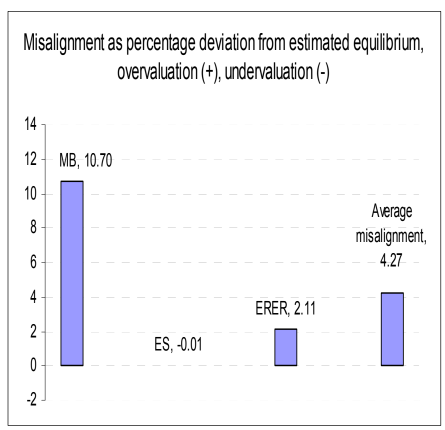


Due to uncertainties on Mauritanian historic data, assessments of the real exchange rate were based on estimated relationships between fundamentals and the real exchange rate from other cross-country studies. These analyses suggest that the current level of the Mauritanian real effective exchange rate lie within the margins of statistical error. The results presented in the chart rely on three approaches:

- **The macroeconomic balance (MB)** approach calculates the real exchange rate adjustment needed to eliminate the difference between current account balance projected over the medium term and an estimated equilibrium current account balance, or "CA norm". The MB shows that the exchange rate is overvalued by about 10 percent;

- **The external sustainability (ES) approach** provides estimates of the real exchange rate adjustment needed to stabilize the net foreign assets to GDP ratio at its 2006 level. The ES approach indicates that the exchange rate is at its equilibrium; and

- **The equilibrium real exchange rate (ERER)** approach estimates directly an equilibrium real exchange rate for Mauritania as a function of fundamentals. The exchange rate adjustment needed to restore equilibrium over the medium term is calculated as the difference between the estimated equilibrium real exchange rate and its current value. The ERER approach suggests that the exchange rate is overvalued by about 2 percent.



[1] These methodologies are presented in "Methodology for CGER Exchange Rate Assessments; November 2006": www.imf.org/external/np/pp/eng/2006/110806.pdf.

20. **However, competitiveness indicators suggest that Mauritania needs to accelerate structural reforms to improve the investment climate and promote growth (Box 2).**[6] The findings of various studies and surveys of the business environment in Mauritania overlap with regard to constraints to competitiveness, and suggest several areas in need of improvement, including access and cost of bank financing, tax regulations and burden, infrastructure (mainly electricity), customs and trade regulations, delays in opening a business, and labor market regulations. Moreover, real GDP growth has so far mainly been driven by the tertiary sector and extractive industries (including oil and mining), while other industries and agriculture have had a smaller contribution.

21. **In response, and with the assistance of the World Bank and other development partners and in collaboration with the private sector, the authorities are outlining a strategy to enhance competitiveness and enhance private sector's growth potential (Box 2 concluded)**. In particular, they are focusing on addressing the physical, structural, and institutional impediments to economic diversification, and developing sectors with a potential for high value-added and job creation such as agriculture, livestock, fishing, and mining.

C. Consolidating the Financial Sector

22. **The Mauritanian financial sector, while not exhibiting any sign of immediate distress, is small and does not support economic development according to the latest Financial Stability Assessment Program (FSAP) evaluation.** Banks, which dominate the financial sector, remain generally vulnerable and suffer from deficiencies in transparency standards, lack of competition, poor governance, and weak infrastructure. This significantly constrains access to credit, considered as one of the main impediments to competitiveness and growth. Without raising immediate stability concerns, the recently finalized 2005 commercial banks audits, which complied with international standards, confirmed the weak situation of the banking system.[7]

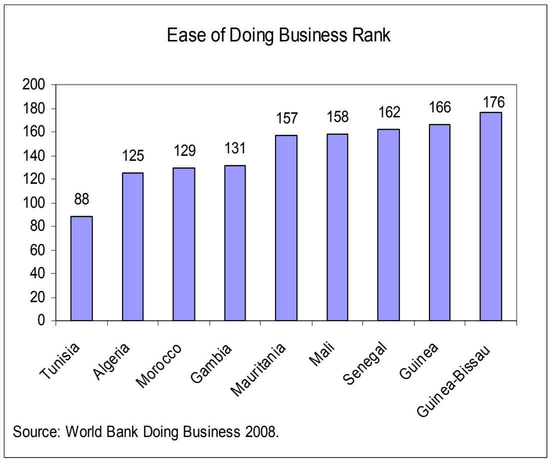
23. **Along the lines of the FSAP recommendations, the Mauritanian authorities have been undertaking some critical reforms (Box 3).** The authorities have upgraded the legal framework by adopting a new banking law. They have also aimed at gradually enhancing competition by allowing the entry of two foreign banks, which have become fully operational, and granting a license to a third foreign bank. The adoption of implementation regulations for the new banking law will pave the way for further strengthening of the financial sector, including through the opening up of existing banks to foreign capital and possible the entry of additional foreign banks. The authorities have also started implementing

[6] See the 2007 World Bank's Investment Climate Assessment for Mauritania.

[7] Already one bank has been put under the administrative control of the central bank.

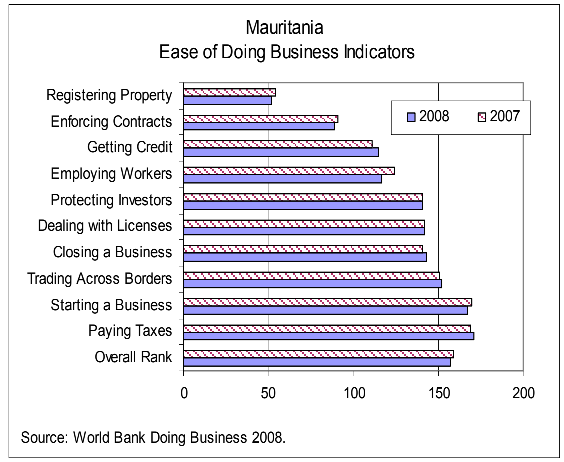
Box 2. Enhancing Competitiveness

Out of 178 countries, Mauritania ranks 157 in the 2008 World Bank's Doing Business Survey…



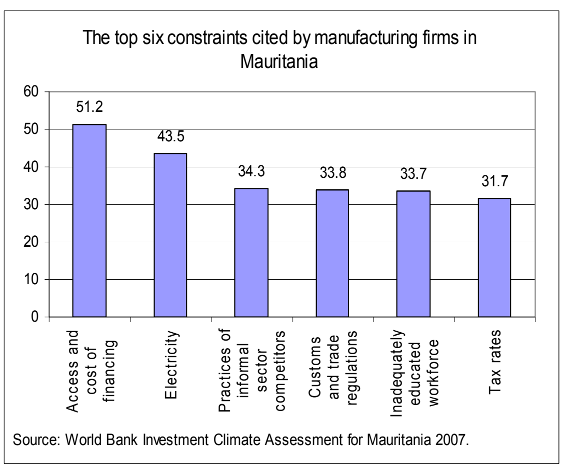
Source: World Bank Doing Business 2008.

… highlighting taxation and difficulties in starting a business as the worst doing business indicators.



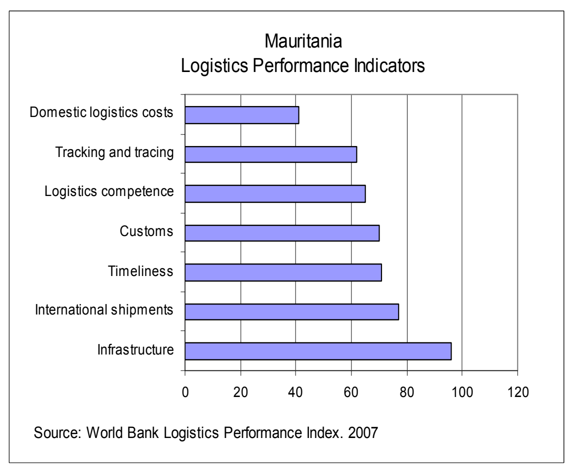
Source: World Bank Doing Business 2008.

Access and cost of financing seems to be a major constraint to manufacturing activity according to World Bank's 2007 Investment Climate.



Source: World Bank Investment Climate Assessment for Mauritania 2007.

The 2007 World Bank's Logistics Performance shows infrastructure to be a main obstacle to trade.



Source: World Bank Logistics Performance Index. 2007

Box 2. Enhancing Competitiveness (concluded)

With the support of their development partners, including the World Bank, the authorities have identified a few key structural reforms to improve the weak investment climate in Mauritania, including:

A. Financial sector reforms to facilitate access to credit particularly by:

- Dealing with weak banks and the restructuring of nonperforming loan portfolios;
- Finalizing the implementing decrees for the new banking law;
- Enforcing prudential norms;
- Strengthening on-site supervision of banks and internal control mechanisms;
- Implementing transparent accounting practices; and
- Ensuring transition to IFRS.

B. Tax reforms policy and administration with a view to:

- Improving the effectiveness of the VAT refund mechanism;
- Increasing the threshold for VAT and account-based income tax;
- Developing an intermediate tax regime to lighten tax administration for small and medium enterprises;
- Preparing a tax reform plan aimed at simplifying the direct taxation system and encouraging investment; and
- Modernizing custom and tax administration.

C. The restructuring of energy and transport sectors through:

- Improving the management and control of public enterprises and adopting performance contracts;
- Implementing a restructuring strategy for the electricity company to reduce cost, foster competition in the production of electricity, and diversify sources of energy;
- Extending transportation services to rural and remote areas;
- Developing port infrastructure; and
- Modernizing and rehabilitating airport infrastructure.

D. The enhancement of transparency and governance. While the new government has made good governance one of its key priorities and put the fight against corruption at the heart of its reform agenda, corruption remains an issue in Mauritania. The Corruption Perception Index published by Transparency International ranks Mauritania 123 amongst 172 countries surveyed in 2007. Additional measures to combat the corruption phenomenon and enhance transparency should focus on:

- Reinforcing transparency in the oil sector;
- Adopting a new mining code;
- Maintaining publication of the EITI report and of the audit of the oil fund;
- Developing a new code of conduct for public employees;
- Adopting a new commerce code;
- Producing credible and transparent financial statements for enterprises; and
- Improving the judicial and legal business environment.

Box 3. Banking Sector Reforms

- The 2006 FSAP pointed out that the Mauritanian banking sector did not support economic development and presented significant challenges; banks were vulnerable, with opaque financial statements, and inefficient; they primarily served their affiliated economic groups, with limited competition; access to financial services for nonconnected parties was severely curtailed. Financial sector regulation required additional improvement, enforcement was still weak, while financial sector infrastructure needed to be modernized.

- The authorities have since launched an ambitious, multi-pronged banking sector reform strategy. International audits of end-2005 accounts for all domestic banks revealed the scope and depth of their operational and governance shortcomings, indicating that three of them were facing serious financial difficulties. The audits—to be repeated for end-2007—were relied upon to draft memoranda of understanding setting up individual improvement programs for most domestic banks, while the weakest was placed under conservatorship.

- Bank minimum capital is being raised in steps to UM 6 billion ($22 million) by end-2010 to strengthen banks' financial position and foster mergers and associations with foreign partners. At the same time, loan-loss provisioning regulations are enforced more vigorously. Two foreign banks entered the market in 2006 and 2007, bringing some competition and raising the standards of service, and a few more are expected to also get licenses in the near future.

- One of the main remaining challenges is to accelerate the disposal of the large stock of nonperforming loans—some 40 percent of total loans—held by the legacy banks. The authorities are exploring their options, including setting-up private assets management companies. A review of the issue by staff indicates that a large share of all nonperforming loans is held by a limited number of defaulting borrowers. Perusing through these cases could probably lead to the early resolution of several of them, and would make it possible to identify common traits on the basis of which resolution approaches could be developed and applied to the rest of the population of defaulters.

Distribution of Nonperforming Loans by Sectors

	Total loans		Nonperforming Loans	
As of December 2006	Amount UMBn	Share (percent)	Amount UMBn	Share (percent)
Sundry services	25.08	18.1	11.87	20.9
Fisheries	21.27	15.3	13.83	24.3
Construction and public works	18.51	13.4	7.81	13.7
Other economic sectors	73.75	53.2	23.38	41.1
Total	138.61	100	56.89	100

IMF safeguards recommendations, including (a) the appointment of an external auditor who will continue the semi-annual reviews of foreign reserves data and an annual and an interim audit of the BCM; and (b) the adoption of a program of conversion of BCM's financial statements to IFRS standards and of a new chart of accounts.

24. **The authorities have prepared a comprehensive medium-term strategy for the financial sector (Box 3).** They are also reviewing possible gradual measures to deal with weak banks and restructure nonperforming loan portfolios.

IV. Program Implementation

A. Macroeconomic Outlook for 2008

25. **The immediate outlook is marked by increasing inflationary pressures resulting from high international food and fuel prices (representing 65 percent of the CPI basket), which could potentially lead to a food access crisis.** Despite a tightened monetary policy, and measures to limit the pass-through of international prices of certain commodities, year-on-year consumer inflation is expected to reach 12 percent by end-year.

26. **The prospect for growth outside the oil sector is good in 2008.** Real non-oil GDP growth could reach 5.7 percent, reflecting in particular a good performance of the mining sector following marked increases in the prices of iron, copper, and gold. However, because of technical difficulties affecting exploration of the Chinguetti oil field and delays in developing new operating wells, annual oil production is expected to continue to decline in 2008, resulting in overall GDP growth of around 5.0 percent.

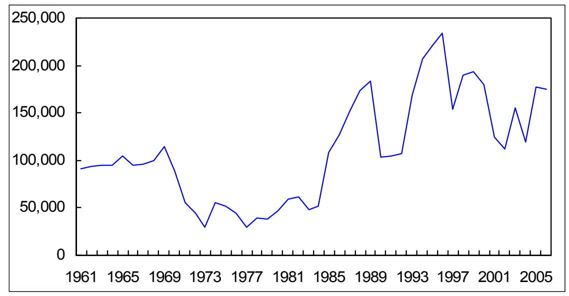
B. Fiscal Policy and Reforms

27. **In response to escalating social pressure, and encouraged by international aid agencies such as the World Food Program, the president unveiled an emergency response plan of about $90 million to address a potential food access crisis and help limit inflationary pressures (Box 4 and Attachment I, paragraph 8).** The 2008 budget will be adjusted accordingly through a supplementary budget law that will finance the emergency plan, partly through higher tax revenues resulting from a more efficient tax collection and higher nontax revenue from the mining company, and partly through an increase of the basic non-oil fiscal deficit for 2008 from 1.9 percent of non-oil GDP to 2.9 percent. This additional deficit will be financed through the issuance of treasury bills. The emergency response plan, which was discussed with the mission, contains a comprehensive set of first immediate, one-off measures aimed at ensuring food access through: (a) a sufficient replenishment of food stocks throughout the country ahead of the lean season (by supporting private imports through guaranteeing normal credit lines for imports, and having the public importer provide sufficient stocks at international price with

Box 4. Mauritania's Response to the Food Access Crisis

With an average food deficit of 70 percent and a highly volatile food production, Mauritania's food situation remains structurally precarious and affects the poorest strata of the population. Natural disasters such as drought, off-season rains or cold snaps, desert locust invasion, and floods regularly ruin a mostly traditional agriculture of rained crops on floodplains. During the lean season, from May to November, food rationing affects inhabitants of rural areas, and of the peri-urban periphery of Nouakchott. Two surveys reported by the World Food Program in 2006–07 estimate that about 400,000 Mauritanians (12 percent of population) are subject to food insecurity, and that chronic malnutrition hits 24.5 percent of children under age 5.

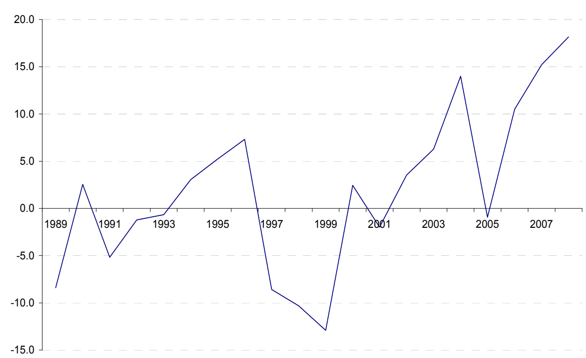
Mauritania's Production of Cereals, 1961–2007
(In tons)



Source: FAO.

Despite a relatively good cereal harvest in 2007, food prices remain on the rise in West Africa, with local price spikes reflecting weaknesses in the regional market. The 2007/2008 gross cereal production reached 47.2 millions of tons compared to 49.7 millions in 2006/2007 but remained above five- or ten-year averages. However, a decline in coarse grain production in a few countries along the Gulf of Guinea and the pass-though of international prices, notably in Guinea-Bissau, Mauritania, and Senegal, tightened food supply and bolstered local prices. Average regional food price inflation (year-on-year) reached 10.8 percent in December 2007, compared with 9.5 percent one year earlier. But local price spikes can be much higher: wheat, rice, and oil prices rose by more than 50 percent in Nouakchott over the period; and abnormal price increases for cereal products were confirmed on important wholesale markets. The impact of high food prices has been even more severe in rural areas where yields were severely reduced by delayed rains or floods. Local imbalances in the food supply chain, more developed than usual, have favored speculative behaviors.

WEO Food prices
(Percentage change)



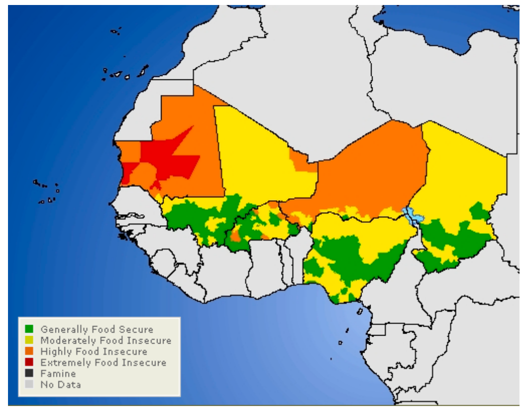
Decided in reaction to escalating social pressure, noncoordinated government interventions may further deteriorate the regional market. Food-related riots erupted in Burkina Faso, Cameroon, Ivory Coast, Mauritania, Niger, and Senegal in recent months. In response, many countries have adopted some form of price control, reduced tax, or import duties, introduced subsidies, or started selling strategic food stocks. Some weak targeted subsidies risk wasting resources by locally inducing overconsumption or stockpiling. In addition, countries have progressively been restricting food exports (following, at a more global level, the examples of Argentina, Cambodia, Indonesia, Kazakhstan, Russia, Thailand, and Ukraine). For Mauritania, there are indications that imports may be limited from neighboring suppliers from Burkina Faso, Mali, and Senegal (although increased competition between local and foreign buyers may also play a role).

International market conditions have led private importers to reduce activity and stocks. The global tightening of banking credit has led operators to reduce their net long positions on agricultural commodity markets, whose volatility keep increasing. Stocks are being reduced as their real costs increase with market prices and risks. In Mauritania's case, imports of wheat were limited to 60 percent of normal levels in the first quarter of 2008, which did not allow replenishing stocks at the very approach of the rain season.

Box 4. Mauritania's Response to the Food Access Crisis (concluded)

The combined effects of these factors are particularly acute in Mauritania and have led the president to unveil an emergency response plan of about $90 million (3 percent of non-oil GDP) on April 6. While immediate measures were authorized by an advance decree, the plan will be submitted to the parliament's approval in the upcoming supplementary budget law and its execution will be regularly reported to the legislature.

Projected Food Security Conditions in West Africa, 2nd Quarter of 2008



Source: Famine Early Warning Systems Network (FEWSN) / USAID.

The response plan contains a comprehensive set of immediate, one-off emergency actions aimed at ensuring some replenishment of food stocks ahead of the lean period and preventing a pass-through of international prices to gas, electricity, water, rice, bread, and cattle food. Food imports will be supported by publicly guarantying short-term credit lines to private importers,[1] and increasing the working capital of the public food import company (Sonimex). Security stocks will be directly purchased by the government. Free food distributions will be targeted via existing food stamps programs. Bread prices will be controlled and import tariffs on rice will be eliminated. Similar rules will apply to cattle food to preserve livestock in rural areas. Preventive health actions toward children under 5 and pregnant and breast-feeding women will be stepped up and delivered through community programs. Gas, electricity, and water prices will also be stabilized to help contain imported inflation that impact more disproportionally the poorest segments of the population. All these measures are temporary in nature and will be reexamined in the context of the 2009 budget.

Medium-term measures are designed to foster agricultural output to reduce dependency on food imports, and develop income-generating activities for poor suburban populations. Expanding harvested areas and encouraging consumption of locally grown crops could reduce the food deficit to about 45 percent. Income-generating activities will be targeted toward unemployed youth. The partial containment of the decrease of civil servants wages—through a 10 percent wage increase at mid-year—is less targeted but should play a role in mitigating the impact of a possible food access crisis through extended family solidarity networks.

1/ The performance criterion on short-term debt is being modified accordingly.

normal commercial margins, which will help prevent speculative behavior from private importers); (b) short-term measures to help maximize agricultural output for the next crop to reduce external dependency; (c) free food distribution to the most vulnerable segment of the population through food stamps and community service "work for food" programs; (d) eliminating the import tariff on rice that had created adverse incentive for commercial importers in the presence of large smuggling activity from neighboring countries where such tariff does not exist; (e) the continuation of limited bread subsidy; and (f) limited distribution of cattle food to help preserve livestock of the most vulnerable population. The plan also contains measures aimed at developing income-generating activities for poor suburban populations, and limiting the decline of civil servants' wages in real terms through a 10 percent wage increase for central government's workers at mid-year. Finally, to help mitigate the impact on inflation of high international energy prices, and in view of the 21.6 percent electricity and 20.6 percent water tariff increases in November 2007, the government has decided to avoid further electricity and water tariff adjustments in the remainder of 2008 as further increases could have a major negative impact on the poorer, economic activity, and price stability. To this end, the electricity company will effectively implement measures to reduce technical losses and increase fuel efficiency, and adopt a medium-term restructuring strategy. It might also benefit from limited and temporary government subsidies as needed. The amount of the subsidy for gas bottles will be increased to offset higher international prices, and avoid severe damages to the country's natural environment that would result from the use of wood for domestic purpose by the poorer.

28. **In line with FAD advice, the authorities will implement important tax reforms in the context of the 2008 supplementary budget law (Attachment I, paragraph 9).** In particular, the authorities will (a) fully implement the VAT refund mechanism, increase the threshold for VAT and account-based income tax, and develop an intermediate regime to lighten tax administration for small and medium enterprises; and (b) announce a tax reform plan aimed at simplifying the direct taxation system and encouraging investment, as a first step toward a complete overhaul of the general tax code. Specifically, the minimum flat turnover tax rate will be reduced from 3 percent to 1 percent as of January 1, 2009, which will be offset by the introduction of a quarterly prepayment system for the industrial and commercial profits tax.[8] An investment code will be adopted by end-2008.

29. **The authorities have engaged in a comprehensive Public Financial Management reform agenda**, covering the adoption of a new budget and accounting classification system, compliant with the 2001 *Government Finance Statistics* Manual, and the strengthening of execution monitoring procedures, especially for investments and the wage bill, to improve cash management (Attachment I, paragraph 10).

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[8] Revenues are recorded on a cash basis.

C. Monetary Policies and Financial Sector Reforms

30. **Monetary policy will remain geared toward containing inflation in the context of a flexible exchange rate policy (Attachment I, paragraph 11).** In this respect, the revised monetary program targets an expansion in broad money of less than 19 percent in 2008, in line with the nominal GDP growth rate, while still allowing for a sufficient private sector credit expansion. To achieve this objective, the BCM will enhance its liquidity management efforts by strengthening further its liquidity forecasts, advancing with the preparation of a securitization plan for BCM's existing claims on the government in line with MCM recommendations, and improving coordination with the ministry of finance with regard to monetary objectives. The BCM will continue to implement a flexible exchange rate policy to deal with the fluctuating terms of trade and preserve the competitiveness of the Mauritanian economy.

31. **The authorities are committed to accelerating the implementation of ambitious central bank and financial sector reforms (Attachment I, paragraphs 12–13).** They are enhancing efforts toward implementing the safeguards assessment recommendations, particularly those related to the strengthening of the central bank accounting framework and reporting standards. The authorities are also strengthening regulation and supervision and consolidating the banks' financial situation.

D. External Sector

32. **Several factors should affect positively the external outlook in 2008, bringing international reserves from $209 million to $330 million (equivalent to 2.8 months of imports) by year-end:** (a) a reversal of the oil import credits' maturity back from 90 days to 180 days will reduce payment of the oil bill in the third quarter; (b) the opening of short-term credit lines for food imports guaranteed by the central bank amounting to $40 million to cope with the high international food prices; and (c) higher repatriation of profits by the public iron company, SNIM.

E. Other Issues

33. **The government has decided to restructure their public enterprise portfolio in order to improve the quality of the services they provide, guarantee their financial viability, and introduce greater competition (Attachment I, paragraph 15)**. In this regards, Air Mauritania has been liquidated by a court's decision in January 2008. With the assistance of the World Bank, the government is also preparing a restructuring strategy for the electricity company (SOMELEC) as well as performance contracts with SOMELEC, the national water utility, and the public oil company.

34. **Even though data provision is broadly adequate for surveillance purposes, the authorities are conscious of the need to further strengthen economic statistics to**

improve economic decision-making, particularly through (a) updating the national accounts; (b) strengthening the monitoring of public enterprises; and (c) improving fiscal, balance of payment, and debt statistics.

V. Staff Appraisal

35. **Mauritania's macroeconomic performance has been satisfactory despite a difficult external environment.** In particular, the authorities have contained the non-oil primary deficit, reduced inflation to single digit levels, introduced a flexible exchange rate policy, enhanced liquidity management, and strengthened the level of official reserves. Despite a substantial downward revision of oil production prospects since the last Article IV consultations, macroeconomic developments were broadly in line with program projections. All end-December 2007 quantitative and structural performance criteria and benchmarks were met. Looking ahead, medium-term growth prospects are likely to be enhanced by higher public and private investment levels, although the immediate outlook is marked by increasing inflationary pressures resulting from high international food and fuel prices, which could potentially turn into a food access crisis if not addressed adequately.

36. **The authorities' response to the potential food access crisis is comprehensive, but they should monitor closely the situation.** The response plan contains a set of immediate, one-off, emergency actions that should ensure some replenishment of food stocks ahead of the lean period, prevent private sector speculation, and foster domestic agriculture production. Food stamps program and the development of income-generating activities for poor suburban populations will also help support the most vulnerable segments of the population. Measures to avoid further electricity, water, and gas tariff increase will help contain inflation that would adversely affect the poorer. The government in collaboration with its partners should monitor closely food access developments and the impact of these measures.

37. **In the context of limited oil revenue prospects for the next few years, reducing poverty will require the implementation of policies to accelerate growth and encourage private sector investment.** It is, therefore, essential that the authorities effectively tackle the most significant impediments to growth, including access and cost of bank financing, tax regulations and burden, infrastructure (mainly electricity), customs and trade regulations, delays in opening a business, and labor market regulations. At the same time, the authorities should accelerate the development of sectors with a potential for high value-added and job creation. In particular, the authorities should address the physical, structural, and institutional impediments to economic diversification, and develop agriculture, livestock, fishing, and mining.

38. **Mauritania should maintain macroeconomic stability by continuing to pursue prudent and coordinated fiscal, monetary, and exchange rate policies.** In particular, the

government should continue implementing a sound fiscal policy by containing the basic non-oil fiscal deficit, and a monetary policy consistent with the objective of controlling inflation in the context of a flexible exchange rate policy.

39. **In the context of the 2007 Decision on Bilateral Surveillance, staff has assessed that the real exchange rate is in line with fundamentals.** The staff welcomes the successful implementation of the flexible exchange regime that resulted in the virtual elimination of parallel market premiums. The new exchange rate regime—a managed float with no pre-announced path—is appropriate.

40. **The authorities have undertaken an ambitious multi-pronged banking sector reform strategy, in line with the FSAP recommendations.** The staff welcomes the completion of international audits of accounts for all domestic banks, and measures to increase banks minimum capital and enhance competition. One of the main remaining challenges is to accelerate the disposal of the large stock of nonperforming loans.

41. **Efforts should be sustained to restructure key public enterprises.** In particular, the authorities should urgently finalize and implement a restructuring strategy for the electricity company.

42. **While pursuing a prudent debt strategy, the authorities need to strengthen their debt management framework.** In view of its limited oil revenue prospects for the next few years, Mauritania needs to continue mobilizing concessional support to finance its poverty reduction strategy, including the concretization of pledges made during the December 2007 consultative group meeting in Paris, and to pursue discussions with creditors that have not yet provided debt relief under the enhanced HIPC Initiative to reach agreements on comparable terms.

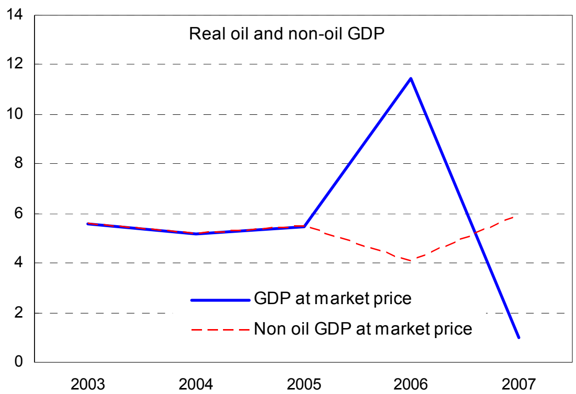
43. **The staff urges the authorities to strengthen further economic statistics,** including debt data to improve economic decision-making.

44. The staff recommends the completion of the third review under the PRGF-supported program.

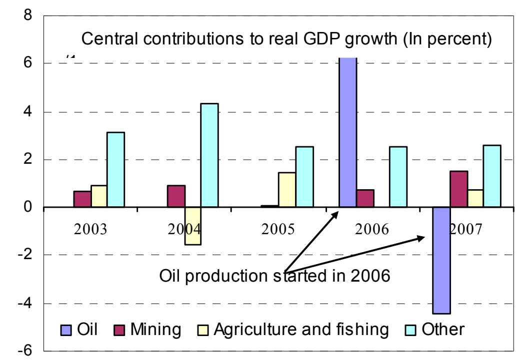
45. It is proposed that the next Article IV consultation with Mauritania be held under the 24-month cycle in accordance with the provisions of Decision N. 12794-(02/76) of July 15, 2002, as amended.

Figure 1. Real Sector Developments

Real GDP growth has been satisfactory...

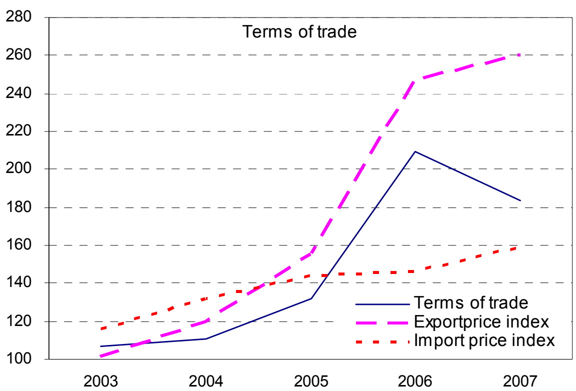


... driven mainly by the expansion of production of oil and mining.

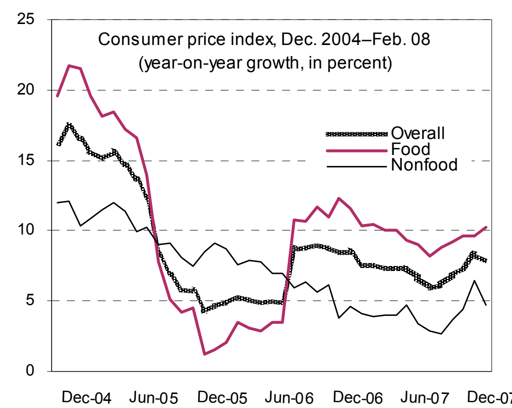


1/ GDP at factor costs.

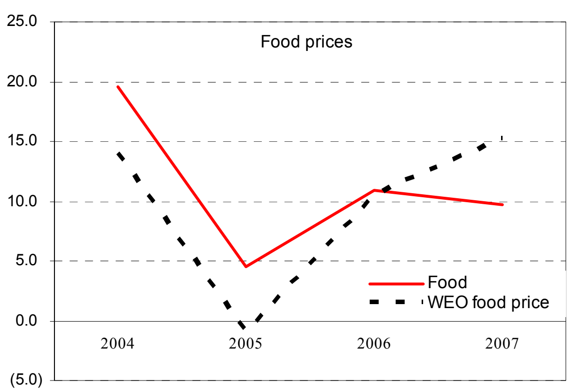
At the same time, international oil and mining prices have increased significantly, resulting in an improvement of terms of trade.



Inflation has declined to single digit levels, but inflationary pressures are increasing...



... partly as a result of higher international food prices...



...and of the depreciation of the exchange rate vis-à-vis Euro.

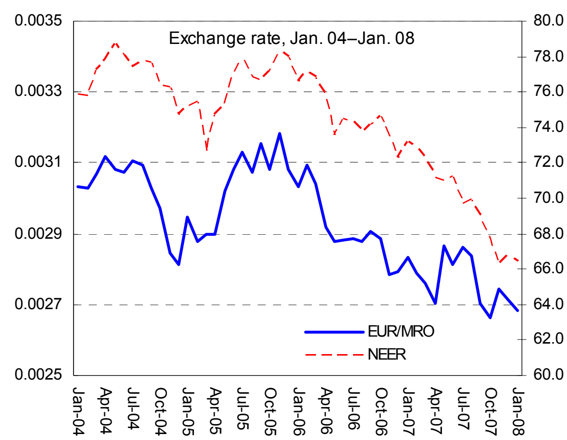
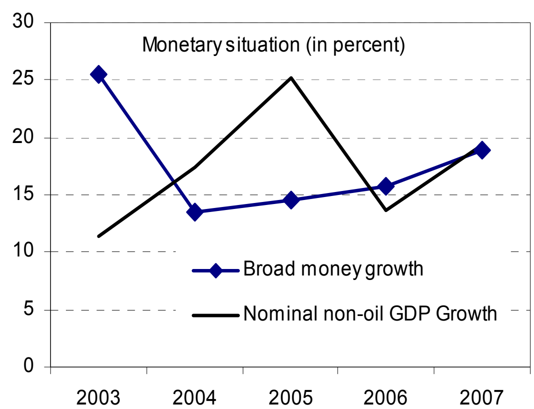
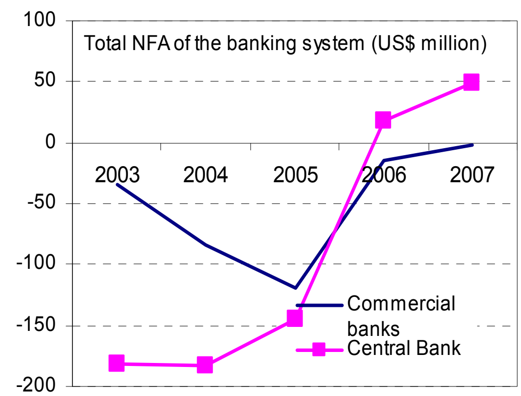


Figure 2. Monetary Policy Developments

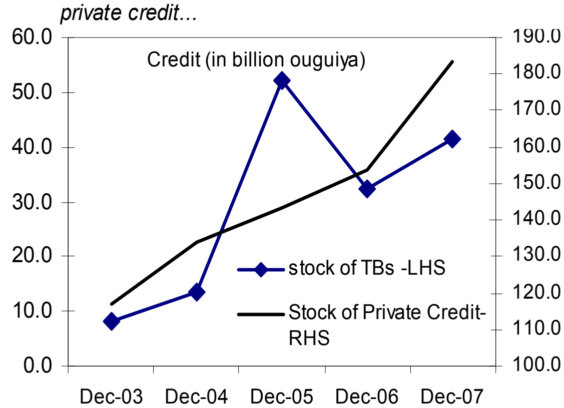
The central bank has been following a prudent monetary policy, allowing broad money to grow in line with GDP over the past few years...



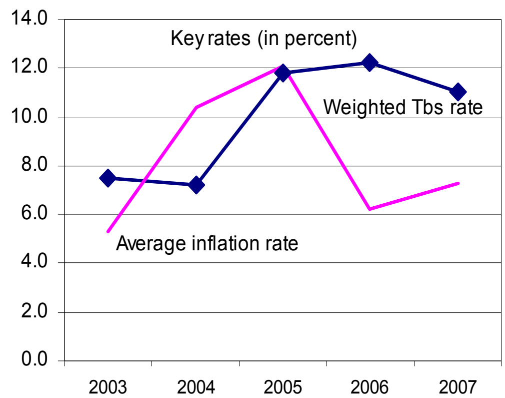
... while replenishing significantly its foreign reserves and improving the net foreign position of commercial banks...



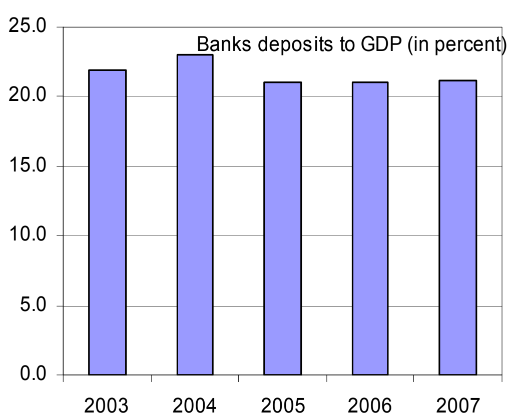
... and absorbing additional bank liquidity through treasury bills issuance, but without crowding-out private credit...



... while maintaining positive real interest



Banks deposits have not been increasing, but new banks are entering the market.



However nonperforming loans (NPLs) weigh heavily on Mauritanian banks balance sheets in comparison to the Maghreb countries.

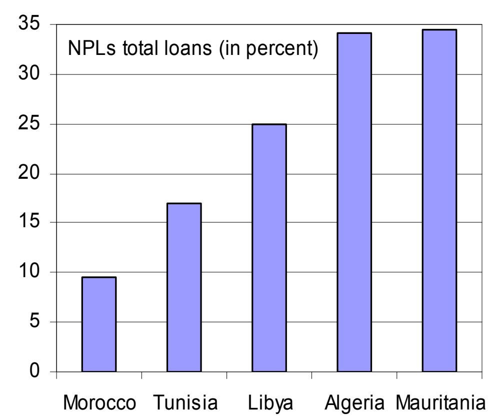
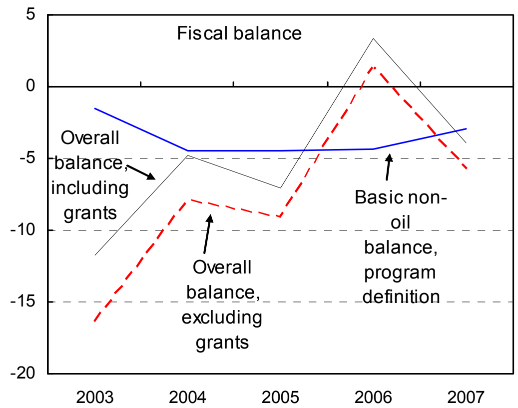


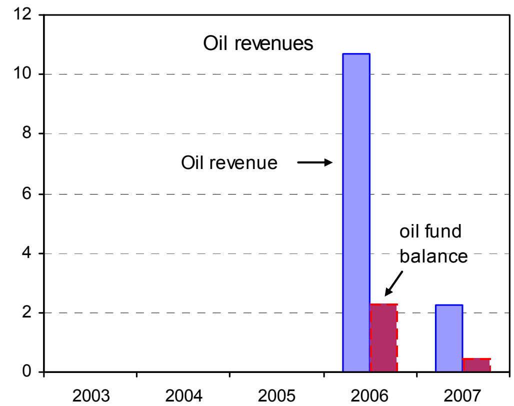
Figure 3. Fiscal Developments

(In percent of non oil GDP)

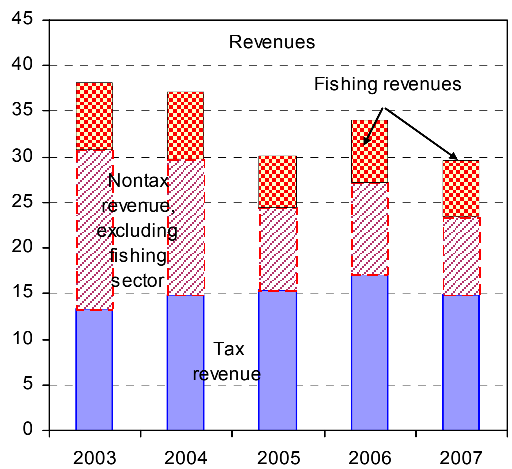
Overall and basic fiscal balances have improved, reflecting a cautious fiscal policy…



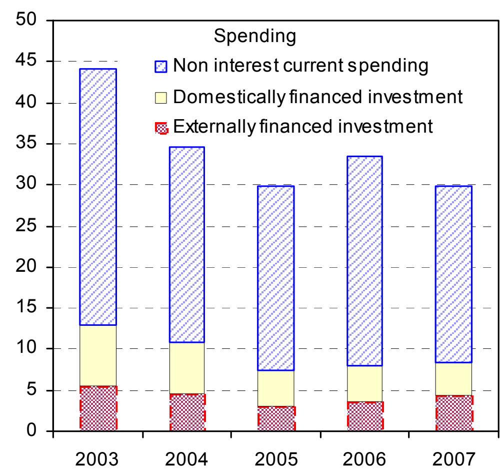
…and new oil revenue.



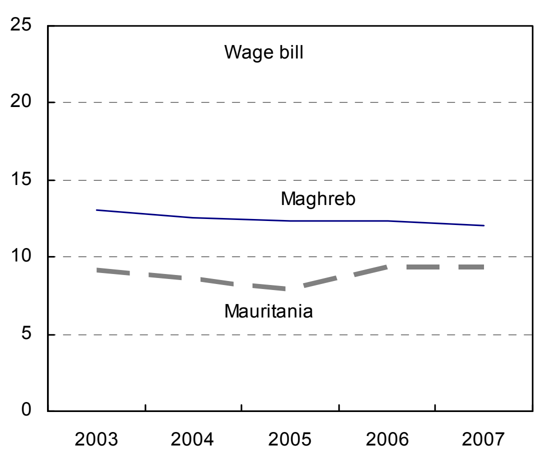
Tax revenue have increased, but are more than offset by decreasing nontax revenue…



…current spending has been contained.



The wage bill remains moderate in comparison to neighboring countries.



Domestic financing has been contained.

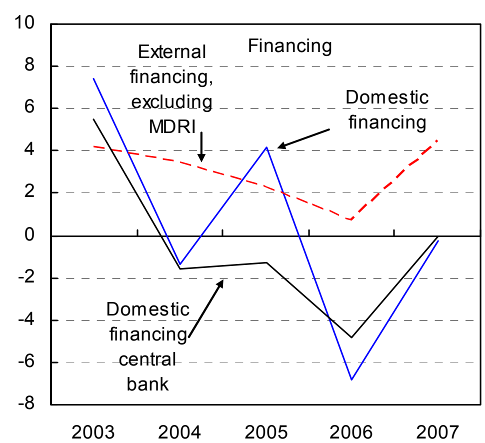
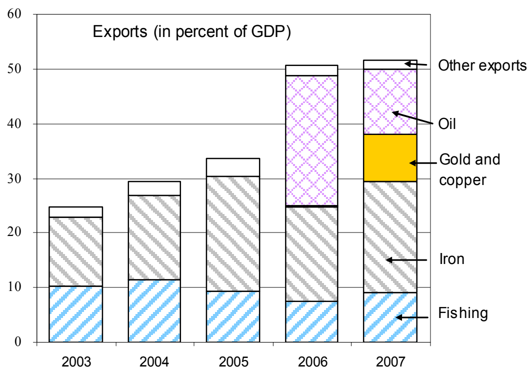
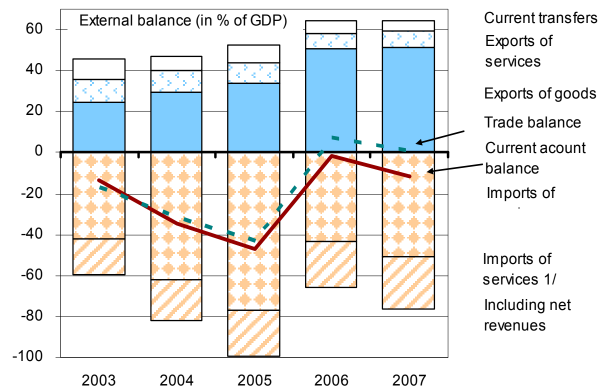


Figure 4. External Sector Developments

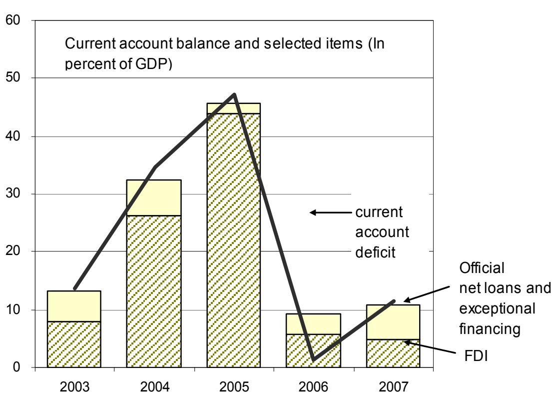
Gold, copper, and oil exports have led to a diversification of Mauritania's exports, which used to be dominated by fish and iron exports.



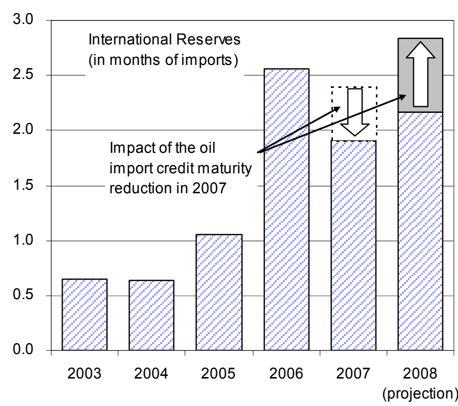
The trade and current account balances have improved markedly, but the current account balance remains negative.



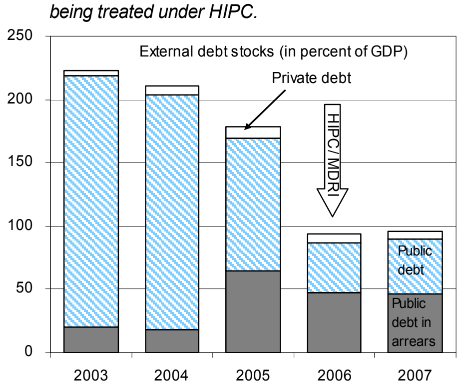
Current account deficits were mainly financed by FDI and lately by concessional borrowing.



International reserves are steadily reconstituting. The change in import credit maturity, which has strained the 2007 reserves level, is being reversed in 2008.



With HIPC and MDRI, external debt has declined significantly, though debt in areas remains high as it is being treated under HIPC.



Consequently, debt service has declined commensurately.

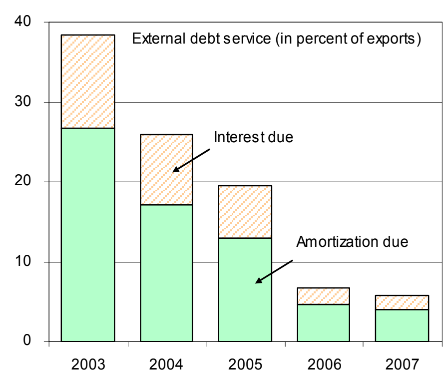


Table 1. Selected Economic and Financial Indicators, 2003–13

	2003	2004	2005	2006	2007		2008	2009	2010	2011	2012	2013
				Prel.	Proj. Country Report No. 07/375	Prel. Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
					(Percentage change, unless otherwise indicated)							
National income and prices												
GDP at constant prices	5.6	5.2	5.4	11.4	0.9	1.0	5.0	6.8	5.7	6.0	12.7	6.2
Non-oil GDP at constant prices	5.6	5.2	5.4	4.1	5.7	5.9	5.7	5.9	6.2	6.6	6.8	4.3
GDP deflator	2.5	11.5	18.0	31.9	-1.6	0.2	17.4	6.2	0.2	0.5	16.6	8.1
Non-oil GDP deflator 1/	2.5	11.5	18.0	10.1	11.0	13.4	19.0	3.7	1.5	2.2	3.1	4.8
Consumer price index (period average)	5.3	10.4	12.1	6.2	7.6	7.3	12.5	9.5	6.5	5.5	5.0	5.0
Consumer price index (end of period)	2.9	16.1	5.8	8.9	7.9	7.4	12.0	7.0	6.0	5.0	5.0	5.0
External sector												
Exports of goods, f.o.b. (percentage change in US$)	-4.1	38.1	42.2	118.6	-1.8	6.4	38.0	8.0	-4.1	-0.2	53.2	13.2
Of which: Non-oil	-4.1	38.1	42.2	15.9	42.6	54.0	47.9	1.6	-2.0	4.8	6.5	0.5
Imports of goods, f.o.b. (percentage change in US$)	25.7	70.3	54.7	-18.3	2.7	22.7	25.7	2.2	13.0	18.8	1.8	-4.2
Idem excluding oil, copper, and gold activities	22.1	33.7	24.8	8.5	12.7	35.1	32.9	0.8	7.2	7.3	6.1	1.6
Official transfers (in percent of GDP)	6.9	4.1	5.4	3.4	3.8	2.7	4.4	4.4	3.8	4.1	3.0	0.9
Current account balance (in percent of GDP)	-13.7	-34.6	-47.2	-1.3	-6.7	-11.4	-6.3	-3.0	-11.2	-21.3	-2.5	5.4
Idem excluding oil, copper, and gold activities	-7.1	-12.0	-7.4	-3.7	-5.7	-10.1	-8.3	-7.4	-12.2	-12.7	-12.4	-10.2
Overall balance (in percent of GDP)	-10.0	-7.3	-4.0	10.5	-0.1	0.6	28.6	5.5	1.8	1.6	5.7	6.3
Official reserves												
Gross official reserves (in millions of US$, end-period) 2/	32	39	70	194	148	209	330.4	345.7	416.7	506.1	724.4	941.6
In months of following year's imports of goods and services 3/	0.7	0.6	1.1	2.6	1.8	1.9	2.8	2.8	3.1	3.5	4.8	5.9
Money and interest rates												
Money and quasi-money	25.5	13.5	14.6	15.7	15.5	18.9	18.4	...	...	...	...	...
Currency in circulation	47.5	-3.4	14.8	35.3	-1.2	3.8	16.0	...	...	...	...	...
					(In percent of non-oil GDP)							
Investment and savings												
Gross investment	34.3	51.7	61.5	25.0	22.5	22.4	21.9	21.8	26.6	34.4	22.1	17.5
Gross savings	20.7	17.1	14.3	23.7	15.8	11.0	15.7	18.8	15.4	13.1	19.6	22.9
Consolidated government operations												
Revenue and grants	35.4	32.9	26.6	82.5	29.1	30.1	30.3	28.9	28.4	28.5	33.0	32.8
Revenue and grants (excluding oil)	35.4	32.9	26.6	71.8	25.8	27.2	27.4	25.9	25.0	25.7	25.1	22.9
Idem, excluding grants	30.7	29.7	24.5	27.1	23.9	24.8	24.3	22.7	22.4	21.9	21.8	21.8
Oil revenue 4/	0.0	0.0	0.0	10.7	3.4	2.9	2.8	3.0	3.3	2.7	7.9	9.9
Expenditure and net lending	47.2	37.7	33.7	36.5	32.1	32.1	34.1	30.9	31.0	31.2	30.7	28.9
Overall balance including grants	-11.8	-4.8	-7.1	46.0	-3.0	-2.0	-3.9	-2.0	-2.6	-2.8	2.3	4.0
Overall non-oil balance excluding grants	-16.5	-8.0	-9.2	-9.4	-8.2	-7.3	-9.8	-8.2	-8.6	-9.3	-8.9	-7.1
Overall non-oil balance including grants	-11.8	-4.8	-7.1	35.3	-6.3	-4.9	-6.7	-5.0	-6.0	-5.5	-5.6	-6.0
External debt												
Nominal external debt (in millions of US$) 5/	2869.1	3151.1	3318.4	2540.9	2667.0	2708.9	2134.3	2202.7	2569.6	2888.6	3185.0	3437.7
Nominal external debt (in percent of GDP) 5/	224.9	211.1	178.7	94.1	96.6	96.1	58.9	53.8	59.7	63.0	53.1	50.7
Memorandum items:												
Ouguiya/US$ exchange rate (end of period)	265.6	256.2	268.6	268.6	...	252.0	...	...	...	...	...	...
Exports, f.o.b. (in millions of US$)	318	440	625	1,367	1,343	1,454	2,006.7	2,167	2,078	2,074	3,179	3,599
Imports, f.o.b. (in millions of US$) 6/	468	625	781	847	955	1,145	1,521	1,534	1,644	1,765	1,872	1,903
Nominal GDP (in billions of UM)	338	397	493	725	724	734	905	1,026	1,088	1,159	1,524	1,749
Nominal non-oil GDP (in billions of UM)	338	397	493	565	667	679	853	937	1,010	1,101	1,212	1,325
Nominal GDP (in millions of US$)	1,276	1,493	1,857	2,699	2,762	2,819	3,625	4,095	4,301	4,584	5,998	6,781
Population (in millions)	2.7	2.8	2.8	2.9	3.0	3.0	3.0	3.10	3.18	3.26	3.33	3.41
GDP per capita (in US$)	474	541	658	933	933	952	1,196	1,319	1,353	1,408	1,799	1,986
REER (12-month percentage change; end of period)	-10.6	9.6	7.5	-1.3	...	-4.0	...	...	...	...	...	...
Price of oil (US$/barrel): APSP baseline: February 29, 2008	28.9	37.8	53.4	64.3	68.5	71.1	95.5	94.5	93.3	92.8	92.5	92.5
Annual production of oil (in millions of barrels)	...	...	...	11.2	5.7	5.5	3.9	5.5	4.9	4.0	15.4	20.1

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

1/ The decline in the deflator in 2007 reflects the sharp decline in the share of the oil sector in total GDP that year and the fact that, owing to the authorities' choice of 1998 (when oil prices were particularly low) as the base year for the calculation of national accounts at constant prices, the price index for oil is much higher than the indices for other sectors.

2/ Excluding oil account.

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

4/ Including oil signature bonuses.

5/ Includes both public and private sector external debt. Revised estimates are based on new debt stock data as of 2007 after HIPC and MDRI debt relief, include estimates for additional new borrowing in 2008 following pledges made at the consultative group meeting.

6/ Excluding oil, copper, and gold -related activities, and imports financed by other FDI.

Table 2. Central Government Operations, 2006–13

(In billions of ouguiya, unless otherwise indicated)

	2006	2007		2008	2009	2010	2011	2012	2013
	Prel.	Country Report No. 07/375	Prel. Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil revenue and grants	**406.0**	**171.9**	**184.4**	**234.0**	**242.7**	**252.8**	**283.1**	**304.0**	**303.8**
Non-oil revenue	153.5	159.5	168.1	207.7	212.8	226.2	241.1	263.9	288.8
Tax revenue	97.1	100.6	106.9	133.0	144.8	157.8	172.8	193.9	217.0
Taxes on income and profit	26.7	30.5	32.9	35.0	35.6	40.3	44.1	49.0	54.3
Taxes on goods and services	45.0	50.0	52.7	69.3	76.3	78.7	85.9	96.8	108.5
Taxes on international trade	14.8	17.7	19.1	24.4	28.4	34.1	37.7	42.4	47.9
Other	10.6	2.3	2.1	4.3	4.5	4.8	5.2	5.7	6.3
Nontax revenue	56.4	58.9	61.3	74.7	68.0	68.5	68.3	70.0	71.8
Of which: Revenue from the fishing sector	39.4	41.5	41.4	47.7	45.3	45.8	46.4	47.9	49.5
Public enterprises dividends	8.3	8.8	9.1	13.1	13.1	13.1	13.1	13.1	13.1
Total grants	252.5	12.4	16.3	26.3	29.9	26.6	42.0	40.0	14.9
Of which: Projects	2.1	8.5	10.0	24.3	22.2	17.2	35.1	38.6	13.4
Expenditure and net lending 1/	**206.4**	**214.2**	**217.9**	**291.3**	**289.6**	**313.0**	**343.9**	**372.2**	**382.6**
Current expenditure	157.9	157.2	159.4	198.0	187.5	201.3	211.9	221.5	242.2
Compensation of employees	52.8	63.0	64.6	70.4	76.4	81.4	86.7	91.0	100.1
Goods and services	71.6	61.9	63.8	55.1	61.0	66.0	73.5	82.1	91.1
Subsidies and transfers 2/	15.1	15.2	15.2	50.9	28.1	29.4	28.7	25.0	26.3
Interest	13.5	11.9	13.5	12.3	15.7	18.2	16.8	17.1	18.4
External	5.0	4.1	4.4	4.2	6.7	8.3	7.2	7.9	7.9
Domestic	8.5	7.8	9.1	8.1	9.0	9.8	9.7	9.2	10.4
Special accounts and others	4.8	5.2	2.3	9.4	6.3	6.3	6.3	6.3	6.3
Of which : Oil sector development	...	1.3	...	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	44.6	57.0	58.5	82.2	92.2	103.9	122.5	137.9	126.1
Foreign-financed investment 3/	20.7	30.0	28.6	51.2	52.8	58.2	73.3	80.1	56.5
Domestically financed investment	23.9	27.0	29.9	31.0	39.4	45.7	49.1	57.8	69.5
Restructuring and net lending	3.8	0.0	0.0	0.2	2.1	0.0	0.0	0.0	0.0
Common reserves	0.0	0.0	0.0	7.8	7.8	7.8	9.5	12.8	14.4
Emergency reserves	0.0	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0
Non-oil balance excluding grants (deficit -)	-52.9	-54.7	-49.8	-83.6	-76.8	-86.8	-102.8	-108.2	-93.8
Non-oil balance including grants (deficit -)	199.6	-42.3	-33.5	-57.3	-46.9	-60.2	-60.8	-68.2	-78.8
Basic non-oil balance; program definition 4/	**-24.4**	**-19.6**	**-16.8**	**-25.1**	**-17.3**	**-20.2**	**-22.3**	**-20.3**	**-29.3**
Net revenue from oil	60.5	22.4	19.9	24.1	28.2	33.7	30.0	96.0	131.2
Overall balance excluding grants (deficit -)	**7.6**	**-32.3**	**-29.9**	**-59.5**	**-48.6**	**-53.1**	**-72.8**	**-12.2**	**37.4**
Overall balance including grants (deficit -)	**260.1**	**-19.8**	**-13.6**	**-33.1**	**-18.7**	**-26.5**	**-30.8**	**27.8**	**52.4**
Financing	**-260.1**	**19.8**	**13.6**	**33.1**	**18.7**	**26.5**	**30.8**	**-27.8**	**-52.4**
Domestic financing 4/	-38.7	-1.6	3.0	7.9	-2.8	-4.1	-1.0	-17.3	-16.1
Banking system	-47.7	3.6	7.6	4.8	-2.8	-2.8	-2.8	-17.2	-20.4
BCM 5/	-27.3	5.1	-0.2	-2.8	-2.8	-2.8	-2.8	-12.3	-16.0
Excluding MDRI	-27.3	5.1	-0.2	-2.8	-2.8	-2.8	-2.8	-12.3	-16.0
Of which: MDRI (IMF)	0.0	…	…	…	…	…	…	…	0.0
Commercial banks	-20.3	-1.5	7.9	7.6	0.0	0.0	0.0	-4.9	-4.4
Nonbanks	4.6	4.9	5.5	0.0	0.0	-1.3	-1.2	-1.1	-1.0
Privatization and other 6/	22.2	0.0	0.0	3.0	0.0	0.0	0.0	0.0	0.0
Domestic arrears 7/	-17.8	-10.0	-10.2	0.0	0.0	0.0	3.0	1.0	5.3
Float 8/	3.7	-7.9	-8.0	0.0	0.0	0.0	3.0	1.0	5.3
Others	-21.5	-2.2	-2.1	0.0	0.0	0.0	0.0	0.0	0.0
External financing	-223.9	23.0	15.1	25.2	21.5	30.6	31.8	-10.6	-36.3
Oil account (net)	-13.1	2.8	-2.2	-0.1	-5.8	-7.0	-1.9	-37.5	-54.9
Net revenue from oil (net)	-60.5	-22.4	-19.9	-25.6	-28.2	-33.7	-30.0	-96.0	-131.2
Oil account contribution to the budget	47.4	25.3	17.7	25.6	22.4	26.7	28.1	58.6	76.3
Other (net)	-210.8	20.2	17.3	25.3	27.3	37.6	33.7	26.9	18.6
Net borrowing (net)	6.4	12.1	9.2	17.4	21.2	31.9	29.7	23.1	18.6
Exceptional financing	10.7	8.1	8.1	7.9	6.1	5.8	4.0	3.8	0.0
MDRI (IDA and AfDF)	-227.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	2.5	-1.6	-4.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Oil revenue (millions of US$)	223.4	81.5	56.8	95.2	110.6	129.5	113.9	369.6	492.1
Oil account balance (e.o.p., in millions of US$)	48.8	38.3	59.1	53.7	71.3	99.0	106.6	254.0	466.9
Stock of treasury bills	40.0	43.4	39.4	62.2	62.2	60.9	59.7	53.7	48.4
Of which : Commercial banks	32.3	30.8	28.8	49.0	49.0	49.0	49.0	44.1	39.7
Stock of (identified) domestic arrears 7/	14.6	4.6	4.5	4.5	4.5	4.5	7.5	8.5	13.8
Treasury float (registered payment orders) 8/	12.5	4.6	4.4	4.4	4.4	4.4	7.4	8.4	13.7
Poverty reducing expenditure	49.9	64.1	64.6	81.5	92.9	99.0	105.9	139.8	161.1

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

Table 2. Central Government Operations, 2006–13 (concluded)

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

	2006	2007		2008	2009	2010	2011	2012	2013
	Prel.	Country Report No. 07/375	Prel. Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Non-oil revenue and grants	**71.8**	**25.8**	**27.2**	**27.4**	**25.9**	**25.0**	**25.7**	**25.1**	**22.9**
Non-oil revenue	27.1	23.9	24.8	24.3	22.7	22.4	21.9	21.8	21.8
Tax revenue	17.2	15.1	15.7	15.6	15.5	15.6	15.7	16.0	16.4
Taxes on income and profits	4.7	4.6	4.9	4.1	3.8	4.0	4.0	4.0	4.1
Taxes on goods and services	8.0	7.5	7.8	8.1	8.1	7.8	7.8	8.0	8.2
Taxes on international trade	2.6	2.7	2.8	2.9	3.0	3.4	3.4	3.5	3.6
Other tax revenue	1.9	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.5
Nontax revenue	10.0	8.8	9.0	8.8	7.3	6.8	6.2	5.8	5.4
Of which: Fishing sector revenue	7.0	6.2	6.1	5.6	4.8	4.5	4.2	4.0	3.7
Public enterprises dividends	1.5	1.3	1.3	1.5	1.4	1.3	1.2	1.1	1.0
Total grants	44.7	1.9	2.4	3.1	3.2	2.6	3.8	3.3	1.1
Of which: Project grants	0.4	1.3	1.5	2.8	2.4	1.7	3.2	3.2	1.0
Expenditure and net lending 1/	**36.5**	**32.1**	**32.1**	**34.1**	**30.9**	**31.0**	**31.2**	**30.7**	**28.9**
Current expenditure	27.9	23.6	23.5	23.2	20.0	19.9	19.3	18.3	18.3
Compensation of employees	9.3	9.4	9.5	8.3	8.2	8.1	7.9	7.5	7.6
Goods and services	12.7	9.3	9.4	6.5	6.5	6.5	6.7	6.8	6.9
Subsidies and transfers 2/	2.7	2.3	2.2	6.0	3.0	2.9	2.6	2.1	2.0
Interest	2.4	1.8	2.0	1.4	1.7	1.8	1.5	1.4	1.4
External	0.9	0.6	0.6	0.5	0.7	0.8	0.7	0.7	0.6
Domestic	1.5	1.2	1.3	1.0	1.0	1.0	0.9	0.8	0.8
Special accounts and others	0.9	0.8	0.3	1.1	0.7	0.6	0.6	0.5	0.5
Capital expenditure	7.9	8.5	8.6	9.6	9.8	10.3	11.1	11.4	9.5
Foreign-financed investment	3.7	4.5	4.2	6.0	5.6	5.8	6.7	6.6	4.3
Domestically financed investment	4.2	4.0	4.4	3.6	4.2	4.5	4.5	4.8	5.3
Restructuring and net lending	0.7	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0
Common reserves	0.0	0.0	0.0	0.9	0.8	0.8	0.9	1.1	1.1
Emergency reserves	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Non-oil balance excluding grants	-9.4	-8.2	-7.3	-9.8	-8.2	-8.6	-9.3	-8.9	-7.1
Non-oil balance including grants	35.3	-6.3	-4.9	-6.7	-5.0	-6.0	-5.5	-5.6	-6.0
Basic non-oil balance; program definition 3/	**-4.3**	**-2.9**	**-2.5**	**-2.9**	**-1.8**	**-2.0**	**-2.0**	**-1.7**	**-2.2**
Net revenue from oil	10.7	3.4	2.9	2.8	3.0	3.3	2.7	7.9	9.9
Overall balance excluding grants	**1.3**	**-4.8**	**-4.4**	**-7.0**	**-5.2**	**-5.3**	**-6.6**	**-1.0**	**2.8**
Overall balance including grants	**46.0**	**-3.0**	**-2.0**	**-3.9**	**-2.0**	**-2.6**	**-2.8**	**2.3**	**4.0**
Financing	**-46.0**	**3.0**	**2.0**	**3.9**	**2.0**	**2.6**	**2.8**	**-2.3**	**-4.0**
Domestic financing 4/	-6.8	-0.2	0.4	0.9	-0.3	-0.4	-0.1	-1.4	-1.2
Of which: Banking system	-8.4	0.5	1.1	0.6	-0.3	-0.3	-0.3	-1.4	-1.5
External financing	-39.6	3.4	2.2	3.0	2.3	3.0	2.9	-0.9	-2.7
Of which: Oil account	-2.3	0.4	-0.3	0.0	-0.6	-0.7	-0.2	-3.1	-4.1
Errors and omissions	0.4	-0.2	-0.7	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Non-oil GDP (in billion of ouguiya)	565.3	667.4	678.7	853.4	936.8	1010.1	1100.5	1211.8	1324.7
Non-oil primary balance including grants	37.7	-4.6	-2.9	-5.3	-3.3	-4.2	-4.0	-4.2	-4.6
Total revenue	37.8	27.3	27.7	27.2	25.7	25.7	24.6	29.7	31.7
Total public debt e.o.p. 8/	142.1	123.2	121.8	75.3	70.9	74.3	74.9	73.1	71.2
Float (in billion of ouguiya) 9/	12.5	4.6	4.6	4.4	4.4	4.4	7.4	8.4	13.7
Oil fund balance (in billion of ouguiya)	13.1	10.3	14.8	13.4	17.9	25.1	26.9	64.5	120.4
Poverty reducing expenditure	8.8	9.6	9.5	9.6	9.9	9.8	9.6	11.5	12.2

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

1/ Reflecting the authorities new classification, which is closer to GFS standards; estimates for 2006.
2/ Including transfers to public entities outside the central government.
3/ Domestic financing was adjusted in line with paragraph 17 of the TMU.
4/ Defined as government non-oil revenue (excluding grants) minus government expenditure (excluding foreign-financed investment expenditure and interest on external debt).
5/ BCM financing was adjusted in line with paragraph 17 of the TMU.
6/ In 2006, includes receipts from the sales of a telecom license for $103 million. Adjusted for the repatriation, in 2008, of a grant received from Koweit in 2007 on a special account.
7/ Treasury float and other unpaid obligations recognized by the government.
8/ After MDRI stock of debt operation. Domestic debt excludes the "float".

Table 3. Balance of Payments, 2006–13

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

	2006	2007		2008	2009	2010	2011	2012	2013
	Prel.	Country Report No. 07/375	Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Trade balance	**199.6**	**143.7**	**22.9**	**207.4**	**328.4**	**0.8**	**-394.6**	**666.0**	**1192.4**
Exports	1366.6	1342.5	1454.4	2006.7	2166.7	2078.3	2074.3	3178.6	3598.7
Of which: Iron ore	467.2	533.0	575.0	974.6	897.5	776.7	750.8	768.6	869.4
Fish	200.6	205.9	254.3	254.3	264.6	275.3	286.4	297.9	310.0
Crude oil	642.1	309.8	338.7	356.9	490.0	434.9	352.3	1345.1	1756.6
Copper	5.6	183.6	183.5	199.0	218.9	240.8	264.9	291.4	145.7
Gold	1.6	58.2	59.2	167.9	183.0	192.5	210.0	207.8	211.5
Imports, fob	-1167.0	-1198.8	-1431.5	-1799.2	-1838.3	-2077.6	-2468.9	-2512.7	-2406.3
Petroleum products	-227.4	-276.8	-290.4	-443.6	-456.3	-473.0	-503.0	-544.1	-546.7
Equipment extractive industries and other FDI	-434.4	-339.6	-493.7	-459.2	-434.9	-568.7	-856.5	-792.8	-685.5
Other	-505.2	-582.4	-647.4	-896.4	-947.1	-1035.8	-1109.3	-1175.8	-1174.2
Services and income (net)	-393.9	-499.0	-488.5	-659.6	-700.4	-725.5	-857.2	-1093.6	-1012.7
Services (net)	-319.6	-413.2	-427.7	-522.9	-511.1	-559.6	-604.1	-597.6	-547.5
Credit	86.7	100.1	84.2	116.9	125.2	140.6	158.9	175.9	192.1
Of which: Fishing licenses	33.7	44.5	37.8	64.6	68.5	72.5	78.4	82.3	83.9
Debit	-406.3	-513.3	-511.8	-639.8	-636.3	-700.2	-763.0	-773.5	-739.6
Of which: Freight (including oil and mining)	-159.1	-163.5	-193.8	-245.3	-250.7	-283.3	-336.7	-342.6	-328.1
Income (net)	-74.3	-85.7	-60.8	-136.7	-189.2	-165.9	-253.1	-496.0	-465.2
Credit	119.0	143.1	140.9	145.4	136.4	137.0	143.8	153.6	172.4
Of which: EU fishing compensation	108.0	115.9	118.4	126.5	112.3	104.2	105.2	106.4	106.4
Debit	-193.3	-228.8	-201.7	-282.1	-325.6	-302.9	-396.9	-649.6	-637.6
Of which: Interest due on public debt	-27.4	-24.5	-24.3	-30.5	-31.2	-37.3	-32.0	-34.1	-37.8
Oil sector profits and salaries 1/	-160.0	-101.6	-102.8	-121.5	-166.8	-123.7	-98.7	-343.2	-428.9
Current transfers (net)	158.7	170.8	144.3	225.1	250.3	241.7	275.3	280.4	184.5
Private unrequited transfers (net)	66.5	68.5	70.2	75.6	82.5	89.5	97.5	113.0	123.3
Official transfers	92.1	102.2	74.0	149.5	167.8	152.2	177.8	167.4	61.2
Of which: Multilateral HIPC assistance 2/	14.3	8.2	8.4	6.1	6.0	5.7	9.9	2.9	2.9
Current account (including transfers but excluding oil)	**-121.0**	**-211.5**	**-359.9**	**-382.0**	**-379.9**	**-607.1**	**-660.5**	**-823.4**	**-741.1**
Current account balance	**-35.6**	**-184.5**	**-321.3**	**-227.1**	**-121.7**	**-483.1**	**-976.5**	**-147.3**	**364.2**
Capital and financial account	257.8	154.5	316.3	1262.9	347.3	561.1	1049.2	487.4	61.2
Capital account	1107.2	7.0	50.8	1117.2	218.7	0.0	0.0	0.0	0.0
Of which: MDRI and other debt stock relief 3/	48.5	0.0	48.1	1117.2	218.7	0.0	0.0	0.0	0.0
Financial account	-849.4	147.5	265.6	145.8	128.6	561.1	1049.2	487.4	61.2
Direct investment (net)	154.6	152.9	138.3	103.2	44.0	253.1	713.3	168.3	-157.1
Of which: Oil exploration (net)	1.6	151.1	127.5	138.0	97.0	280.2	672.0	-75.0	-433.4
Official medium- and long-term loans	-835.7	64.6	79.3	260.7	261.1	361.1	310.6	285.8	248.1
Disbursements	73.8	117.1	162.3	306.9	305.2	404.7	355.0	330.8	295.9
Amortization	-909.5	-52.5	-83.0	-46.2	-44.1	-43.5	-44.4	-45.0	-47.8
Other financial flows	-168.3	-70.0	48.0	-218.1	-176.5	-53.1	25.3	33.3	-29.8
Of which: Change in private external arrears	-74.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions	**60.2**	**26.3**	**20.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Overall balance	**282.3**	**-3.7**	**15.8**	**1035.9**	**225.6**	**78.0**	**72.7**	**340.2**	**425.4**
Financing	-282.3	3.7	-15.8	-1035.9	-225.6	-78.0	-72.7	-340.2	-425.4
Net foreign assets	-315.7	-30.1	-55.0	32.0	-22.8	-93.0	-88.6	-355.1	-425.4
Central bank (net)	-162.0	16.2	-32.2	-118.3	-12.8	-73.0	-91.2	-218.3	-218.4
Assets	-124.2	46.6	-14.4	-121.7	-15.2	-71.0	-89.4	-218.3	-217.2
Liabilities	-37.8	-30.4	-17.9	3.4	2.5	-2.0	-1.8	0.0	-1.2
Commercial banks (net)	-104.9	-57.2	-12.9	144.9	7.5	7.8	10.1	10.7	5.8
Oil account flow	-49.2	10.9	-9.9	5.4	-17.5	-27.7	-7.5	-147.5	-212.8
Exceptional financing	33.4	33.8	39.2	-1067.9	-202.8	15.0	15.9	14.9	0.0
Financing gap (shortfall +)	**...**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Memorandum items:									
Nominal GDP (in millions US$)	2699	2762	2819	3625	4095	4301	4584	5998	6781
Trade Balance (in percent of annual GDP)	7.4	5.2	0.8	5.7	8.0	0.0	-8.6	11.1	17.6
Current account balance (in percent of annual GDP)	-1.3	-6.7	-11.4	-6.3	-3.0	-11.2	-21.3	-2.5	5.4
Idem, excluding oil and other mining (except SNIM)	-3.7	-5.7	-10.1	-8.3	-7.4	-12.2	-12.7	-12.4	-10.2
Gross official reserves	**194.4**	**147.8**	**208.8**	**330.4**	**345.7**	**416.7**	**506.1**	**724.4**	**941.6**
In months of imports 4/	2.6	1.8	1.9	2.8	2.8	3.1	3.5	4.8	5.9
Oil account	49.2	38.3	59.1	53.7	71.3	99.0	106.6	254.0	466.9

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/ Excluding HIPC grants on debt service that have fallen subject to MDRI relief.
3/ MDRI debt and assumed arrears relief is treated as a one-time stock operation.
4/ Imports of goods and services for the year ahead, excluding FDI- and external aid-financed imports.

Table 4. Monetary Situation, 2003–08

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

	2003	2004	2005	2006	Dec. 2007		2008
	Dec.	Dec.	Dec.	Prel.	Country Report No. 07/375	Prel.	Proj.
Monetary survey							
Net foreign assets	-57.5	-68.5	-71.0	0.7	11.4	12.0	5.3
BCM	-48.3	-47.0	-38.9	4.6	0.3	12.4	41.6
Commercial banks	-9.1	-21.4	-32.1	-3.9	11.1	-0.4	-36.4
Net domestic assets	175.7	202.7	224.8	177.2	194.2	199.5	245.2
Domestic credit	198.9	264.0	303.1	266.2	292.3	305.0	350.7
Net credit to the government	82.0	129.9	159.7	112.3	115.9	121.9	126.7
Claims	129.9	143.4	181.9	158.5	156.4	167.6	175.2
Deposits	-47.9	-13.6	-22.3	-46.2	-40.5	-45.7	-48.5
Credit to the economy	116.9	134.1	143.5	153.9	176.4	183.2	224.0
Other items net	-23.2	-61.3	-78.4	-89.0	-98.1	-105.5	-105.5
Broad money	118.3	134.3	153.8	177.9	205.6	211.6	250.5
Currency in circulation	44.3	42.8	49.1	66.4	65.6	68.9	80.0
Demand deposits	55.8	68.0	79.2	82.3	103.7	102.1	122.6
Term deposits	18.1	23.5	25.5	29.2	36.2	40.5	48.0
Monetary authorities							
Net foreign assets	-48.3	-47.0	-38.9	4.6	0.3	12.4	41.6
Assets	8.4	10.0	18.9	52.2	38.4	52.4	82.0
Liabilities 1/	-56.7	-57.0	-57.7	-47.6	-38.2	-40.0	-40.4
Net domestic assets	109.7	117.0	106.9	79.3	84.2	83.5	67.1
Net credit to the government 1/	76.5	122.2	112.6	85.4	90.5	87.7	84.9
Of which: Central government	76.5	122.2	115.9	88.6	93.7	87.7	84.9
Claims	124.3	135.3	134.6	131.0	130.4	132.2	132.2
Deposits	-47.8	-13.1	-22.0	-45.6	-39.8	-44.5	-47.3
Of which: Central government	-47.8	-13.1	-18.7	-42.4	-36.6	-44.5	-47.3
Claims on private sector	2.7	3.3	3.5	2.0	2.0	2.4	2.4
Claims on commercial banks	1.3	0.8	0.0	0.3	0.0	3.6	-10.0
Credit to banks (discount window)	1.3	0.8	0.0	0.3	0.0	3.6	0.0
BCM bills	…	…	…	…	0.0	…	-10.0
Other items net	29.2	-9.2	-9.2	-8.3	-8.3	-10.2	-10.2
Reserve money	61.4	69.9	68.0	84.0	84.5	95.9	108.7
Currency in circulation	44.3	42.8	49.1	66.4	65.6	68.9	80.0
Reserves of banks	17.1	27.1	18.9	17.5	18.9	27.0	28.7
Commercial banks							
Net foreign assets	-9.1	-21.4	-32.1	-3.9	11.1	-0.4	-36.4
Assets	6.8	7.8	16.5	30.1	29.1	25.6	25.3
Liabilities	-16.0	-29.3	-48.6	-34.0	-18.0	-26.0	-61.6
Net domestic assets	83.1	112.9	136.8	115.4	128.8	143.0	206.9
Domestic credit	119.7	138.6	187.0	178.8	199.8	215.0	263.5
Net credit to the government	5.4	7.7	47.0	26.8	25.3	34.2	41.8
Claims	5.6	8.1	47.4	27.5	26.0	35.4	43.0
Of which: Treasury bills	8.1	13.6	52.3	32.3	30.8	41.4	47.8
Deposits	-0.1	-0.4	-0.3	-0.7	-0.7	-1.2	-1.2
Credit to the economy	114.2	130.9	140.0	151.9	174.5	180.8	221.6
Net claims on the BCM	15.8	26.4	18.9	17.2	18.9	23.4	38.7
Total Reserves	17.1	27.1	18.9	17.5	18.9	27.0	28.7
Credit from BCM	-1.3	-0.8	0.0	-0.3	0.0	-3.6	10.0
Other items net	-52.4	-52.0	-69.2	-80.6	-89.8	-95.3	-95.3
Deposit liabilities to nonbank residents	74.0	91.5	104.7	111.5	139.9	142.6	170.5
Memorandum items:							
End of the period velocity of broad money	2.9	3.0	3.2	3.2	3.2	3.2	3.4
Currency/broad money (in percent)	37.4	31.9	31.9	37.3	31.9	32.6	31.9
Broad money (in percent) 2/	25.5	13.5	14.6	15.7	15.5	18.9	18.4
Credit to private sector (in percent) 2/	21.9	14.7	7.0	7.2	14.6	19.0	22.3
Foreign assets of the BCM (in millions of U.S. dollars)	31.7	38.8	70.2	194.4	147.8	208.8	330.5
Foreign liabilities of the BCM (in millions of U.S. dollars)	-213.6	-222.4	-215.0	-177.2	-146.8	-159.3	-162.7
Net foreign assets (in millions of U.S. dollars)	-182.0	-183.6	-144.8	17.2	1.0	49.5	167.8
Net international reserves (in millions of U.S. dollars)	-197.7	-210.7	-162.5	7.8	-8.8	32.5	150.9
Foreign assets of banks (in millions of U.S. dollars)	25.8	30.6	61.6	112.1	112.1	101.8	101.8
Foreign liabilities of banks (in millions of U.S. dollars)	-60.2	-114.3	-180.9	-126.6	-69.4	-103.4	-248.4
Net foreign assets of banks (in millions of U.S. dollars)	-34.4	-83.6	-119.4	-14.5	42.7	-1.6	-146.5
Program exchange rate UM/US$	268.1	265.6	268.6	268.6	268.6	268.6	268.6
Actual exchange rate UM/US$	265.6	256.2	268.6	268.6	260.0	252.0	…
Nominal non-oil GDP (in billions of ouguiya)	338.0	397.0	497.0	565.3	667.4	674.3	853.4

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

1/ Reflects MDRI debt relief from the Fund.

2/ Change relative to the end of the previous year.

Table 5. 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 6. Reviews and Disbursements Under the PRGF Arrangement, 2006–09

Decision Date	Action/Status	Amount of the Disbursement In SDRs	In percent of quota 1/	Disbursement Date
December 18, 2006	Board approval of a PRGF arrangement	4.52 million	7.0	January 12, 2007
April 23, 2007	Completion of the first review first review	1.93 million	3.0	April 27, 2007
November 2007	Completed second review based on end-June 2007 performance criteria	1.93 million	3.0	Novembre 28, 2007
March 2008	Completed third review based on end-December 2007 performance criteria	1.93 million	3.0	
September 2008	Completed fourth review based on end-June 2008 performance criteria	1.93 million	3.0	
March 2009	Completed fifth review based on end-December 2008 performance criteria	1.93 million	3.0	
September 2009	Completed sixth review based on end-June 2009 performance criteria	1.93 million	3.0	
Total		**16.1 million**	**25.0**	

1/ Mauritania's quota is SDR 64.4 million.

ATTACHMENT I. LETTER OF INTENT

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

Nouakchott, May 2, 2008

Dear Mr. Managing Director:

1. Further to our letter of November 2, 2007 and the accompanying Memorandum on Economic and Financial Policies (MEFP), we wish to advise you of the progress in implementing the three-year program that the International Monetary Fund (IMF) has decided to support through the Poverty Reduction and Growth Facility (PRGF).

2. The macroeconomic performance in the fourth quarter of 2007 was generally in line with program targets, in spite of difficult economic conditions. Oil production fell faster than expected owing to recurrent technical problems. Oil production averaged 15,000 barrels a day in 2007, compared with 36,000 in 2006. However, non-oil GDP growth was in line with expectations at 5.9 percent, compared with 5.7 percent in the program, benefiting from the rebound in agricultural production and the development of new mining projects. In spite of inflationary pressures, due especially to higher prices for a number of imported food products, year-on-year inflation fell from 8.9 percent at end-2006 to 7.4 percent at end-2007, compared to 7.9 percent in the program. The current account went from a deficit of 1.3 percent of GDP in 2006 to 11.4 percent of GDP in 2007, compared with 6.7 percent in the program, mainly due to lower oil exports and the adverse effect of higher import prices. The reserves of the Central Bank of Mauritania (BCM) stood at $208.8 million at end-December 2007, equivalent to 1.9 months of imports of goods and services, which is slightly higher than expected owing mainly to an acceleration of the repatriation of mining profits. The budget deficit was kept within the limits set in the program (2.5 percent of non-oil GDP).

3. All the quantitative performance criteria at end-December 2007 were met (Table 1). In particular, we have maintained the basic fiscal balance above the programmed floor, thanks especially to a strong tax performance, which more than compensated for the additional wage expenditure related to inaccuracies in the projection base. The two quantitative indicative targets were also met. Moreover, the stock of payments outstanding at the treasury was cleared due to improved monitoring of the cash position and computerization and decentralization of the expenditure process. In addition, although some

ministries experienced difficulties in implementing poverty reduction programs in the first semester, pro-poor spending accelerated in the second semester and the poverty reduction expenditure benchmark was met.

4. All the structural performance criterion and benchmarks were also met (Table 2). In particular, we have continued to strengthen the tax administration by creating a central taxpayer database covering Nouadhibou and Nouakchott, based on a unique identifier. We have also reduced VAT and tariff rate exemptions for an updated list of essential products. Moreover, the BCM has addressed all the external audit qualifications on its 2006 financial statements of the BCM within its immediate control. We have kept up efforts to ensure sound management and transparency in the extractive industries. In this respect, the audit of accounts at end-December 2006 of the *Société Mauritanienne des Hydrocarbures* (SMH) has been finalized and published. Production sharing contracts in the oil sector have also been published.

5. The main challenge facing our country is to accelerate economic growth to reduce the unemployment rate and raise the standard of living of our citizens. To this end, the government intends to promote the development of the private sector by improving the business climate, fostering investment, and strengthening the competitiveness of our economy. Accordingly, we are going to make the tax framework more favorable to investment, facilitate access to credit by rehabilitating the banks, develop basic infrastructures, and strengthen good governance and the effectiveness of the judicial system. To support our development plan, we successfully organized a consultative group meeting in Paris from December 4 to 6, 2007, where we received financial pledges amounting to $2.1 billion. We will prepare a monthly report to monitor the implementation of those promises. Private foreign investors, especially from the Gulf States, have also indicated their intention, as of 2008–09, to invest in key sectors of the economy, such as the financial system, tourism, real estate, mining, transport infrastructures, fisheries, and agriculture.

6. The outlook for growth outside the oil sector is good in 2008. Real non-oil GDP growth could reach 5.7 percent, reflecting in particular a good performance of the mining sector following marked increases in the prices of iron, copper, and gold. However, in spite of a sharp rise in oil price per barrel, technical difficulties affecting exploitation of the Chinguetti oil field, and delays in developing new operating wells, it should be possible to increase annual oil production by end-2008, resulting in overall GDP growth of about 5.0 percent. The adoption of price support measures for certain staples should make it possible to moderate the effects of increases in the international prices of foodstuffs and oil products and contain year-on-year inflation to 12 percent. International reserves should reach the equivalent of $330 million, or 2.8 months of imports of goods and services at the end of year.

7. One of the government's key concerns is to find an appropriate response to the food-supply crisis that could result from high international food prices and more restricted commercial import channels. As early as November 2007, in the supplement to our letter of intent, we announced two measures introduced in the 2008 budget law to moderate the impact of the price increases: lower taxes on the wages and salaries of the lowest income groups and a subsidy to stabilize the price of bread. Owing to the scarcity of stocks of raw materials on markets, we felt the need to facilitate imports to increase national food stocks before the start of the lean period by adopting an advance decree, in particular to increase the financial resources of the public import company, Sonimex, and by opening lines of credit for food importers guaranteed by the BCM.

8. To mitigate the impact of high international prices for raw materials and to forestall a serious food crisis, we have adopted an emergency program and price measures in the context of the 2008 supplemental budget law. The emergency program is intended to increase agricultural production and protect the livestock threatened by drought, facilitate the distribution of foodstuffs in the most vulnerable or most remote regions, and to develop income-generating activities in peri-urban areas. Those activities are particularly important for marginalized young people. Moreover, common reserves will be increased by UM 3 billion to cover additional emergency expenses, if the envisaged additional receipts materialize. We are also adopting measures designed to limit increases in rice and bread prices and to prevent increases in gas, electricity, and water prices in 2008. Salary and pension increases, limited to UM 3.5 billion, should also alleviate the impact of price rises in 2008. In spite of a 13 percent increase in non-oil revenues, mostly produced by a strong fiscal performance and the mining sector, additional expenditures will increase the non-oil basic fiscal deficit from 1.9 percent in the budget law to 2.9 percent, which will be financed by mobilizing domestic savings. This emergency program will be monitored by a steering committee that has already been set up. The committee will prepare a report on the implementation and the outcomes of these measures, which the government will be required to submit quarterly to the National Assembly.

9. Under the 2008 Supplementary budget law (LFR), we will announce the streamlining of the ordinary law direct tax regime and the eventual overhaul of the general tax code. This reform will allow a substantial reduction in the taxation of investments and a reduction of the effective marginal tax rate to 25 percent (i.e., the tax rate on corporate profits). A key stage in this streamlining will be the reduction of the minimum flat turnover tax from 3 percent to 1 percent, applicable as of January 1, 2009, which will be offset by the introduction of a quarterly prepayment system for the industrial and commercial profits tax. In addition to this tax reform, which benefits businesses and private investment, an investment code will be adopted by end-2008 to substantially simplify investment procedures, in particular by introducing a one-stop window. The new investment code will also contain provisions under which investments deemed as strategic will be exempted from the ordinary tax system by means of agreements that will be approved by the National Assembly and published. We will also pursue our tax administration reforms by fully implementing the VAT refund

mechanism and raising the threshold for the VAT and the account-based income tax to UM 30 million by end-June 2008, with effect from January 1, 2009. We will also pursue civil service reforms. The comprehensive census of civil servants will be completed by end-June 2008 and supplemented by an assessment of functional staffing needs in some pilot ministries by end September 2008. We will assess our pension and retirement system in 2008 with a view to future restructuring.

10. Improving fiscal management remains a priority for the government. To this end, the following will be prepared: (a) a monthly report on the status of expenditures by ministry, accompanied by a summarized reconciliation of the fiscal position and the government financial reporting table; and (b) a quarterly execution report on investment expenditure and the wage bill. The weekly fiscal and monetary policy coordination committee will issue decision minutes regarding the cash position and forecasts for a 30-day rolling period, as well as recommendations for budget execution and BCM intervention on the monetary and foreign exchange markets. We will conduct an external audit of the government's arrears to its suppliers, the results of which will be discussed with IMF staff.

11. The BCM will continue to pursue a prudent monetary policy that is consistent with its objective of containing inflationary pressures. Money supply growth is not expected to exceed 19 percent in 2008, below the nominal GDP growth rate. In keeping with this objective, we will actively manage bank liquidity. In close coordination with monetary policy, the BCM will continue to implement a flexible exchange rate policy to deal with the fluctuation of our terms of trade and preserve the competitiveness of the Mauritanian economy. We will conclude by May the agreement defining the relationship between the ministry of finance and the BCM, with the specific goal of ensuring the autonomy of the BCM in terms of financing its monetary policy.

12. The BCM will expedite the implementation of safeguards assessment mission recommendations, in particular those related to improving accounting procedures, ensuring their consistency with IFRS standards, and the effective start of internal audits. In particular, a computer system should be selected by end-June 2008, and the procedures manual will be completed by end-September 2008.

13. In keeping with the report of the Financial System Stability Assessment Program, we have adopted a strategic plan to develop financial markets and system, supported by the reorganization of the BCM. In this regard, and with technical assistance from the Bank of France, the BCM has already prepared some of the regulations of the Banking Law, particularly the instructions on bank licensing conditions, capital, and the creation of a deposit guarantee fund. Instructions on other prudential rules, penalties, and management rules applicable to related parties are being finalized. In an effort to strengthen the banking system, we have signed agreements with banks to monitor financial audit recommendations and will encourage them to consolidate the portfolio of nonperforming loans by giving priority to the largest debts.

14. The government will continue its efforts to improve governance and transparency, particularly in the extractive industries. We have published the external audit of the National Hydrocarbons Revenue Fund (FNRH) for 2006. We will henceforth expand the FNRH audit to cover all potential FRNH resources. We will also continue to publish the annual reports of the Extractive Industries Transparency Initiative, as well as the annual budget of the SMH, the contacts it has signed, and the audit of its accounts.

15. We have decided to restructure our portfolio of public enterprises to improve the quality of their services, ensure their financial sustainability, and introduce more competition. Our portfolio will be restructured with the greatest possible transparency, and will be subject to broad consultations. In this context, Air Mauritania was placed in liquidation on January 17, 2008 by the presiding judge of the Nouakchott commercial court. Operational audits will be conducted for SOMELEC and the National Water Company to conclude performance contracts with these enterprises by end-2008. A performance contract with SMH will be finalized by end-June 2008. In addition, in consultation with the World Bank, we will adopt by end-June 2008 a strategy for restructuring SOMELEC, notably with the aim of reducing its costs.

16. The perspective of a negotiated resolution to our outstanding debt with some of our multilateral and bilateral partners, in particular Kuwait and Libya, on terms comparable to those of the Paris Club, should serve to ensure the sustainability of Mauritania's debt. The updated debt sustainability analysis reveals a moderate risk of debt overhang, however, and the need for Mauritania to continue borrowing on concessional terms. To this end, we have adopted a decree establishing fiscal and accounting mechanisms for external debt management, which in particular provides for the obligation to consult the Debt Directorate of the ministry of finance and the research directorate of the central bank before ratifying any agreements, including technical agreements that may lead to a new lending arrangement.

17. Improving the coverage and the quality of statistical data is crucial for program monitoring. To this end, the government will ensure the implementation of the National Statistics Development Strategy adopted in January 2008 by the National Statistics Council. This strategy will serve to launch the institutional reform of the National Statistics Office and produce reliable economic statistics for economic analysis, the national accounts, the balance of payments, and the implementation of the General Data Dissemination System. The government published the final national accounts for 2001 and will publish the final accounts for 2002 to 2006 by end-August 2008.

18. Table 1 lists the quantitative performance criteria at end-June 2008 established at the third review and the quantitative benchmarks for end-September and end-December 2008. Table 2 specifies the structural benchmarks and the corresponding dates. Program implementation will be assessed every six months in consultation with IMF staff. Conditions

for the sixth and seventh disbursements will be established at the fourth and fifth review, respectively, and the fourth, fifth, and sixth review will be completed no later than end-September 2008, end-March 2009, and end-September 2009, respectively.

19. The government is convinced that the measures described in this letter are sufficient to achieve the program objectives, but it will take any further measures that may become necessary for this purpose. The government will consult with the IMF on the adoption of these measures and prior to any revision of the policies described in the MEFP and its letters of intent, in accordance with the Fund's rules on such consultations.

20. In light of the achievements of this program and the content of the policies explained in this letter, we request that the IMF conclude the third review under the PRGF arrangement and approve the fourth disbursement in the amount of SDR 1.93 million.

Sincerely yours,

/s/	/s/
Ousmane Kane Governor of the Central Bankof Mauritania	Abderrahmane Ould Hama Vezaz Minister of Economy and Finance

Table 1. Mauritania: Quantitative Performance Criteria and Indicative Targets for the First and Second Year of the PRGF-Supported Program 1/
(Cumulative change from end-December 2006 for the 2007 targets, and from end-December 2007 for the 2008 targets)

	Initial Level End-December 2006	End-December 2007 2/			End-March 2008	End-June 2008	End-September 2008	End-December 2008
	Stock	Target	Adj. Target	Actual	Program	Program 2/	Program	Program
Quantitative targets								
Net international reserves of the BCM (floor); in million of US$ 3/	3.6	-16.6	-41.3	38.6	-8.7	6.6	65.5	118.3
Net domestic assets of the BCM (ceiling); in billion of UM 3/	79.3	4.9	11.6	4.2	-3.6	-5.0	-6.4	-16.4
Basic non-oil government balance (floor); in billion of UM	…	-19.6		-16.8	-13.4	-45.4	-42.9	-25.1
New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in million of US$	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Short-term debt (ceiling); in million of US$	42.5	-42.2		-42.2	0.0	0.0	0.0	0.0
New external payments arrears (continuous ceiling); in million of US$	0.0	0.0		0.0	0.0	0.0	0.0	0.0
Treasury float (ceiling); in billion of UM 4/	12.5	-7.0		-8.0	0.0	0.0	0.0	0.0
Poverty reducing expenditures (floor); in billion of UM 4/	…	64.1		64.6	16.3	36.7	61.2	81.5
Adjustors (in million of US$)								
Net international assistance	…	-18.6		-19.7	-2.8	-11.7	-15.4	-27.4
Cumulative disbursements of official loans and grants in foreign currency	…	0.0		0.0	0.0	0.0	0.0	0.0
Impact of any additional debt relief	…	0.0		0.0	0.0	0.0	0.0	0.0
Cumulative amounts of external cash debt service payments	…	-18.6		-19.7	-2.8	-11.7	-15.4	-27.4
FNRH contribution to the budget	…	94.0		63.7	53.4	88.0	108.1	102.4
Memorandum item:								
UM/$ exchange rate (program)	268.6							

Sources : Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding (IMF Country Report 07/43).

2/ Performance criteria, unless otherwise indicated.

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

4/ Indicative target.

Table 2. Performance Criterion and Structural Benchmarks for the Second Year of the PRGF-Supported Program

	Date	Status
Performance criterion:		
• Submission to Parliament of a list of products for which VAT or customs tariff exemptions will be eliminated.	End-December 2007	Met
Structural benchmarks:		
• Assignment of a single tax identifier to all taxpayers registered in Nouadhibou and Nouakchott and establishment of a centralized taxpayer database.	End-December 2007	Met
• Resolution of the external audit qualifications on the BCM's 2006 financial statements within the immediate control of the BCM.	End-December 2007	Met 1/
• Adoption of an order instituting fiscal and accounting systems and modalities for disseminating information on the government external debt.	End-March 2008	Met
• Adoption by the monetary policy council of implementing regulations of the banking sector law on licensing of banks, risk concentration, and rules of management applicable to affiliates.	End-March 2008	Partially Met 2/
• Submission to parliament of a law raising the threshold for VAT and real tax regime to 30 billion ouguiya	End-June 2008	

Sources: Mauritanian authorities; and Fund staff.

1/ During the upcoming financial audit of the BCM, auditors are expected to confirm that they are satisfied with the measures taken by the BCM.
2/ Implementing regulations for the licensing of banks, and risk concentration have been adopted. The regulation on rules of management applicable to affiliates is being drafted with the technical assistance of the Banque de France.

ATTACHMENT II. TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum sets out the definitions of the quantitative targets for the period July 1, 2007–September 30, 2008, which are set forth in the Memorandum of Economic and Financial Policies (MEFP) and reported in Table 3. It also establishes the content and frequency of the data to be provided to IMF staff for monitoring the program. For the purpose of this memorandum, the government is defined to include only the central government.

2. The quantitative targets are defined as ceilings or floors for cumulative changes between the reference period described in Table 3 and the end of the month indicated.

VI. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

3. **Net international reserves** (NIR) of the Central Bank of Mauritania (BCM) are defined as the reserve assets of the BCM (i.e., the external assets that are readily available to, and controlled by, the BCM, as per the 5th edition of the IMF *Balance of Payments Manual)* minus the foreign exchange liabilities of the BCM to residents and nonresidents. The gold holdings will be evaluated at the gold price in effect on June 30, 2006 ($613.50 per oz.) and the U.S. dollar value of reserves assets (other than gold) and foreign exchange liabilities will be calculated using **program exchange rates, namely**: the June 30, 2006 exchange rates between the U.S. dollar and the ouguiya (UM/$268.6), the SDR ($/SDR 1.4794), the Euro (Euro/$1.2713), and other nondollar currencies as published in the IFS.

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

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

BCM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the BCM).

6. **The new medium- and long-term nonconcessional external debt contracted or guaranteed** by the government and the BCM is defined as the foreign currency debt, with maturities of one year or longer, contracted or guaranteed by the government or the BCM with a grant element (defined as 1 minus the NPV-to- face value ratio, and estimated on the basis of the currency and maturity specific discount rates reported by the OECD (commercial interest reference rates) of less than 35 percent. This definition applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (IMF Executive Board Decision No. 12274-(00/85) August 24, 2000; see Annex) but also to commitments contracted or guaranteed for which value has not been received.[1] For program purposes, the following will be excluded from the ceiling on medium- and long-term nonconcessional external debt contracted or guaranteed by the government or the BCM: (a) the SDR 5.1-million loan and the Euro 10-million leasing agreement between the national electricity company (SOMELEC) from the Islamic Development Bank effective on June 17 2007; and (b) the 37 million Kuwaiti dinars loan between Mauritania and the Arab Fund for Economic and Social Development effective on May 26, 2007.

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

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

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

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

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[1] Although the definition does not include public enterprise loans that are not government-guaranteed, this type of borrowing is to be avoided except in exceptional circumstances an after consultation with IMF staff.

B. Performance Criteria and Structural Benchmarks

11. **Submission to parliament of a list of products for which VAT or customs tariff exemptions will be eliminated.** The list of goods will include some fruits and milk products, and heavy fuel.

12. **Assignment of a single tax identification number to all taxpayers registered in Nouadhibou and Nouakchott and establishment of a centralized taxpayer database.** To meet this structural benchmark, the authorities will have to submit by end-December 2007 to the IMF staff the Nouadhibou and Nouakchott taxpayer databases, as well as a database covering all these taxpayers and assigning them a single tax identification number.

13. **Resolution of the qualification of the external audit of BCM's 2006 financial statements within the immediate control of the BCM.** These qualifications relate to loans to personnel, personnel costs, and provisioning of employee social benefit liabilities.

14. **Adoption of regulations establishing budgetary and accounting mechanisms and modalities for disseminating information on the government external debt.**

15. **Adoption by the monetary policy council of implementing regulations of the banking sector law on bank licensing, risk concentration, and rules of management applicable to affiliates.**

16. **Submission to parliament of a law raising the threshold for VAT and real tax regime to 30 billion ouguiya.**

VII. Program Adjustors

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

17. In case **net international assistance** or **the contribution of the FNRH to the budget falls short** of the amounts projected in Table 3, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA, this amount will be converted into ouguiyas at the program exchange rates. The cumulative downward adjustments to NIR will be limited to $25 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $25 million at program exchange rates. In case **the contribution of the FNRH to the budget exceeds** the amounts

projected in Table 3, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.

18. The floor on the government balance will be adjusted downwards by an amount equivalent to the **national aid** collected to finance solidarity expenditures related to the floods in Tintane and the repatriation of persons displaced abroad. National aid contributions will be deposited in a special allocation account created for that purpose and spending will originate from that account.

VIII. Reporting Requirements

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

BCM

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

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

- Data on treasury bills auctions within a week following each auction.

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

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

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

2) The monthly list of medium- and long-term public or publicly guaranteed external loans contracted during each month, identifying, for each loan: the creditor, the borrower, the

amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.

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

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

Ministry of Economy and Finance

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

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

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

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

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

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

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

National Statistical Office

- Monthly consumer price index within two weeks following the end of each month.
- Quarterly industrial production index within one month of the end of each quarter.
- Quarterly foreign trade bulletin within one month of the end of each quarter.

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

IX. Central Government Operations Table

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

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

- **Domestic bank financing** of the government deficit is defined as a change in the net credit to the government from the banking system, defined as claims on the government minus deposits of the government with the banking system (including the HIPC account) The treasury current account at the BCM is adjusted for changes in items for collection and the treasury float during the month at the BCM. Domestic bank financing does not include the deposits of public establishments and other administrative units (*EPA*) with the BCM, namely, the subaccounts and former earmarked accounts (CAS) with the BCM. The BCM shall provide detailed data on the deposits of public establishments and other administrative units on a monthly basis.

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

- **Domestic arrears** are defined as a net change in the treasury float and in the stock of domestic claims on government acknowledged by the ministry of economy and finance (including but not limited to accumulated payment arrears to public enterprises (utilities), international organizations, procurement contracts, and court orders).

- Changes in deposit and reciprocal accounts shall be taken into account in domestic financing.

- **External financing** is defined as the sum of: the net outflows from (i.e., the opposite of the change in the balance of the FNRH's offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears on the debts owed to Algeria, Kuwait, Libya, the United Arab Emirates, and Arab Organization of Petroleum Exporting Countries, as defined in paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.

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

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

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

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

ANNEX I. RELATIONS WITH THE FUND

As of February 29, 2008

I. Membership Status: Joined: September 10, 1963 Article VIII

II. General Resources Account	**SDR Million**	**% Quota**
Quota	64.40	100.00
Fund holdings of currency	64.40	100.00
Reserve Position	0.00	0.00

III. SDR Department	**SDR Million**	**% Allocation**
Net cumulative allocation	9.72	100.00
Holdings	0.01	0.08

IV. Outstanding Purchases and Loans	**SDR Million**	**% Quota**
PRGF Arrangements	8.38	13.01

V. Latest Financial Arrangements

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
PRGF	Dec. 18, 2006	Dec. 17, 2009	16.10	8.38
PRGF	Jul. 18, 2003	Nov. 07, 2004[10]	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				
	2008	2009	2010	2011	2012
Principal	0.00	0.00	0.00	0.00	0.65
Charges/Interest	0.26	0.34	0.34	0.34	0.34
Total	0.26	0.34	0.34	0.34	0.98

VII. Implementation of HIPC Initiative

Enhanced

[10] Cancellation date.

		Framework
I.	Commitment of HIPC assistance	
	Decision point date	Feb. 2000
	Assistance committed by all creditors ($millions)[1]	622.00
	Of which: IMF assistance ($millions)	46.76
	(SDR equivalent in millions)	34.80
	Completion point date	Jun. 2002
II.	Disbursement of IMF assistance (SDR millions)	
	Assistance disbursed to the member	34.80
	Interim assistance	16.88
	Completion point balance	17.92
	Additional disbursement of interest income[2]	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).

VIII. Implementation of MDRI Assistance

I. Total Debt Relief (SDR Million)[3]	32.91
Of which: MDRI	30.23
HIPC	2.68

[1] 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.

[2] 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.

[3] 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).

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

An update safeguards assessment of the Banque Centrale de Mauritanie (BCM) was completed on April 17, 2007. The assessment identified serious vulnerabilities in the central bank's safeguards framework and concluded that with the exception of appointing an international audit firm, the central bank had made little progress in strengthening the framework since the 2004 assessment. In particular, critical vulnerabilities were found in the areas of financial reporting (including reporting of monetary data to the Fund), and controls. A number of recommendations were made to address these vulnerabilities, including with respect to audits of reserves and quarterly monetary program data, the preparation of financial statements on the basis of International Financial Reporting Standards, and measures to improve controls in reserves management. Measures have been taken in some areas. At this stage, recommendations related to monetary program data remain relevant in the context of possible future programs.

X. Exchange Rate Arrangement

The currency of Mauritania is the ouguiya (UM). In August 2002, the BCM issued two circulars: the first sets limits on, and regulates, the handling of foreign bank notes and the second imposes a variant of a surrender requirement where 70 percent of fishing export receipts should be repatriated via the BCM. In July 2005, this surrender requirement was reduced to 60 percent. In July 2006, the surrender requirement was cancelled for small-scale pelagic fish exports and in October 2006, it was further reduced to 25 percent for exports of the public trading company SMCP. The BCM eliminated in October 2006 foreign exchange rationing, which constitutes a restriction on the making of payments and transfers for current international transactions under Article VIII, section 2 (a). From October 2005 to January 2007, the ouguiya was de facto pegged to the U.S. dollar, at an exchange rate of UM 268.6 per dollar. The BCM launched a foreign exchange auction market in late January 2007. After remaining essentially unchanged over the first few months of 2007, the exchange rate vis-à-vis the dollar has appreciated from UM 268.5 per dollar on April 25 to UM 252 per dollar at end-December 2007. The de facto exchange rate is now classified as a managed float with no pre-announced path.

XI. Last Article IV Consultation

Discussions for the 2006 Article IV consultation were held in Nouakchott from April 26 to May 9, 2006. The Country Report No. 06/272 was considered by the Executive Board on June 21, 2006.

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

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

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

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

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

XIII. Technical Assistance (since 2005)

1. MCM

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

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

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

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

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

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

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

2. FAD

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

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

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

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

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

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

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

3. LEG

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

4. STA

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

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

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

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

5. AFRITAC

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

XIV. Resident Representative

Mr. Marc Carre has been resident representative in Mauritania since January 2007.

ANNEX II. RELATIONS WITH THE WORLD BANK GROUP

As of January 30, 2008

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 (2005–07), an ambitious program aimed at improving public financial management, strengthening the rule of law and reestablishing 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 was completed with a new, democratically elected government taking 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, public sector enterprises, 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 first PRSP (PRSP-1) 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-1, 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. Since then, the macrobudgetary framework has greatly improved.

5. The new CAS (FY08–11) was discussed and approved by the Board in July 2007. It presents a Bank program that is closely aligned with the priorities of the second PRSP and outlines the Bank's strategy for transitioning to Mauritania's possible graduation from IDA to IBRD. Taking into account the Bank's comparative advantages and offering a flexible range of financing instruments, the new CAS focuses on: (a) economic governance and public sector capacity; (b) diversified growth through investment climate improvement, and possibly key enabling infrastructures through enclave operations; and (c) continued efforts to fight poverty and inequalities in both urban and rural areas. The CAS will be implemented through both upcoming and recently approved lending operations and analytical and advisory activities (AAA). The Bank may consider possible IBRD enclave operations in support of port development and the energy sector.

6. To advance the collaborative implementation of the new PRSP and CAS by the government and all development partners, the Bank—together with assistance from the EU and UNDP—helped to prepare a Consultative Group (CG) meeting in December 2007 to facilitate donor coordination and new lender mobilization. To support discussions, financing gaps were calculated on the basis of MDG Costing and the 3-year MTEF. With more than 40 delegations representing several development partners and international institutions, a record sum of $2.1 billion was pledged in support of the Mauritania's development plan. A special focus of discussions was placed on improved development and engagement of the private sector and attracted more than 250 Mauritanian and foreign companies.

The Bank Portfolio

7. To date, the World Bank has approved 60 projects in Mauritania for a total of $947.2 million. The current portfolio has 11 operations for a total of $294.5 million in commitments, with an undisbursed balance of $136.1 million as of January 2008. The portfolio also includes three regional projects, for which Mauritania's share is $66.9 million, and an additional GEF project. With the regional program, the total Mauritania portfolio is $361.4 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 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 Felou Hydroelectric Project (Credit to Mauritania: $25 million). In the first quarter of FY07 the Bank also delivered a Public Sector 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. For

FY08, a Business Environment Enhancement Project is planned (for $5–7.5 million under remaining IDA-14 funding). For FY09 a Transport Technical Assistance Grant and a Port of Nouakchott Development SIL are in the pipeline.

8. The Bank's program also encompasses nonlending 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). A Gender Assessment and an Investment Climate Assessment (ICA) were completed in March and June 2007 respectively. The current ESW portfolio also includes a Study on Corruption in Mauritania (including a paper on the effects of corruption on private sector development), which will serve as an input into the government's Anti-Corruption Strategy, a Poverty Map and a Sources of Growth study, to be completed in FY08–09. 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.

Main Policy Reform Areas

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

10. *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 closely coordinate its interventions with the Bank in supporting government reforms, privatization and investment opportunities. IFC's strategy for Mauritania is focused on: (a) improving the investment climate; (b) building up the capacity of MSMEs and institutions that can support them; and (c) proactive support to project development in the financial, tourism and oil/mining sectors. As of January 2008, IFC's committed portfolio is comprised of projects in banking, tourism, cement and agribusiness sectors, and amounts to $37.02 million, out of which $16.25 million

is outstanding. IFC advisory services have also been invited by the government to assist in the design of the partial privatization and selection of a strategic investor for SNIM, the country's national mining and industrial company. IFC's assistance on this project, to be delivered in close collaboration with the WB program for the mining sector, represents a greater effort to provide Mauritania with assistance across the World Bank Group (IDA, IBRD, IFC and MIGA), particularly in the areas of infrastructure development and natural resource management. A Memorandum of Understanding to this effect has been signed with the government on January 28, 2008 on possible support to the modernization of SNIM, the expansion of the port of Nouakchott as well as to the energy and hydrocarbon sectors.

11. *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 is being prepared, with the participation of other donors, which will continue to address economic development of 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 toward the preparation of a comprehensive rural development strategy. The Bank's rural strategy and portfolio will be revisited accordingly to ensure alignment of support with government priorities. 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 encourage 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 socioeconomic 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.

12. *Develop human resources and provide access to basic social services*.

a. *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.

b. *Health*. Additional efforts are needed to accelerate progress toward the health and nutrition related MDG 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 new government has made good governance one of its key priorities and an important first step was Mauritania's signing of the UN Convention against Corruption during the democratic transition process. An Ethics Code of civil servants has been approved. The authorities have been working on elaborating a national Anti-corruption Strategy, which the Bank is supporting through a comprehensive anti-corruption study (of which a first draft was delivered to the government for comments in December 2007). 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, and 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 and at the regional level.

16. ***Oil***. The government has established a National Hydrocarbon Revenue Fund (FNRH), an offshore 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).

Contact Persons. Questions may be addressed to Mr. James Bond, Country Director, ext.; 32644; Mr. Francois Rantrua, Country Manager, ext. 5353–312, or Mr. Nicola Pontara, Senior Economist, ext. 8040.

ANNEX III. STATISTICAL ISSUES

(As of April 2008)

The authorities have made significant efforts to improve the data compilation and reporting system, particularly within the context of the latest SMP and the ongoing PRGF. While data provision to the Fund is now broadly adequate for surveillance purposes, shortcomings in the national accounts and balance of payments statistics persist. However the authorities are now committed to maintaining full data transparency in all sectors, in line with their participation in the GDDS, which began in September 2004. The National Statistics Council (CNS) called for by the Statistics Law of January 2005 was established in February 2006.

Real sector

The national accounts require substantial improvement and work, to implement the statistical methodologies of the *1993 System of National Accounts (1993 SNA)* and rebase constant price estimates to 1998, has been under way for several years. To date, the National Statistical Office (ONS) has finalized estimates for 1998–2001 and produced provisional estimates for 2002–05. The ONS plans to complete the 2006 estimates by mid-2008. AFRITAC West is providing technical assistance.

The current edition of the consumer price index (CPI), developed with the assistance of AFRISTAT, has been published since May 2004. Geographical coverage of the CPI is limited to Nouakchott, the capital.

Government finance

The monthly treasury balance is reconciled with the treasury accounts at the Banque Centrale de Mauritanie (BCM), and it constitutes the basis for a monthly fiscal reporting table (TOFE) that is produced with a maximum lag of one month. Expenditures are recorded on a payment order basis, and since April 2006, on the basis of a functional classification of expenditure, thus allowing for monthly tracking of the execution of poverty-reducing expenditure. A detailed quarterly budget execution report will be published on the treasury website (www.tresor.mr). No government finance statistics are reported to STA. With ongoing methodological improvements, the monthly statements of treasury accounts could provide the basis for reporting budgetary central government finance statistics to STA.

Monetary and financial statistics

In November 2005, a STA expert provided detailed recommendations on how central bank statistics should be derived from the central bank accounts to ensure accurate data reporting of monetary data to the Fund. And in July 2006, a STA mission assisted the BCM in bringing monetary statistics in line with the statistical methodologies of the *Monetary and Financial Statistics Manual* and data dissemination recommendations of the GDDS. More specifically, the mission helped the BCM develop and implement bridge tables from source data for monetary statistics to the new Standardized Report Form (SRFs) for reporting monetary statistics to STA.

In parallel, the BCM pursued the implementation of the recommendations of the January 2004 IMF safeguards assessment mission, particularly those relating to the improvement in the presentation of the central bank accounts. The final audit reports for the BCM's financial statements for 2003, 2004, and 2005 were released to Fund staff. The audited statements and revised monetary data are now broadly consistent.

A STA expert visited the BCM in March 2008 to help resolve inconsistencies and misclassifications in the central bank's accounts and in source data reported by commercial banks. The mission also completed SRFs 1SR (on central bank), 2SR (on other depository corporations), and 5SR (on monetary aggregates). The BCM is now expected to submit monetary data to STA monthly by using the SRFs 1SR, 2SR, and 5SR beginning with end-January 2008 data onwards and to progressively compile SRFs back to December 2001. Monetary and financial statistics are not regularly reported to STA, and the most recent monetary data received and published in the *IFS* refer to March 2004. However, the BCM posts monetary statistics on its official website (the most recent data refers to December 2007).

Balance of payments

Balance of payments statistics are compiled on the basis of foreign exchange records of the central bank (which requires commercial banks to regularly report details of external transactions they conduct on behalf of their customers), supplemented by trade data (from Customs), external debt statistics, and data communicated directly by the state-owned iron ore company. Many components are routinely based on estimates as there are no systematic efforts to collect data on certain types of transfers, foreign direct investment, or tourism receipts. In addition nonmining exports, services, and short-term capital flows are not well measured as under-reporting of external transactions by commercial banks is problematic. No balance of payments statistics are reported to STA.

Poverty and social indicators

Household expenditure surveys, conducted at the national level for the years 1990, 1996, and 2000, are the main source for building poverty profiles and setting poverty reduction targets. In 2004, ONS conducted a limited survey for Nouakchott (which hosts about one-third of the country's population).

TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE

As of April 2008

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting [6]	Frequency of publication[6]
Exchange Rates	Apr. 2008	Apr. 2008	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Apr. 2008	Apr. 2008	M	M	NA
Reserve/Base Money	Apr. 2008	Apr. 2008	M	M	NA
Broad Money	Apr. 2008	Apr. 2008	M	M	NA
Central Bank Balance Sheet	Apr. 2008	Apr. 2008	M	M	NA
Consolidated Balance Sheet of the Banking System	Apr. 2008	Apr. 2008	M	M	NA
Interest Rates[2]	Apr. 2008	Apr. 2008	W	W	W
Consumer Price Index	Apr. 2008	Apr. 2008	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	NA	NA	NA	NA	NA
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	Mar. 2008	Apr. 2008	M	M	I
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2007	Jan. 2008	A	A	I
External Current Balance	Mar. 2008	Apr. 2008	Q	Q	I
Exports and Imports of Goods and Services	Mar. 2008	Apr. 2008	Q	Q	I
GDP/GNP	2007 [7]	Mar. 2008	A	A	I
Gross External Debt	Dec. 2007	Jan. 2008	A	A	I

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

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

ISLAMIC REPUBLIC OF MAURITANIA

Debt Sustainability Analysis

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

approved by Amor Tahari and Anthony Boote (IMF)
and Sudhir Shetty and Carlos Braga (World Bank)

May 2, 2008

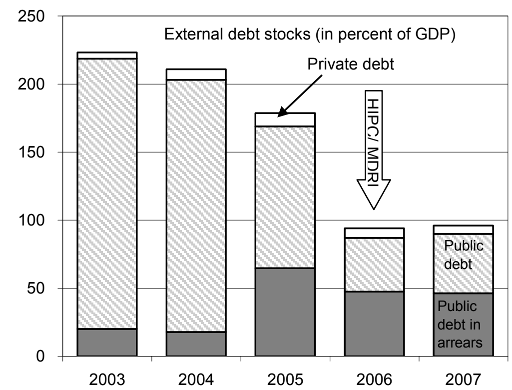
The joint IMF-World Bank low-income country debt sustainability analysis (LIC DSA) shows that on the basis of a relatively conservative assumption on the volume of prospective oil exports, a reasonable non-oil growth assumption, and a positive outcome of current negotiations of debt in arrears, Mauritania is at moderate risk of debt distress.[1] *Under the baseline scenario, all debt burden indicators remain below their policy-dependent indicative thresholds, except for a marginal breach of threshold for the NPV of debt-to-GDP ratio. However, stress tests indicate that Mauritania is somewhat vulnerable to adverse shocks, notably the risk of lower-than-projected growth of GDP and exports. The public DSA, which takes into account the large accumulation of external assets in the oil fund, suggests that Mauritania's overall public sector debt dynamics are sustainable in light of the current size and the evolution of the domestic debt stock while remaining vulnerable to some shocks.*

I. BACKGROUND

1. **The last DSA was undertaken after the country received substantial HIPC and MDRI relief.**[2] This analysis updates the long-term macroeconomic framework presented in the last DSA. In particular, the revised projections reflect new information on (a) the real sector; (b) debt stocks; and (c) the outcome of the Consultative Group Meeting in December 2007.

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

[2] See IMF Country Report 07/43, Appendix II, and World Bank, "Mauritania: Joint Bank-Fund Debt Sustainability Analysis", February, 2007.



2. **The evolution of the publicly guaranteed external debt over the past years was mainly influenced by the HIPC debt relief and MDRI assistance. Mauritania reached its completion point under the HIPC Initiative in 2002 and received MDRI assistance in 2006. In particular, MDRI assistance** brought Mauritania's total external debt down from almost 170 percent of GDP at end-2005 to below 100 percent at end-2006. However, there remains a large proportion of debt in arrears that has not yet been treated under the HIPC initiative. These arrears were estimated at US$1.2 billion at end-2007, representing about half of Mauritania's total external nominal debt and contributing disproportionately to its NPV.[3]

3. **After a long process of consolidation of central bank (BCM) claims and domestic arrears, Mauritania's stock of gross domestic public debt stabilized at approximately 19.7 percent of GDP at end-2006,** consisting of central bank claims on the treasury (equivalent to 14.3 percent of GDP), and short-term treasury bills mostly held by banks (equivalent to 5.5 percent of GDP). Most arrears toward domestic suppliers were eliminated in 2006. BCM's consolidated claims on the government comprise two types of instruments: claims repayable over 30 years with an average interest rate of 4.65 percent, and interest-free provision for accumulated foreign exchange losses, repayable over 37 years, with a grace period extending until 2015.

II. Underlying DSA Assumptions

4. **The macroeconomic framework underlying the DSA is consistent with the government's medium-term reform program.** The framework is characterized by a relatively conservative scenario for oil revenues and sustained non-oil GDP growth, and a realistic set of assumptions about economic policies and outcomes (Table 1; Box 1). It is assumed that oil resources are limited and that their extraction will end by 2027. The baseline scenario features a transitory decrease in oil production in 2008–11. As a result of a spur in FDI in extractive industries, production subsequently is expected to peak at 62,000 barrels per day in 2014 and gradually decline to close to zero in 2027. Under this profile, the cumulative oil production reaches about 300 million barrels corresponding to the estimated

[3] These arrears originate from liabilities that were considered to be "passive debt". They were thus excluded from HIPC calculations because there was no indication that the respective creditors (Libya, Kuwait, Algeria, the United Arab Emirates, and the Arab Organization of Petroleum Exporting Countries) were requesting the repayment of these debts. Since the HIPC completion point, these creditors have indicated that the claims have not been waived. There has been no debt service paid on these debts for several years. After resolution with three creditors the largest remaining portion of arrears is owed to Kuwait (about $1 billion, mostly consisting of late interest charges). The rest is with Libya, amounting to about $200 million.

cumulative capacity of the existing Chinguetti deep offshore oil field and other fields to be developed, including Tiof. Regarding the non-oil economy, it is assumed that there will be a spurt of growth early on reflecting the ongoing new mining developments and the step-up in public investment. Real GDP growth projections remain moderate, and do not take into account the impact of very large FDI-financed projects currently under discussion and yet to be quantified. Average annual inflation should gradually decline to 5 percent in 2012 and stay at this level during the remainder of the projection period.

5. **Outstanding arrears to Kuwait and Libya are assumed to be treated in 2008 and 2009.**[4] Following this resolution and a surge of disbursements as a consequence of the Consultative Group meeting, the gross external debt is expected to decrease gradually from 63.6 percent to 27.4 percent of GDP between 2008 and 2027. Simultaneously, deposits are assumed to accumulate on the oil fund that could reach 23.4 percent of GDP in 2027.

6. **An ambitious public investment program between 2008 and 2012 is projected to be financed by donor funds pledged at the recent Consultative Group meeting.** The framework underlying this DSA assumes disbursement of $1.6 billion of loans and grants pledged over 2008–12. This financial aid represents an average annual gross aid inflow of about 12 percent of GDP between 2008 and 2012. Beyond 2012, the framework assumes continued significant but lower foreign borrowing. Some blending with nonconcessional resources is expected to become more prominent over the medium to long term, driving the projected average grant element on new borrowing down from an average of 51.9 percent in 2008–13 to 40.3 percent by 2018 and finally to 22.2 percent by 2027.[5]

7. **As in the previous DSA, the external DSA is presented on a gross basis (i.e., excluding the oil reserve fund from external debt)**. The current framework maintains some accumulation of oil reserves, as opposed to an early repayment of external debt as the return on assets in the oil fund is higher that the cost of predominantly concessional external debt, and with a view to maintaining a liquidity buffer to respond to potential adverse shocks, including in oil prices or production. However, the public debt analysis is conducted on a net basis (that is, after netting out the oil reserve fund from external debt), in light of the liquidity of oil reserves deposited at the French Central Bank, the transparency and security of the oil fund, and its nature (for liquidity rather than intergenerational purposes).

[4] Under the LIC DSA guidelines for post completion point countries, the baseline scenario should incorporate HIPC and MDRI relief. Accordingly, the LIC DSA assumes debt relief by Kuwait and Libya in line with the debt reduction required under HIPC. See “Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries” available at www.imf.org and www.worldbank.org.

[5] All NPV calculations are based on a unified discount rate of 5 percent per annum.

Box 1: Baseline Macroeconomic Assumptions

Real GDP growth: Real non-oil GDP growth is projected to be sustained at 6.2 percent per year on average over 2008-12, reflecting the step-up in public investment mobilized at the recent Consultative Group meeting and an increase in mining production capacity. After 2013, growth returns to a sustainable level averaging 4 percent per year.

Inflation: After a peak in 2008 resulting from high international food and fuel prices, consumer price inflation is projected to decline gradually to 5 percent by 2012. It is projected to remain at 5 for the remaining projection period.

Current account balance: The current account deficit is expected to peak at about 21 percent of GDP in 2011, mainly driven by FDI and aid-financed imports. After that, a reversal of this balance is expected once oil exports pick up bringing the current account to a surplus of 10 percent of GDP in 2015. Thereafter, the current account position is expected to deteriorate gradually, returning to deficits of 6-7 percent of GDP by the end of the projection period.

Government balances: The framework assumes the following: (a) non-oil revenue remains stable at about 23 percent of non-oil GDP throughout the period; (b) grants return to their historical average in 2013; and (c) oil revenue including interest on oil fund will peak at 11 percent in 2014 before declining by approximately 10 percent a year until 2027. The government's non-oil deficit including grants is projected to improve gradually from 8 percent to about 2 percent of non-oil GDP between 2008 and 2027. The projected primary balance improves from a deficit of 3.6 percent of GDP in 2014 to a surplus of 0.7 percent of GDP in 2027.

External assistance and scaling up: The framework assumes full realization of the additional aid resources pledged at the December 2007 consultative group meeting amounting to an average of 10 percent of GDP of additional inflows, which almost triples previous expectations of aid inflows in this period. 46 percent of the aid inflows between 2008 and 2012 are assumed to come in the form of concessional loans. The remainder consists of grants.

Domestic borrowing: Oil revenue should allow reimbursing the consolidated long-term debt to the BCM in full by 2016 and halving the level of short-term debt by 2018.

Real interest rates: The compound real interest rate of the consolidated long-term debt vis-à-vis the BCM amounts to 3 percent. The real interest rate of the short-term domestic debt (treasury bills) approaches 10 percent.

III. External DSA

8. **The analysis shows that Mauritania's external debt is at a moderate risk of debt distress.**[6] The analysis was conducted under the debt sustainability framework for low-income countries (LICs). Throughout, the debt burden thresholds used for the analysis

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

are those applying to poor performers. According to the World Bank CPIA rating, Mauritania's policies and institutions are assessed as those corresponding to a "poor performer".[7] The debt-burden thresholds for countries in this category are: (a) the NPV of the debt-to-exports of goods and services of 100 percent; (b) NPV of the debt-to-GDP of 30 percent; and (c) NPV of the debt-to-fiscal revenues of 200 percent. The relevant debt service ratios are: (a) 15 percent of exports of goods and services; and (b) 25 percent of revenues.

9. All indicators of the NPV of the external debt would remain under the policy dependent threshold throughout the period except for a short and slight breach between 2010-13 **of the NPV of debt-to-GDP (Figure 1).** This outcome critically depends on the resolution of outstanding arrears under Cologne terms. In the absence of such resolution, the NPV of external debt would exceed all thresholds. These ratios are calculated on a gross basis and do not take into account the accumulated external assets in the oil fund. Under the assumption of a return on oil fund assets of 5 percent, the ratios of NPV of *net* external debt would become negative after 2021, indicating that the discounted present value of returns on assets in the oil fund would outweigh the present value of expected external debt service.

10. **The less favorable outcome obtained from the stress tests reflects the moderate vulnerability of external debt solvency to adverse shocks.** Under the historical scenario—which assumes that key macroeconomic variables evolve in line with the record of the past seven years, where oil revenues were limited—all NPV ratios of the external debt would eventually deteriorate above the thresholds. Additional tests assessing the impact of less favorable lending conditions—specifically, new borrowing at 2 percentage points higher interest rates—also yield less favorable sustainability outcomes for the NPV of external debt-to-GDP ratio (Table 3). Under the "most extreme stress test",[8] all indicators except the external debt service-to-revenue ratio would breach their thresholds (Table 3; Figure 1).

IV. Public DSA

11. **Under the baseline assumptions, the NPV of net government debt-to-GDP ratio is projected to decline continuously over the projection period.** The fiscal sustainability

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[7] In the LIC DSA framework, the quality of a country's policies and institutions is measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index, and classified into three categories: strong, medium and poor. The latest CPIA rating for Mauritania in 2006 is 3.28, bringing the 3-year average to 3.23, below the 3.25 threshold (see http://siteresources.worldbank.org/IDA/Resources/tablesCPR.pdf). The 2007 CPIA is currently being finalized by the World Bank. A further improvement is expected. However, this would not affect the overall risk assessment which would remain at moderate even with elevated thresholds.

[8] For the NPV of debt-to-GDP and the NPV of debt-to-revenue ratios this corresponds to a combination of real GDP growth at historical average minus half a standard deviation, export value growth at historical average minus half a standard deviation, U.S. dollar GDP deflator at historical average minus half a standard deviation, and net nondebt creating flows at historical average minus one standard deviation in 2009–10. For the NPV of debt-to-exports and the debt service-to-exports ratios, this corresponds to export value growth at historical average minus one standard deviation in 2009–10.

analysis largely mirrors the external DSA: the long-term sustainability of the public debt rests crucially on the resolution of debt arrears and the materialization of oil revenues, and the disbursement of aid pledged at the Consultative Group meeting. Under the current framework, the sharp increase in oil revenue concomitant to the final disbursements from the CG meeting financial aid allows (a) the reimbursement of consolidated long-term debt to the BCM in full by 2016; and (b) the reduction by half of the level of short term debt by 2018. Gross public debt is projected to decrease from 110.5 percent of GDP to 40.4 percent between 2006 and 2017 (eventually reaching 31.1 percent of GDP in 2027). The reduction in public debt net of deposits on the oil fund is even more pronounced in the second decade, with the NPV of net government debt-to-GDP ratio decreasing from 57.1 percent in 2006 to 19.9 percent in 2017, and 8.8 percent in 2027.

12. **The prospects of long-term fiscal sustainability could worsen under adverse circumstances simulated by the stress tests.** Under the "most extreme" stress test (featuring real GDP growth to its historical average minus one standard deviation in 2008–09), the NPV of net public debt-to-GDP and the NPV of the net public debt-to-revenue ratio would exhibit unsustainable upward trends. If GDP growth was about 1 percentage point lower than under the base line over the entire projection period, the NPV of net public debt-to-GDP would hover between 20 percent and 50 percent. If, however, real GDP growth and the primary deficit remained at the average level of the past ten years, the outcome would quite closely reflect projections under the baseline scenario (Table 5).

V. Debt Distress Classification and Conclusions

13. This LIC DSA presented here shows that on the basis of a relatively conservative assumption on the volume of prospective oil exports, a reasonable non-oil growth assumption, and a positive outcome of current negotiations of debt in arrears, Mauritania's risk of debt distress remains moderate. The overall risk of debt distress is even lower when the NPV of debt is taken net of assets in the oil fund. This assessment, which is in line with the last DSA, is contingent on a positive outcome of current negotiations of arrears clearances and a realization of the concessionality objective for the recently pledged scaling up of aid. The analysis highlights Mauritania's vulnerability to GDP and exports shocks. It is thus critical that Mauritania continues to pursue a cautious borrowing strategy, limited exclusively to concessional borrowing, and improves its debt management.

Table 1. Macroeconomic Framework, 2007–27

		Projections 1/								
	2007	2008	2009	2010	2011	2012	2013	2014–20	2021–27	2008–27
Economic growth and prices	Percentage change									
Real GDP	1.0	5.0	6.8	5.7	6.0	12.7	6.2	4.0	3.9	4.9
Non oil Real GDP	5.9	5.7	5.9	6.2	6.6	6.8	4.3	4.4	4.8	5.0
Implicit non-oil GDP deflator	13.4	19.0	3.7	1.5	2.2	3.1	4.8	5.1	5.0	5.2
Consumer price index (period average)	7.3	12.5	9.5	6.5	5.5	5.0	5.0	5.0	5.0	5.7
Consumer price index , eop	7.4	12.0	7.0	6.0	5.0	5.0	5.0	5.0	5.0	5.5
Investment and Savings	In percent of GDP									
Consumption	92.0	86.8	82.7	86.4	87.4	76.8	73.0	76.5	89.0	82.6
Government	21.7	21.9	18.8	19.0	19.2	15.7	14.6	14.9	16.4	16.4
Nongovernment	70.3	64.9	63.9	67.4	68.2	61.1	58.4	61.6	72.6	66.1
Gross investment	22.4	21.9	21.8	26.6	34.4	22.1	17.5	15.3	16.5	18.3
Oil-related	5.3	4.2	4.7	8.2	15.4	6.3	3.7	0.8	0.4	2.5
Non-oil related investment	17.0	17.8	17.1	18.4	19.0	15.8	13.8	14.5	16.1	15.8
Government	6.0	6.8	6.7	7.2	7.9	6.8	5.4	5.8	6.5	6.4
Nongovernment	16.4	15.1	15.1	19.4	26.5	15.3	12.1	9.5	10.0	12.0
Gross savings	11.0	15.7	18.8	15.4	13.1	19.6	22.9	22.6	13.1	17.8
Government	2.3	-0.3	3.3	2.9	3.9	7.8	7.7	8.8	6.4	6.6
Nongovernment	8.7	16.0	15.5	12.4	9.2	11.8	15.1	13.8	6.7	11.2
Consolidated government operations	In percent of non-oil GDP									
Revenue and grants	27.2	27.4	25.9	25.0	25.7	25.1	22.9	23.2	21.4	23.2
Of which : non-oil revenue	25.0	24.6	23.0	21.8	23.1	17.3	13.3	14.5	16.9	17.1
Revenue, excluding grants	24.8	24.3	22.7	22.4	21.9	21.8	21.8	22.6	21.1	22.1
Of which : tax revenue	15.7	15.6	15.5	15.6	15.7	16.0	16.4	18.2	18.0	17.4
non- oil tax revenue	15.7	15.1	15.0	14.5	14.7	13.6	13.5	15.3	16.6	15.5
Expenditure and net lending	32.1	34.1	30.9	31.0	31.2	30.7	28.9	28.5	27.2	28.9
Primary expenditure	30.1	32.7	29.2	29.2	29.7	29.3	27.5	27.7	26.6	27.9
Of which : capital	8.6	9.7	10.1	10.3	11.1	11.4	9.5	10.0	9.7	10.0
Interest (net)	2.0	1.4	1.7	1.8	1.5	1.4	1.4	0.8	0.6	1.0
Non-oil balance excluding grants	-7.3	-9.8	-8.2	-8.6	-9.3	-8.9	-7.1	-5.9	-6.1	-6.8
Non-oil balance including grants	-4.9	-6.7	-5.0	-6.0	-5.5	-5.6	-6.0	-5.3	-5.8	-5.6
	In percent of GDP									
Current account (including official transfers and oil)	-11.4	-6.3	-3.0	-11.2	-21.3	-2.5	5.4	7.3	-3.3	-0.6
Balance of goods and services	-14.4	-8.7	-4.5	-13.0	-21.8	1.1	9.5	8.2	-5.4	-0.9
Exports	54.6	58.6	56.0	51.6	48.7	55.9	55.9	48.4	36.5	46.1
Imports	68.9	67.3	60.4	64.6	70.5	54.8	46.4	40.2	42.0	47.0
Net income	-2.2	-3.8	-4.6	-3.9	-5.5	-8.3	-6.9	-3.6	-0.7	-3.2
Net transfers	5.1	6.2	6.1	5.6	6.0	4.7	2.7	2.8	2.8	3.5
	In percent of non-oil GDP, unless otherwise specified.									
Memorandum items:										
Nominal GDP (in billions of ouguiyas)	734.2	904.8	1,026.4	1,087.9	1,158.7	1,523.8	1,749.0	2,489.6	4,183.7	2,708.2
External public debt outstanding (in US$ million)	2,536.0	1,816.4	1,877.4	2,236.6	2,545.4	2,831.2	3,078.1	3,370.9	3,786.6	3,224.4
Financial assets of the government net of external debt (US$ million)	2,595.1	1,870.2	1,948.7	2,335.6	2,652.0	3,085.2	3,545.0	5,103.0	6,881.2	4,966.3
Gross official reserves of the BCM (US$ million)	208.8	330.4	345.7	416.7	506.1	724.4	941.6	1,271.2	1,729.2	1,213.4
GNP per capita (US$)	931.6	1,150.5	1,257.9	1,300.6	1,330.2	1,650.2	1,850.0	2,219.8	2,666.2	2,137.1
Population (millions)	3.0	3.0	3.1	3.2	3.3	3.3	3.4	3.8	4.4	3.8
Mauritania's price of oil (US$/barrel)	65.8	91.1	89.5	88.3	87.8	87.5	87.5	95.6	111.3	99.0
Annual production of oil (millions of barrels)	5.5	3.9	5.5	4.9	4.0	15.4	20.1	20.7	11.4	13.9

Sources: Mauritanian authorities; and staff estimates and projections.

1/ For the last three columns, average unless otherwise specified.

Table 2. External Debt Sustainability Framework, Baseline Scenario, 2007–27 1/

(In percent of GDP, unless otherwise indicated)

	Actual	Historical	Standard	Projections									
	2007	Average 6/	Deviation 6/	2008	2009	2010	2011	2012	2013	2008–13 Average	2017	2027	2014–27 Average
External debt (nominal) 1/	96.1			58.9	53.8	59.7	63.0	53.1	50.7		43.7	32.8	
Of which: public and publicly guaranteed (PPG)	89.9			50.1	45.8	52.0	55.5	47.2	45.4		39.2	28.8	
Change in external debt	1.9			-37.2	-5.1	6.0	3.3	-9.9	-2.4		-1.2	-1.1	
Identified net debt-creating flows	2.5			-0.3	-1.7	2.4	2.4	-6.5	-6.0		-5.2	2.7	
Noninterest current account deficit	10.5	13.2	16.7	5.2	2.1	10.2	20.2	1.6	-6.2		-8.4	6.5	-2.7
Deficit in balance of goods and services	14.4			8.7	4.5	13.0	21.8	-1.1	-9.5		-8.1	10.4	
Exports	54.6			58.6	56.0	51.6	48.7	55.9	55.9		48.0	31.8	
Imports	68.9			67.3	60.4	64.6	70.5	54.8	46.4		39.8	42.2	
Net current transfers (negative = inflow)	-5.1	-8.0	1.8	-6.2	-6.1	-5.6	-6.0	-4.7	-2.7		-2.7	-2.7	-2.8
Of which: official	-2.6			-4.1	-4.1	-3.5	-3.9	-2.8	-0.9		-0.9	-0.5	
Other current account flows (negative = net inflow)	1.3			2.8	3.7	2.8	4.4	7.4	6.0		2.5	-1.1	
Net FDI (negative = inflow)	-4.9	-10.6	13.7	-2.8	-1.1	-5.9	-15.6	-2.8	2.3		4.2	-3.7	0.7
Endogenous debt dynamics 2/	-3.2			-2.7	-2.6	-1.9	-2.3	-5.3	-2.1		-0.9	-0.2	
Contribution from nominal interest rate	0.9			1.0	0.9	1.0	1.1	0.9	0.8		0.7	0.7	
Contribution from real GDP growth	-0.9			-3.7	-3.5	-2.9	-3.4	-6.1	-2.9		-1.7	-0.8	
Contribution from price and exchange rate changes	-3.1			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	-0.5			-36.9	-3.4	3.5	0.9	-3.4	3.6		4.0	-3.8	
Of which: exceptional financing	1.4			-29.5	-5.0	0.3	0.3	0.2	0.0		0.0	0.0	
NPV of external debt 4/	81.3			41.8	37.7	41.8	44.2	37.3	36.0		31.8	21.9	
In percent of exports	148.9			71.3	67.4	81.0	90.8	66.7	64.4		66.2	69.0	
NPV of PPG external debt	75.1			33.0	29.8	34.1	36.8	31.4	30.7		27.2	18.0	
In percent of exports	137.7			56.3	53.2	66.0	75.5	56.2	54.9		56.7	56.5	
In percent of government revenues	317.7			142.9	145.1	163.6	176.8	182.2	187.9		152.7	91.8	
Debt service-to-exports ratio (in percent)	0.8			3.4	4.0	3.8	4.2	3.0	2.9		5.1	9.8	
PPG debt service-to-exports ratio (in percent)	0.1			2.7	3.4	2.9	3.3	2.4	2.4		4.5	9.1	
PPG debt service-to-revenue ratio (in percent)	0.1			7.0	9.2	7.2	7.7	7.7	8.1		12.1	14.8	
Total gross financing need (billions of U.S. dollars)	0.2			0.2	0.1	0.3	0.3	0.0	-0.2		-0.2	0.8	
Non-interest current account deficit that stabilizes debt ratio	8.6			42.5	7.1	4.2	17.0	11.5	-3.8		-7.2	7.6	
Key macroeconomic assumptions													
Real GDP growth (in percent)	1.0	4.4	3.2	5.0	6.8	5.7	6.0	12.7	6.2	7.1	3.9	2.5	3.9
GDP deflator in U.S. dollar terms (change in percent)	3.4	3.6	13.7	22.5	5.8	-0.7	0.5	16.1	6.5	8.4	0.9	4.0	1.4
Effective interest rate (percent) 5/	1.0	0.7	0.5	1.4	1.7	2.0	1.9	1.8	1.8	1.8	1.7	2.1	1.8
Growth of exports of G&S (U.S. dollar terms, in percent)	5.9	16.9	36.3	38.0	7.9	-3.2	0.6	50.2	13.0	17.8	0.9	2.0	1.2
Growth of imports of G&S (U.S. dollar terms, in percent)	23.5	14.7	26.0	25.5	1.5	12.2	16.4	1.7	-4.3	8.8	5.2	6.3	4.7
Grant element of new public sector borrowing (in percent)	...	...	...	42.4	38.8	38.4	37.9	41.4	34.2	38.9	30.5	17.0	25.8
Aid flows (in billions of U.S. dollars) 7/	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Of which: Grants	0.0			0.1	0.1	0.1	0.1	0.2	0.1		0.0	0.0	
Concessional loans	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...			6.4	6.3	5.2	6.0	4.8	2.3		1.0	0.7	0.9
Grant-equivalent financing (in percent of external financing) 8/	...			56.2	49.0	47.3	55.4	59.8	43.9		42.5	22.2	35.3
Memorandum items:													
Nominal GDP (billions of U.S. dollars)	2.8			3.6	4.1	4.3	4.6	6.0	6.8		8.7	14.1	
(NPVt-NPVt-1)/GDPt-1 (in percent)				-32.7	0.6	6.0	5.1	4.3	3.3	-2.2	0.5	0.3	0.4

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

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

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

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

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 3. Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2008–27

(In percent)

	Projections								
	2008	2009	2010	2011	2012	2013	2017	2023	2027
NPV of debt-to-GDP ratio									
Baseline	33	30	34	37	31	31	27	22	18
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009–28 1/	33	31	32	31	34	38	50	46	31
A2. New public sector loans on less favorable terms in 2009–28 2/	33	32	38	42	37	37	35	33	31
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	33	31	38	41	35	34	30	24	20
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	33	41	60	62	52	50	40	29	20
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	33	35	44	48	41	40	35	29	23
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	33	33	44	46	39	38	32	25	19
B5. Combination of B1-B4 using one-half standard deviation shocks	33	38	48	51	43	42	36	28	22
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	33	42	48	51	44	43	38	31	25
NPV of debt-to-exports ratio									
Baseline	56	53	66	75	56	55	57	58	56
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2008–27 1/	56	56	62	65	61	68	104	121	97
A2. New public sector loans on less favorable terms in 2008–27 2/	56	57	74	87	66	66	72	88	97
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	56	53	66	75	56	55	57	58	56
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	56	98	188	206	149	143	136	121	102
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	56	53	66	75	56	55	57	58	56
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	56	59	85	95	70	68	67	65	59
B5. Combination of B1-B4 using one-half standard deviation shocks	56	65	83	94	69	67	67	67	62
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	56	53	66	75	56	55	57	58	56
Debt service-to-exports ratio									
Baseline	3	3	3	3	2	2	5	8	9
A. Alternative Scenarios									
A1. Key variables at their historical averages in 2009–28 1/	3	4	3	3	3	3	6	12	14
A2. New public sector loans on less favorable terms in 2009–28 2/	3	3	3	4	3	3	5	8	11
B. Bound Tests									
B1. Real GDP growth at historical average minus one standard deviation in 2009–10	3	3	3	3	2	2	5	8	9
B2. Export value growth at historical average minus one standard deviation in 2009–10 3/	3	5	6	8	5	5	13	18	20
B3. U.S. dollar GDP deflator at historical average minus one standard deviation in 2009–10	3	3	3	3	2	2	5	8	9
B4. Net nondebt creating flows at historical average minus one standard deviation in 2009–10 4/	3	3	3	4	3	3	6	9	10
B5. Combination of B1-B4 using one-half standard deviation shocks	3	4	3	4	3	3	6	9	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2009 5/	3	3	3	3	2	2	5	8	9
Memorandum item:									
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	22	22	22	22	22	22	22	22	22

Source: Staff projections and simulations.

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

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

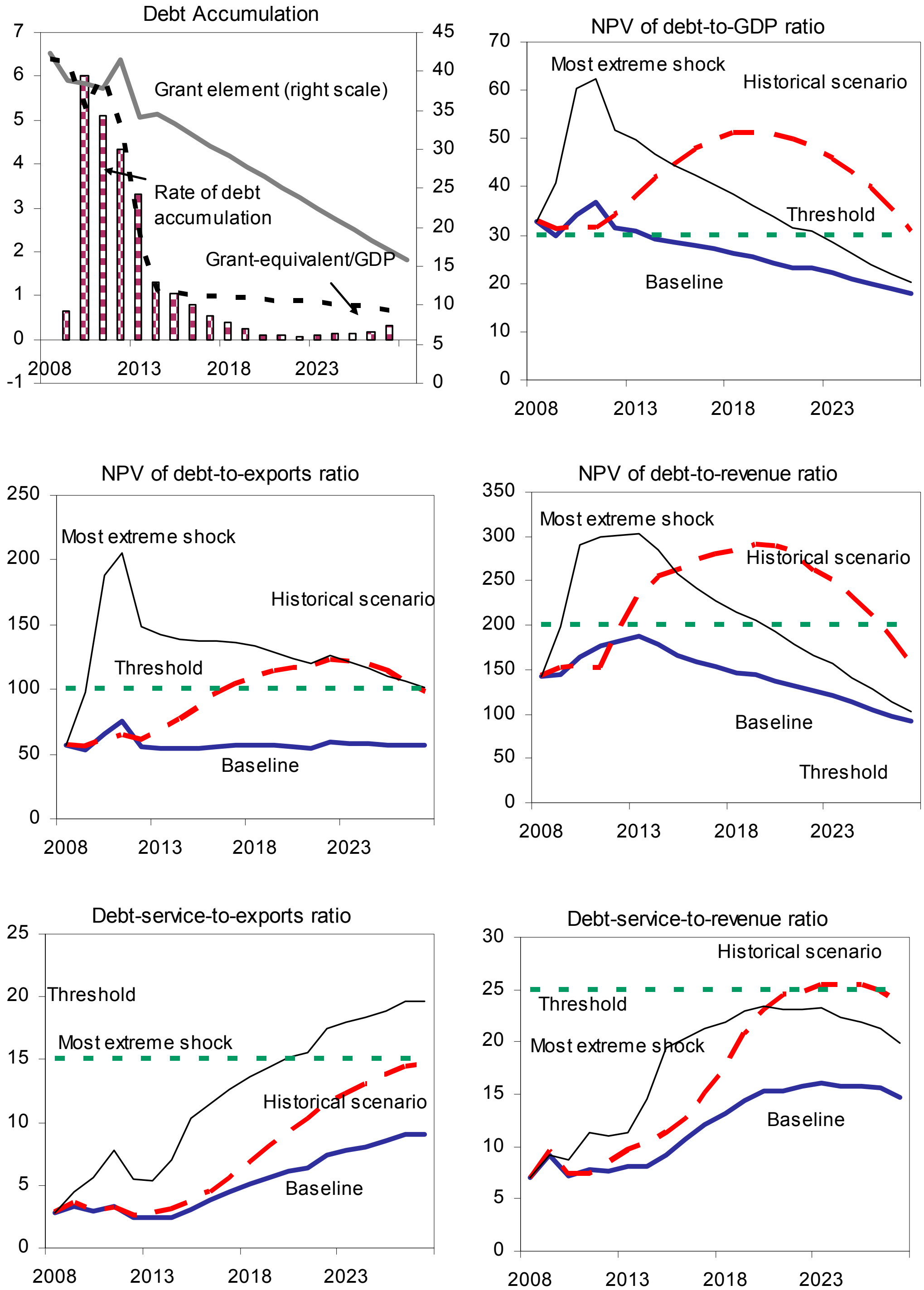
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

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

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

Figure 1. Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2008–27



Source: Staff projections and simulations.

Table 4. Net Public Sector Debt Sustainability Framework, Baseline Scenario, 2007–27

(In percent of GDP, unless otherwise indicated)

	Actual			Projections												
	2007	Historical Average 5/	Standard Deviation 5/	2008	2009	2010	2011	2012	2013	2014	2015	2016	2008–13 Average	2017	2027	2017–27 Average
Public sector debt 1/	110.6			79.6	72.2	75.4	68.6	53.1	46.1	38.2	31.4	24.6	65.8	19.9	8.8	10.5
Of which: foreign-currency denominated	85.1			48.3	44.6	49.6	53.2	43.2	39.0	33.3	28.2	23.8	46.3	19.2	6.8	9.1
Of which: foreign-currency denominated oil reserve	-1.3			-1.5	-1.7	-2.3	-2.3	-4.2	-6.9	-9.8	-13.4	-17.0	-3.2	-20.5	-22.3	-25.3
Change in public sector debt	1.9			-31.0	-7.4	3.1	-6.8	-15.5	-6.9	-7.9	-6.9	-6.8	-10.7	-4.7	2.6	-1.4
Identified debt-creating flows	-6.1			11.2	-1.8	-2.1	-2.3	-18.1	-9.0	-7.6	-6.6	-6.2	-3.7	-5.3	0.9	-1.6
Primary deficit	0.0	-1.0	13.3	2.3	0.3	0.8	1.2	-2.9	-4.0	-4.4	-5.0	-5.4	-0.4	-4.7	0.9	-1.6
Revenue and grants	27.8			28.5	26.4	26.3	27.0	26.2	24.9	25.3	26.0	26.7	26.6	26.3	23.5	24.8
Of which: grants	2.2			2.9	2.9	2.4	3.6	2.6	0.9	0.6	0.5	0.5	2.6	0.4	0.2	0.3
Of which: oil revenue	8.2			2.8	2.7	3.1	2.6	6.3	7.6	8.1	8.1	8.4	4.2	7.8	6.4	7.0
Primary (noninterest) expenditure	27.8			30.8	26.7	27.1	28.2	23.3	20.8	20.8	20.9	21.3	26.2	21.6	24.4	23.2
Automatic debt dynamics	-4.7	-15.9	26.2	-20.6	-7.0	-2.5	-3.1	-14.9	-5.0	-3.1	-1.6	-0.8	-8.9	-0.6	0.0	0.0
Contribution from interest rate/growth differential	-1.0			-9.0	-6.1	-3.1	-3.9	-9.4	-3.5	-2.3	-1.5	-1.1	-5.8	-0.8	0.1	-0.1
Of which: contribution from average real interest rate	0.1			-3.7	-1.0	0.8	0.4	-1.7	-0.4	-0.3	-0.1	0.0	-0.9	0.1	0.3	0.3
Of which: contribution from real GDP growth	-1.1			-5.3	-5.1	-3.9	-4.3	-7.8	-3.1	-2.0	-1.4	-1.1	-4.9	-0.9	-0.2	-0.5
Contribution from real exchange rate depreciation	-3.7			-11.6	-0.9	0.7	0.7	-5.5	-1.5	-0.9	-0.1	0.3	-3.0	...	...	...
Other identified debt-creating flows	-1.4	-4.2	1.9	29.5	5.0	-0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0
Privatization receipts (negative)	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-1.4			29.5	5.0	-0.3	-0.3	-0.2	0.0	0.0	0.0	0.0	5.6	0.0	0.0	0.0
Other (specify, e.g., bank recapitalization)	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	8.0	11.7	23.8	-42.1	-5.6	5.2	-4.5	2.6	2.1	-0.4	-0.3	-0.6	-7.0	0.6	1.7	0.2
NPV of public sector debt	58.0			57.8	51.7	48.6	36.8	26.3	21.8	18.4	15.7	12.7		11.8	6.9	
Of which: foreign-currency denominated	32.5			26.5	24.1	22.9	21.5	16.5	14.7	13.4	12.5	11.9		11.1	4.9	
Of which: external	32.5			26.5	24.1	22.9	21.5	16.5	14.7	13.4	12.5	11.9		11.1	4.9	
NPV of contingent liabilities (not included in public sector debt)	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Gross financing need 2/	6.0			8.6	15.8	16.1	15.4	1.3	-1.3	-2.5	-3.8	-4.7		-5.2	-0.5	
NPV of public sector debt-to-revenue and grants ratio (in percent)	208.4			202.5	196.0	184.6	136.3	100.4	87.8	72.7	60.4	47.5		44.8	29.1	
Debt service-to-revenue and grants ratio (in percent) 4/	2.0			1.1	2.4	3.1	2.7	2.1	1.6	1.1	0.5	-0.4		-2.0	-6.5	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.9			33.3	7.6	-2.4	8.0	12.6	2.9	3.5	1.8	1.4		0.0	-1.7	
Key macroeconomic and fiscal assumptions																
Real GDP growth (in percent)	1.0	4.4	3.2	5.0	6.8	5.7	6.0	12.7	6.2	4.5	3.8	3.6	7.1	3.9	2.5	3.9
Average nominal interest rate on forex debt (in percent)	0.7	1.0	0.2	0.7	1.5	1.8	1.3	1.3	1.2	1.2	1.4	1.6	1.3	1.9	6.7	6.3
Average real interest rate on domestic currency debt (in percent)	5.1	-4.5	7.4	-11.1	-2.8	3.2	3.0	-9.8	-1.0	0.2	2.5	4.5	-3.1	16.2	4.8	6.3
Real exchange rate depreciation (in percent, + indicates depreciation)	-4.5	-1.5	12.0	...	...	...	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.2	8.8	9.8	17.4	6.2	0.2	0.5	16.6	8.1	7.0	5.1	3.8	8.2	3.6	6.2	3.8
Growth of real primary spending (deflated by GDP deflator, in percent)	5.8	8.4	15.4	16.3	-7.6	7.4	10.4	-6.9	-5.1	4.6	4.4	5.5	2.4	5.3	2.8	5.2

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

1/ Central government's gross debt, net of oil fund reserves.

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

3/ Revenues excluding grants.

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

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

Table 5. Sensitivity Analysis for Key Indicators of Net Public Debt 2008–27

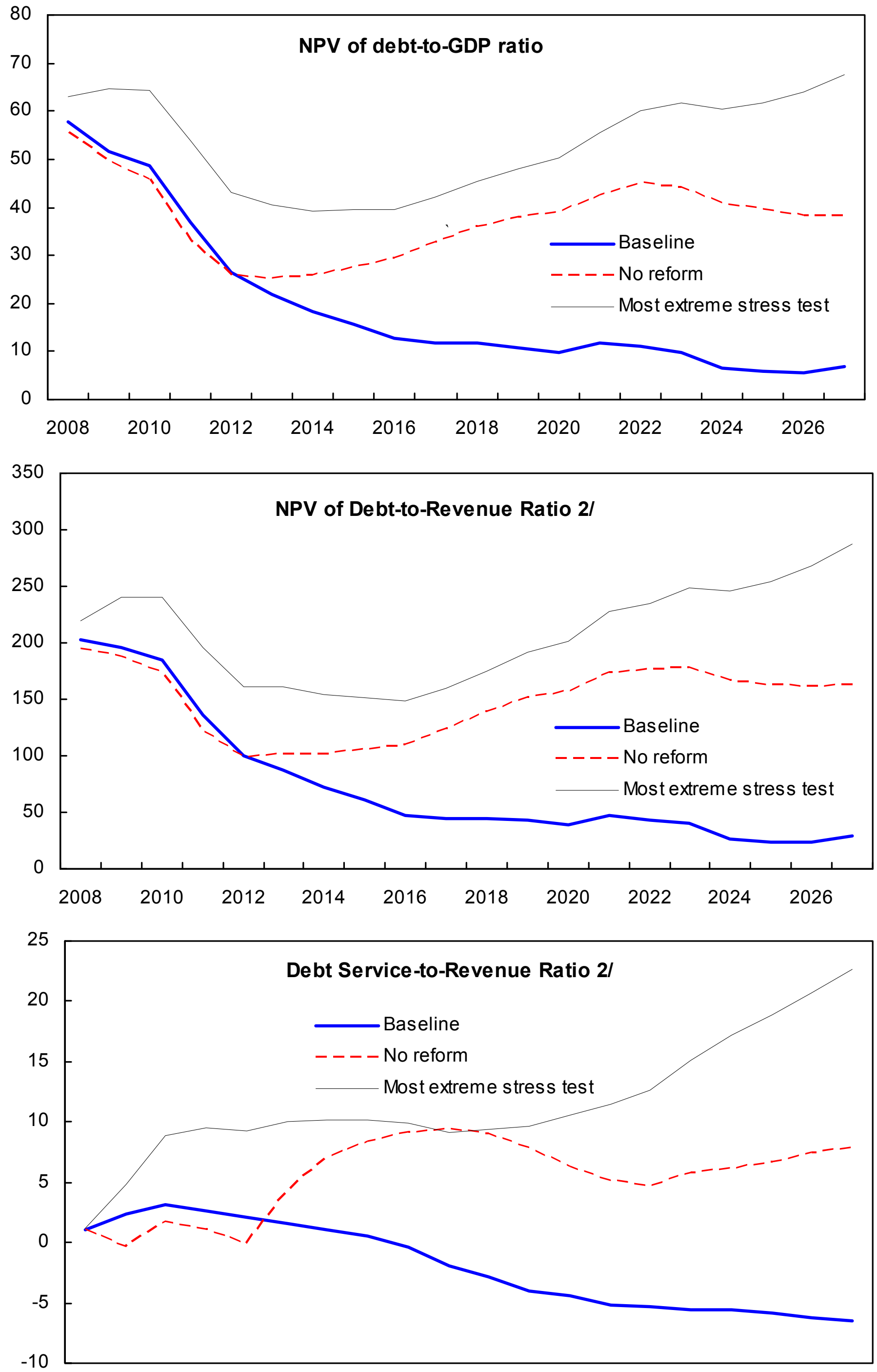
	Projections								
	2008	2009	2010	2011	2012	2013	2017	2023	2027
NPV of Debt-to-GDP Ratio									
Baseline	58	52	49	37	26	22	12	10	7
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	56	51	47	33	28	27	35	49	39
A2. Primary balance is unchanged from 2007	56	49	46	33	26	25	33	44	38
A3. Permanently lower GDP growth 1/	59	53	51	40	30	26	23	40	51
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	63	65	64	54	43	40	42	62	68
B2. Primary balance is at historical average minus one standard deviations in 2008–09	67	71	68	56	41	36	25	23	19
B3. Combination of B1-B2 using one half standard deviation shocks	63	65	61	47	35	30	20	19	15
B4. One-time 30 percent real depreciation in 2008	77	69	62	47	33	28	22	22	16
B5. 10 percent of GDP increase in other debt-creating flows in 2008	67	60	57	45	33	28	18	16	12
NPV of Debt-to-Revenue Ratio 2/									
Baseline	203	196	185	136	100	88	45	40	29
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	196	191	178	121	103	108	133	195	166
A2. Primary balance is unchanged from 2007	195	188	174	122	99	101	124	178	162
A3. Permanently lower GDP growth 1/	205	201	193	147	114	106	89	161	217
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	220	241	241	195	161	161	160	248	287
B2. Primary balance is at historical average minus one standard deviations in 2008–09	235	271	257	206	158	144	95	93	80
B3. Combination of B1-B2 using one half standard deviation shocks	221	244	230	173	130	118	75	76	63
B4. One-time 30 percent real depreciation in 2008	271	262	236	174	128	113	84	88	67
B5. 10 percent of GDP increase in other debt-creating flows in 2008	235	229	217	167	126	113	67	63	52
Debt Service-to-Revenue Ratio 2/									
Baseline	1	2	3	3	2	2	-2	-6	-7
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	1	-2	0	-1	-2	3	9	1	2
A2. Primary balance is unchanged from 2007	1	0	2	1	0	4	9	6	8
A3. Permanently lower GDP growth 1/	1	3	4	4	4	4	3	6	13
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviations in 2008–09	1	5	9	9	9	10	9	15	23
B2. Primary balance is at historical average minus one standard deviations in 2008–09	1	14	23	11	7	5	1	3	2
B3. Combination of B1-B2 using one half standard deviation shocks	1	7	12	6	3	3	0	-2	-3
B4. One-time 30 percent real depreciation in 2008	1	4	5	4	3	3	-1	-3	-4
B5. 10 percent of GDP increase in other debt-creating flows in 2008	1	14	8	5	4	3	-1	-2	-3

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

2/ Revenues are defined inclusive of grants.

Figure 2. Indicators of Net Public Debt Under Alternative Scenarios, 2008–27 1/



Source: Staff projections and simulations.

1/ Most extreme stress test is test that yields highest ratio in 2017. In all cases it is the scenario B1 - Real GDP growth is at historical average minus one standard deviations in 2008–09. (-1.4 percent vs. +5.9 percent on average in the baseline, without any fiscal adjustment).

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

International Monetary Fund
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Public Information Notice (PIN) No. 08/62
FOR IMMEDIATE RELEASE
May 29, 2008

IMF Executive Board Concludes 2007 Article IV Consultation with Mauritania

On May 19, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Mauritania.[1]

Background

Mauritania's macroeconomic performance over recent years was satisfactory, despite a steeper-than-expected decline in oil production reflecting persistent technical problems, and difficult external environment. The real non-oil GDP growth is estimated to have increased to 5.9 percent in 2007 driven by a rebound in agriculture and new mining projects. The current account deficit deteriorated reflecting higher food prices and lower oil exports. Gross international reserves position, however, strengthened to 1.9 months of imports of goods and services at end-December 2007.

The authorities adopted fiscal measures in the 2008 budget to alleviate the social impact of food and petroleum price increases. By end-2007, year-on-year inflation had picked up from 5.9 percent in September to 7.4 percent in December, but was still lower than the 8.9 percent realized in 2006.

All end-December 2007 quantitative and structural performance criteria and benchmarks under the PRGF program were met. In particular, the basic—excluding foreign-financed spending—non-oil fiscal deficit reached 2.5 percent of non-oil GDP (compared to

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

2.9 percent envisaged under the program), reflecting higher-than-expected tax revenues. Poverty related spending also exceeded the program target as pro-poor spending accelerated in the second half of the year. VAT and custom duties exemptions were eliminated on a list of essential goods; a centralized taxpayer database covering the main cities, Nouakchott and Nouadhibou, was introduced in December. Transparency in the oil sector was further enhanced by the finalization of the audit of the 2006 financial statements of the national hydrocarbon company, the Société des mines et des hydrocarbures (SMH) and the publication of oil production sharing contracts. A new mining code setting a clear regulatory and fiscal regime that is favorable to investors was transmitted to parliament.

In the context of limited oil revenue prospects for the next few years, the authorities have engaged in a comprehensive reform agenda to stimulate non-oil growth and reduce poverty in the context of the PRGF-supported program. In particular, they intend to improve infrastructure, enhance competitiveness, promote private sector development, improve fiscal management, fight corruption, maintain macroeconomic stability, and increase government's efficiency in delivering public services. To support their development plan, the authorities successfully organized a consultative group meeting in Paris in December 2007, where they received financial pledges amounting to $2.1 billion.

Mauritania reiterated its strong commitment to the reform program supported by the Poverty Reduction and Growth Facility (PRGF). To mitigate the impact of high international food and petroleum prices and avoid a potential food access crisis, it adopted a comprehensive emergency program, aimed at ensuring food stock availability, developing income-generating activities, and avoiding further utility tariff increases.

Executive Board Assessment

Executive Directors commended the authorities for Mauritania's continued satisfactory performance under the PRGF-supported program. Despite a difficult external environment, non-oil GDP growth has been strong, and sound macroeconomic management has led to a containment of inflation, an improvement in the fiscal stance, and an enhancement of the country's foreign exchange reserves. At the same time, Directors noted that Mauritania's near-term prospects have become more challenging. The immediate priority is to address the social and economic impact stemming from higher food and oil prices. Over the medium term, it will be important to further entrench macroeconomic stability and reduce the economy's vulnerability to limited oil revenue prospects, while accelerating private sector led growth to reduce unemployment and raise living standards.

Directors welcomed the authorities' timely emergency response plan to the potential food access crisis, which aims at ensuring food access and mitigating the impact of high international prices through a set of well-defined measures. They stressed that the one-off measures should

be well-targeted to ensure their effectiveness and should not become a permanent burden on the budget. Directors were reassured by the authorities' intention to monitor the situation closely, and were encouraged by their efforts to foster domestic agricultural production and productivity over the longer term.

Directors commended the authorities' prudent fiscal policy and their intention to contain the basic non-oil fiscal deficit in 2008 and beyond. Continued fiscal prudence in the context of a medium-term budget framework will help create the additional fiscal space and investor confidence needed to address the country's development challenges, including by attracting externally-financed investment. Directors welcomed the measures to improve domestic taxation with a view to broadening the tax base, promoting investments, and reducing the share of the informal sector. They were encouraged by the authorities' intention to continue to increase spending on essential capital and poverty-reducing projects, while containing current expenditures.

Directors supported the authorities' prudent monetary policy stance, aimed at controlling inflation in the context of a flexible exchange rate regime. They called for continued vigilance in the face of recent inflationary pressures, including from higher international food prices. Directors noted that the real exchange rate is in line with fundamentals.

Directors emphasized the importance of accelerating structural reforms to foster private sector development, including in sectors with a potential for high value added and job creation. The most significant impediments to growth to be tackled include the limited access to bank financing, the tax regulations burden, poor infrastructure and weak governance. Directors welcomed plans to further modernize the tax and customs administrations with Fund technical assistance, and encouraged the government to sustain efforts to restructure key public enterprises. In particular, they stressed the importance of restructuring the electricity company.

Directors welcomed the authorities' ambitious multi-pronged banking sector reform strategy, in line with the FSAP recommendations, which is critical to creating the conditions for higher private sector-led growth. They emphasized the importance of bolstering the weak banks and disposing of the large stock of nonperforming loans. The increased presence of foreign banks is likely to boost competition, and, along with improved banking supervision, should strengthen the financial sector.

Directors encouraged the new government to pursue a prudent debt strategy and debt management framework aimed at further mobilizing concessional support to finance its poverty reduction strategy, including through the delivery by donors of the December

2007 consultative group meeting pledges. In order to strengthen Mauritania's debt sustainability, they welcomed the authorities' efforts to reach an early agreement with the bilateral creditors that have not yet provided HIPC debt relief.

Directors encouraged the authorities to continue to strengthen their economic statistics, including debt data, to improve economic decision-making.

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

Table 1. Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006	2007	2007	2008
				Prel.	Proj. Country Report No. 07/375	Prel. Est.	Proj.
	(Percentage change, unless otherwise indicated)						
National income and prices							
GDP at constant prices	5.6	5.2	5.4	11.4	0.9	1.0	5.0
Non-oil GDP at constant prices	5.6	5.2	5.4	4.1	5.7	5.9	5.7
Non-oil GDP deflator	2.5	11.5	18.0	10.1	11.0	13.4	19.0
Consumer price index (period average)	5.3	10.4	12.1	6.2	7.6	7.3	12.5
Consumer price index (end of period)	2.9	16.1	5.8	8.9	7.9	7.4	12.0
External sector							
Exports of goods, f.o.b. (percentage change in US$)	-4.1	38.1	42.2	118.6	-1.8	6.4	38.0
Of which: non-oil	-4.1	38.1	42.2	15.9	42.6	54.0	47.9
Imports of goods, f.o.b. (percentage change in US$)	25.7	70.3	54.7	-18.3	2.7	22.7	25.7
Official transfers (in percent of GDP)	6.9	4.1	5.4	3.4	3.8	2.7	4.4
Current account balance (in percent of GDP)	-13.7	-34.6	-47.2	-1.3	-6.7	-11.4	-6.3
Overall balance (in percent of GDP)	-10.0	-7.3	-4.0	10.5	-0.1	0.6	28.6
Official reserves							
Gross official reserves (in millions of US$, end-period) 1/	32	39	70	194	148	209	330.4
In months of following year's imports of goods and services 2/	0.7	0.6	1.1	2.6	1.8	1.9	2.8
Money and interest rates							
Money and quasi-money	25.5	13.5	14.6	15.7	15.5	18.9	18.4
Currency in circulation	47.5	-3.4	14.8	35.3	-1.2	3.8	16.0
	(In percent of non-oil GDP)						
Consolidated government operations							
Revenue and grants	35.4	32.9	26.6	82.5	29.1	30.1	30.3
Revenue and grants (excluding oil)	35.4	32.9	26.6	71.8	25.8	27.2	27.4
Idem, excluding grants	30.7	29.7	24.5	27.1	23.9	24.8	24.3
Expenditure and net lending	47.2	37.7	33.7	36.5	32.1	32.1	34.1
Overall balance including grants	-11.8	-4.8	-7.1	46.0	-3.0	-2.0	-3.9
Overall non-oil balance excluding grants	-16.5	-8.0	-9.2	-9.4	-8.2	-7.3	-9.8
Overall non-oil balance including grants	-11.8	-4.8	-7.1	35.3	-6.3	-4.9	-6.7
External debt							
Nominal external debt (in millions of US$) 3/	2869.1	3151.1	3318.4	2540.9	2667.0	2708.9	2045.4
Nominal external debt (in percent of GDP) 3/	224.9	211.1	178.7	94.1	96.6	96.1	56.4
Memorandum items:							
Ouguiya/US$ exchange rate (end of period)	265.6	256.2	268.6	268.6	...	252.0	...
Exports, f.o.b. (in millions of US$)	318	440	625	1,367	1,343	1,454	2,006.7
Imports, f.o.b. (in millions of US$) 4/	468	625	781	847	955	1,145	1,521
Nominal GDP (in billions of UM)	338	397	493	725	724	734	905
Nominal non-oil GDP (in billions of UM)	338	397	493	565	667	679	853
Nominal GDP (in millions of US$)	1,276	1,493	1,857	2,699	2,762	2,819	3,625
Population (in millions)	2.7	2.8	2.8	2.9	3.0	3.0	3.0
GDP per capita (in US$)	474	541	658	933	933	952	1,196
REER (12-month percentage change; end of period)	-10.6	9.6	7.5	-1.3	...	-4.0	...
Price of oil (US$/barrel): APSP baseline: February 29, 2008	28.9	37.8	53.4	64.3	68.5	71.1	95.5
Annual production of oil (in millions of barrels)	...	...	...	11.2	5.7	5.5	3.9

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

1/ Excluding oil account.
2/ Excluding oil exploration/production and other mining-related activities, and imports financed by FDI and aid.
3/Includes both public and private sector external debt. Revised estimates are based on new debt stock data as of 2007 after HIPC and MDRI debt relief, include estimates for additional new borrowing in 2008 following pledges made at the consultative group meeting.
4/ Excluding oil, copper and gold -related activities, and imports financed by other FDI.

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FOR IMMEDIATE RELEASE
May 19, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Third Review Under the PRGF Arrangement with the Islamic Republic of Mauritania and Approves US$ 3.1 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the third review of the Islamic Republic of Mauritania's economic performance under a 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$3.1 million), bringing total disbursements under the arrangement to SDR 10.31 million (about US$16.6 million).

The three-year PRGF arrangement for Mauritania was approved on December 18, 2006 (see Press Release No. 06/288) in an amount equivalent to SDR 16.1 million (about US$26 million).

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

"Mauritania's economic performance under its PRGF-supported program remained satisfactory despite a steeper-than-expected decline in oil production and a difficult external environment. All quantitative targets and structural benchmarks under the PRGF arrangement were observed, and fiscal and monetary developments were in line with program projections. Sound macroeconomic policies helped control inflation, contain the fiscal deficit, and strengthen foreign exchange reserves.

"Significant progress was achieved in the governance and structural reform areas, including the submission to parliament of a new mining code, the publication of oil production sharing contracts and the introduction of a centralized taxpayer database covering the main cities.

"The authorities have engaged in a comprehensive reform agenda to stimulate non-oil growth and reduce poverty, while remaining committed to macroeconomic stability. They intend to improve infrastructure, enhance competitiveness, promote private sector development, improve fiscal management, fight corruption, and increase the government's efficiency in delivering public services.

"The authorities' response to the potential food access crisis is timely and adequate, and their commitment to continue to monitor closely the situation and the impact of the emergency measures is reassuring. In light of the downward revision of the oil revenue outlook and the high increases in food and fuel prices, it will be important to maintain a cautious fiscal stance, based on the mobilization of additional tax revenue, and the acceleration of public sector reforms. The restructuring of the state-owned enterprises will contribute to improving their services, ensuring their financial viability, and avoiding any further drain on the budget.

"Monetary policy will continue to be geared towards controlling inflation in the context of a flexible exchange rate regime. The authorities' ambitious multi-pronged financial sector reform strategy, in line with Financial Sector Assessment Program recommendations, will help create the conditions for higher private-sector led growth. Improving the commercial banks' financial situation, facilitating access to banking services, and increasing competition in the sector, particularly through the presence of foreign banks, should strengthen the financial sector.

"To ensure Mauritania's debt sustainability, the authorities will rely on concessional external financing and seek agreements with the creditors that have not yet provided debt relief under the enhanced Heavily Indebted Poor Countries Initiative," Mr. Portugal said.

Statement by Laurean W. Rutayisire
Executive Director for the Islamic Republic of Mauritania

May 19, 2008

On behalf of my Mauritanian authorities, I would like to thank the Board, Management, and Staff for their support to Mauritania. Performance under the PRGF-supported program continues to be satisfactory. All quantitative and structural performance criteria at end-2007 were met. All quantitative indicative targets –including the poverty reduction expenditure benchmark– were also met.

Despite Mauritania's satisfactory performance under the program, the authorities continue to face significant challenges ahead, both immediate and longer-term. One of the government's most important challenge in the short-term, is to rapidly and effectively address the social impact of the current food crisis that led to violent riots late last year. This crisis, if sustained, could jeopardize the steady progress made in recent years to reduce poverty and achieve the MDGs. The authorities have accordingly adopted an emergency plan and price measures (food and fuel prices represent more than two thirds of the consumer price index) to mitigate the impact of high international food prices on the local population, especially the poorest segments. The main objectives of the plan is to ease the distribution of staples in the most vulnerable areas nationwide, especially rural populations, and promote agriculture while fostering activities that would provide incomes for the poor in urban areas. Measures have also been adopted to limit increases in rice and bread prices and to prevent rises in gas, electricity, and water prices in 2008.

In the longer term the authorities face the daunting challenge of raising the population's living standards while promoting job creating activities needed to provide employment opportunities for a young and rapidly growing population. They are aware that structural reforms need to be accelerated to further diversify and enhance the competitiveness of the economy. In this regard, a strategy to promote a private sector-led growth is currently being undertaken with the assistance of the World Bank and other development partners, especially in sectors where Mauritania has a comparative advantage (livestock, fishing, mining). The authorities also acknowledge that improving the business climate is key to accelerating growth, and are adopting measures to make the tax regime more favorable to investment and strengthen governance and the effectiveness of the judicial system. Also key in this regard will be to move ahead rapidly with financial sector reforms with a view to facilitating access to credit, including by enforcing prudential norms, dealing with weak banks through the restructuring of nonperforming loans, and the licensing of new banks in order to promote competition in the financial sector.

Improving the business climate will also contribute to enhancing foreign investors' confidence, as private foreign investors have signaled important investments in key sectors of the economy, including the banking sector, tourism, mining, and transport. Efforts are underway to restructure state-owned enterprises especially in the energy, water, and transport sectors by improving the management and control of these enterprises and adopting performance contracts. The authorities are also grateful to the international community's financial pledges made recently in Paris during the December 2007 consultative group meeting where more than USD 2 billion were promised to support of the government's development plans.

1. Recent Economic Developments

Mauritania's macroeconomic performance in 2007 was broadly satisfactory despite the continuous decline in oil production to 15,000 barrels per day in 2007, down from an average of 36,000 barrels in 2006. Non-oil GDP growth reached 5.9 percent driven mainly by agriculture and mining. Inflation fell slightly at end-2007 to 7.4 percent compared to 8.9 percent at end-2006. The basic non-oil budget deficit declined to 2.5 percent of GDP. However, high international oil and food prices along with the decline in oil production further widened the current account deficit from 1.3 percent of GDP in 2006 to 11.4 percent of GDP in 2007. Foreign exchange reserves at the central bank also dropped to 1.9 month of imports cover from 2.6 months in 2006.

The recently adopted emergency plan aims mainly at increasing agricultural production and protect the livestock threatened by drought while facilitating the distribution of foodstuffs in the most vulnerable and most remote regions, and to develop income-generating activities in peri-urban areas. To facilitate imports of food products, the authorities have also announced the increase of financial resources of the public import company including through additional lines of credit guaranteed by the central bank for food importers. Furthermore, to alleviate the impact of food price rises on the population, a 10 percent wage increase will be implemented at mid-year to limit the decline of wages in real terms, thereby complementing the measures already taken to limit the effects of food and oil price increases.

A steering committee has been set up to monitor the emergency plan. It will prepare a report on the implementation and the outcomes of these measures that will be submitted quarterly by the government to the National Assembly.

2. Medium-Term Outlook

The growth outlook remains favorable in 2008 (except for oil production) thanks to positive developments in the mining sector and high international prices for the commodities exported by Mauritania including iron ore, copper, and gold. Beyond 2008, the growth outlook will further benefit from the large investments expected especially in basic infrastructures for which financing had been pledged by donors during the consultative group meeting in Paris in December 2007.

In 2008 real non-oil GDP growth is projected to reach 5.7 percent slightly lower than the 5.9 reached in 2007. Although inflation should rise to 12 percent in 2008, from 7.4 percent in 2007, due to the increases in international prices of oil and food products, the adoption of price support measures for a number of staples should help moderate the effects of increases in oil and food products. Foreign exchange reserves are projected to strengthen to 2.8 months of import cover at end-2008 from 1.9 in 2007.

In the fiscal area, the authorities will add to the 2008 budget a supplementary budget law detailing the financing of the emergency plan. Higher tax and nontax revenues, including from the mining sector, will contribute to finance the expected increase in the basic non-oil fiscal deficit for 2008 resulting from the implementation of the emergency plan.

Also in the fiscal area, an important progress in the current civil service reforms is expected by end-June 2008, when the authorities would have completed the comprehensive census of civil servants. The completed census will be followed by an assessment of functional staffing needs in some pilot ministries by end-September 2008.

As regards monetary policy, the central bank will continue to implement a prudent policy consistent with its objective of containing inflationary pressures. Accordingly, money supply growth will remain below nominal GDP growth. Also in the monetary area, the central bank will expedite the implementation of the recommendations of the safeguards assessment mission, in particular those related to improving accounting procedures, ensuring their consistency with IFRS standards. Furthermore, based on the FSSAP recommendations, the central bank has adopted a strategic plan to develop financial markets and system. With technical assistance from *Banque de France,* the implementation of Banking Law will be reinforced by the adoption of instructions on bank licensing conditions, capital, and the creation of a deposit guarantee fund. These measures, in addition to the increased presence of foreign banks that contribute to reinforce competition, should further strengthen the financial sector.

The authorities remain committed to the country's flexible exchange rate regime that will help them enhance the competitiveness of the economy while also mitigating the adverse effects of the fluctuations of the terms of trade on the economy. The authorities welcome the staff's findings that Mauritania's exchange rate is in line with fundamentals.

On the structural front, the authorities will continue to improve the business climate including by overhauling the tax regime to make it more favorable to investment, facilitate access to banking credit, and strengthening the effectiveness of the judicial system. More specifically, the planned reform of the tax regime will benefit businesses and private investment by reducing the tax rate on investments and on corporate profits. Furthermore, an investment code will be adopted by end-2008 that will substantially simplify investment procedures, in particular by introducing a one-stop window. The new investment code will also contain provisions under which investments deemed as strategic will be exempted from the ordinary tax system.

The authorities have initiated the restructuring of their portfolio of public enterprises to improve the quality of their services, ensure their financial sustainability, and introduce more competition. In this respect, *Air Mauritanie* was liquidated on January 2008. Operational audits will be conducted for electricity company SOMELEC, and the national water company SNDE, to conclude performance contracts with these enterprises by end-2008. In consultation with the World Bank, the authorities will also adopt by end-June 2008 a strategy for restructuring SOMELEC, notably with the aim of reducing its costs.

The authorities note the conclusions of the Debt Sustainability Analysis which indicate that the risk of debt distress remains moderate, and reiterate their commitment to prudent borrowing on concessional terms only.

3. Conclusion

The authorities remain committed to prudent macroeconomic policies[1], consistent with the objectives of the PRGF-supported program –notwithstanding the need to temporarily loosen fiscal policy in response to the food crisis. They are confident that they will continue to benefit from the support of the Fund and the international community as they implement their poverty reduction agenda.

[1] Both the Minister of Finance and the Governor of the Central Bank were maintained following the recent government change in Mauritania, underscoring the authorities' commitment to the PRGF-supported program.