



ISLAMIC REPUBLIC OF MAURITANIA

December 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ISLAMIC REPUBLIC OF MAURITANIA

In the context of the Second Review Under the Extended Credit Facility Arrangement, and Request for Modification of Performance Criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 6, 2018, following discussions that ended on October 5, 2018, with the officials of the Islamic Republic of Mauritania on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 20, 2018.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association.
- 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*

Memorandum of Economic and Financial Policies by the authorities of the Islamic Republic of Mauritania*

Technical Memorandum of Understanding*

*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND



Press Release No. 18/458
FOR IMMEDIATE RELEASE
December 6, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review of the Extended Credit Facility with the Islamic Republic of Mauritania

- Policy implementation has been satisfactory and the program is on track.
- The economy is recovering, and the outlook is favorable despite significant socio-economic challenges.
- Reforms seek to create fiscal space for social spending and infrastructure through revenue mobilization and expenditure prioritization, as well as to modernize monetary and exchange rate policies and strengthen financial sector stability.

On December 6, 2018, the Executive Board of the International Monetary Fund (IMF) completed the second review of the three-year arrangement with Mauritania under the Extended Credit Facility (ECF). The arrangement, with total access of SDR 115.92 million (about US\$ 160.38 million), or 90 percent of Mauritania's quota, was approved on December 6, 2017 (see [Press Release No. 17/468](#)). The completion of the review allows the authorities to draw SDR 16.56 million (about US\$22.91 million) bringing total purchases to SDR 49.68 million (about US\$ 68.74 million).

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

“Mauritania’s performance under the Fund-supported program has been satisfactory. The economy is recovering, macroeconomic stability has been maintained, external debt stabilized, and reforms launched to modernize economic institutions and the policy framework. The parliament approved a new organic budget law, as well as banking and central bank laws, and the central bank introduced new monetary policy instruments to improve liquidity management. Nonetheless, despite a positive outlook, considerable vulnerabilities and risks remain, particularly given the increasingly less favorable international environment, and lower commodity export prices weighing on the external and fiscal positions. It is important that the authorities, therefore, continue with prudent macroeconomic policies while pressing forward with structural reforms supportive of inclusive growth, poverty reduction, and good governance.

“The authorities are committed to continuing with fiscal consolidation to manage exogenous shocks and improve debt sustainability, while creating fiscal space for infrastructure and social spending. They are also continuing with the implementation of priority fiscal reforms, including strengthening tax policy, revenue administration, budget processes, and debt management. Ensuring debt sustainability will require continued prudent borrowing, notably by seeking grants and concessional loans.

“The potential development of offshore gas presents opportunities as well as risks, and high upfront costs. The authorities should choose the most economical option to finance the government’s share in the project, while preserving international reserves, given the uncertain global environment. Developing a robust fiscal framework will be key to managing future gas windfall revenues.

“The authorities plan to modernize the monetary policy framework and ensure regular, market-based access to foreign exchange. Introducing greater exchange rate flexibility will help absorb exogenous shocks and preserve official reserves. The authorities are taking action to further strengthen bank supervision to address financial sector vulnerabilities while supporting credit and financial inclusion.

“Going forward, it will be important to step up efforts to diversify the economy, improve the business environment, strengthen economic governance, and fight corruption. In that connection, implementation of existing plans and strengthening of audit institutions will be key.”

Mauritania: Selected Economic Indicators, 2015–20

	2015	2016	2017	2018	2019	2020
				Proj.	Proj.	Proj.
	(Annual change in percent)					
National accounts and prices						
Real GDP	0.4	1.8	3.0	3.5	5.7	4.8
Real extractive GDP	-5.6	0.7	-7.1	-8.7	18.7	3.1
Real non-extractive GDP	1.4	2.0	4.4	5.0	4.3	5.0
GDP deflator	-4.2	3.3	3.5	3.0	2.9	2.7
Consumer prices (period average)	0.5	1.5	2.3	3.0	3.9	4.0
	(In percent of nonextractive GDP; unless otherwise indicated)					
Central government operations						
Revenues and grants	32.6	31.7	31.8	32.0	32.1	31.9
Nonextractive	26.8	27.9	27.9	27.9	27.6	27.5
Taxes	16.9	18.7	19.6	20.0	20.2	20.4
Extractive	3.8	1.7	2.8	3.2	3.4	3.5
Grants	2.0	2.2	1.1	0.8	1.2	0.9
Expenditure and net lending	36.3	32.3	31.8	31.7	31.9	31.6
Current	20.6	19.0	19.4	18.5	19.0	18.9
Capital	15.6	13.3	12.4	12.8	12.9	12.7
Primary balance (excl. grants)	-4.5	-1.5	0.3	0.8	0.5	1.0
Overall balance (in percent of GDP)	-3.4	-0.5	0.0	0.2	0.2	0.4
Public sector debt (in percent of GDP) 1/ 2/	76.1	77.7	76.8	84.4	82.1	80.5
	(Annual change in percent; unless otherwise indicated)					
Money and Credit						
Broad money	0.4	7.1	13.7	10.5	10.7	11.4
Credit to the private sector	9.7	8.1	7.5	16.9	12.2	13.1
Balance of Payments						
Current account balance (in percent of GDP)	-19.8	-15.1	-14.4	-15.9	-12.6	-8.9
Excl. FDI-financed imports of extractive capital	-12.0	-11.2	-8.2	-12.5	-9.7	-6.2
Gross official reserves (in millions of US\$, eop) 3/	822.8	824.4	849.0	900.2	983.9	1,077.1
In months of prospective non-extractive imports	5.6	5.5	4.6	5.1	5.6	6.1
External public debt (in millions of US\$) 2/	3,208.6	3,354.9	3,571.6	3,681.9	3,813.9	3,964.7
In percent of GDP	66.4	71.6	72.5	70.1	68.7	68.7
Real effective exchange rate	7.8	-5.8	-2.1	...	...	...
Memorandum items:						
Nominal GDP (in millions of US\$)	4,830.5	4,684.5	4,923.0	5,251.7	5,550.7	5,774.5
Price of iron ore (US\$/Ton)	56.1	58.6	71.1	69.6	67.5	65.8

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

1/ Including government debt to the central bank recognized in 2018.

2/ Excluding passive debt to Kuwait under negotiation.

3/ Excluding oil fund.



ISLAMIC REPUBLIC OF MAURITANIA

November 20, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Program implementation has been satisfactory. Macroeconomic stability has been maintained, external debt has been stabilized, and several reforms have been launched to modernize economic institutions and the policy framework. Growth is expected to accelerate this year to 3½ percent, supported by FDI and public investment.

While the outlook is positive owing to sustained growth in non-extractive sectors, the international environment is less favorable than during the first review. Higher oil import prices and lower commodity export prices weigh on the external and fiscal positions; the economy remains dependent on commodity exports; and debt vulnerabilities and poverty remain high. Downside risks related to global economic developments and regional security are elevated. On the upside, development of the offshore gas field could generate large revenues from 2022 despite short-term costs.

Discussions focused on policies to respond to global developments and support inclusive growth. Steadfast budget reforms are needed to further expand fiscal space and raise education, health, and infrastructure spending while continuing with fiscal consolidation. Priorities include strengthening tax policy and administration to ensure broad-based tax compliance and reforming budget management to enhance spending efficiency. Targeted transfers to support vulnerable households should be expanded. Ensuring debt sustainability requires continued prudent borrowing.

Continued institutional and structural reforms are needed to support growth. Modernizing the monetary and exchange policy framework would ease liquidity constraints, ensure regular access to FX, and increase exchange rate flexibility. Strengthening banking sector regulations and supervision would improve banks' soundness and support credit to the economy and financial inclusion. Efforts to improve the business environment and governance and to fight corruption should be stepped up.

Staff supports completion of the second review under the ECF arrangement and the authorities' request for modification of two PCs (related to official reserves, justified by the less favorable global environment) as well as an exception to debt limits for the financing of the gas project. Program targets have been met and the authorities are maintaining the course on policy and reform implementation.

Approved By
Taline Koranchelian
and Kevin Fletcher

Discussions took place in Nouakchott during September 24–October 5, 2018. The team comprised Eric Mottu (head) Lorraine Ocampos, Imen BenMohamed (all MCD), Louis Dicks-Mireaux (SPR), and Joseph Karangwa (Resident Representative) assisted by Aichetou Maaloum Braham (local economist). Mohamed-Lemine Raghani and Mohamed Sidi Bouna (both OED) attended the meetings. Ms. Kalla provided research assistance and Ms. Cruz, Ms. Prevost, and Mr. Kane provided administrative support. The mission met with Prime Minister Yahya Ould Hademine, Central Bank Governor Abdel Aziz Dahi, Minister of Economy and Finance El Moctar Ould Djay, Minister of Budget Mohamed Ould Kembou, Minister of Petroleum, Energy, and Mining Mohamed Abdel Vetah, Minister of Fisheries Nanni Ould Chrougha, and other senior officials, private sector representatives, and development partners.

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CONTEXT

1. The three-year ECF-supported program has started well with the passage of several laws, but a less favorable international environment complicates policymaking. The authorities continue to be committed to the program and their reform efforts are on track with legislative achievements on a new organic budget law, banking law, and central bank law. However, higher oil import prices and lower commodity export prices are putting pressure on the external and fiscal positions, while growth at 3 percent to 3½ percent this year and last remains insufficient to address massive unemployment and poverty challenges.

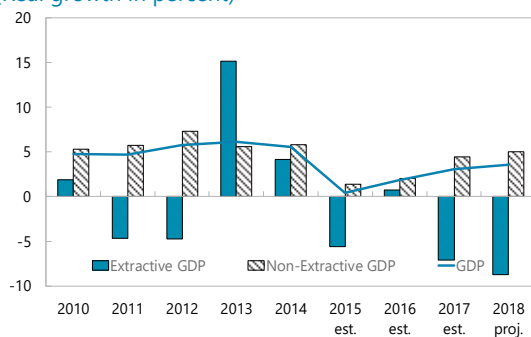
2. The political context has been dominated by parliamentary and local elections held in September and by the presidential election scheduled for mid-2019. Parliamentary elections yielded a clear majority for the president's party and were followed by the appointment of a new prime minister and a cabinet reshuffle in late October. The sitting president's second term—the maximum allowed under the constitution—ends in 2019; he has stated publicly that he would not seek a constitutional amendment to allow a third mandate. Mauritania successfully hosted the African Union summit in June–July. Human rights groups periodically report arrests of journalists and convictions against opposition figures.

RECENT DEVELOPMENTS

3. Economic activity was sustained in the first half of the year despite the drought and a decline in extractive sectors. Growth is projected to accelerate to 3½ percent in 2018 led by brisk non-extractive growth reaching 5 percent (mainly agriculture and fishing, telecom, trade, transportation, and construction ahead of the African Union summit). The impact of the drought on agriculture was offset by an expansion in irrigated acreage, while government subsidies supported livestock. Output in the extractive sectors declined due to mine maintenance, the exhaustion of oil production, and rising production costs due to higher international oil prices. After spiking at 3.6 percent y-o-y in June, inflation decelerated to 2.7 percent in October as pressure from Ramadan and imported food prices subsided.

Gross Domestic Product

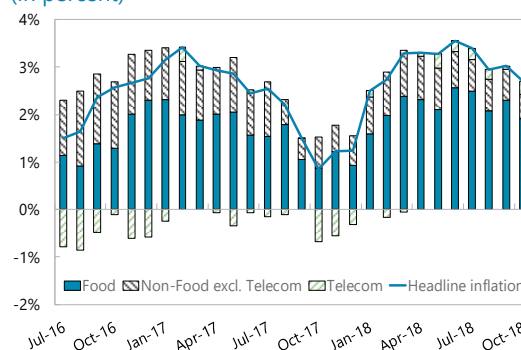
(Real growth in percent)



Sources: Mauritanian authorities; and IMF staff projections.

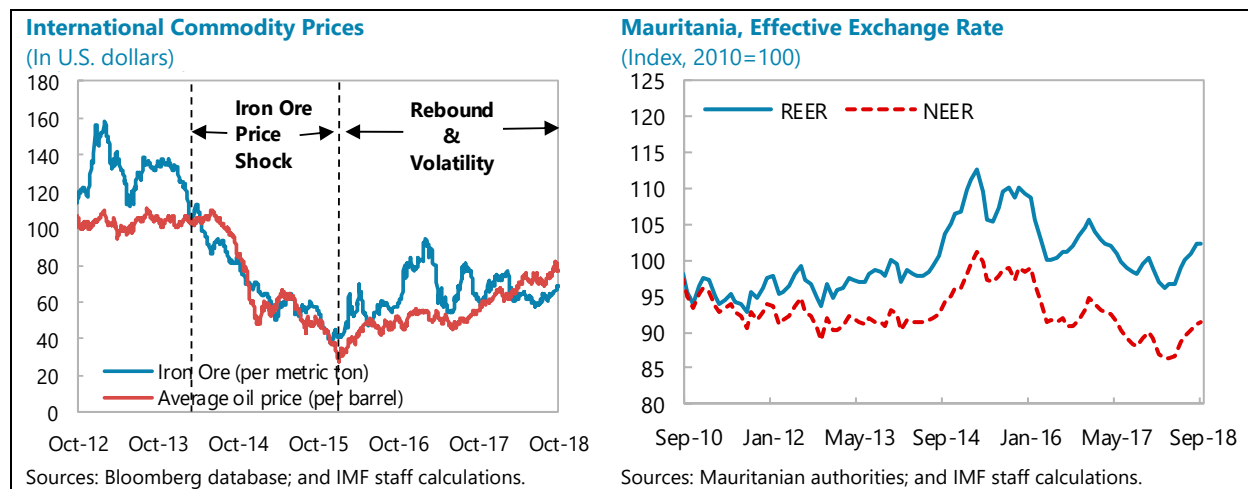
Contributions to Inflation

(In percent)



Sources: Mauritanian authorities; and IMF staff calculations.

4. High oil import prices, low commodity export prices, and limited exchange rate flexibility weighed on the balance of payments. Preliminary estimates suggest that the external current account deficit widened to close to 12 percent of GDP in the first half of 2018 as import costs rose and exports remained subdued despite high fishing receipts. Nevertheless, gross international reserves rose throughout the year to \$874 million (5.1 months of non-extractive imports) at end-September, supported by strong FDI and the rescheduling over three years of the principal repayments on the Saudi deposit at the central bank (BCM) (\$30 million in H1). The end-June performance criterion (PC) on net international reserves (NIR) was met by a wide margin, although this was achieved in part by reducing FX supply on the official market in June, while interventions picked up the following month. The government’s oil fund received exploration license fees of about \$175 million this year due to strong interest in offshore opportunities.¹ However, the BCM made limited use of the scope for exchange rate flexibility, allowing only two percent depreciation vis-à-vis the U.S. dollar in the year to mid-November. Staff’s external assessment based on the 2017 outturn point to a smaller overvaluation (5–15 percent) compared to the 2017 Article IV (based on the previous year), owing to the depreciation of the real effective exchange rate and the improved current account in 2017; the external position is now “weaker” than warranted (Appendix I).² However, estimates may deteriorate next year should the preliminary H1 2018 external data confirm a widening of the current account deficit in 2018.



5. The fiscal position in the first eight months of 2018 was solid despite pressures from higher oil import prices. Revenues were supported by robust tax collections and one-off signing bonuses from the new gas exploration licenses, and execution of capital spending was slower-than-programmed due to capacity constraints and delays in project implementation (Text Table 114). On the downside, the authorities decided not to pass on the cost of higher oil import prices to consumers, and therefore the budget collected a lower fuel price differential between retail and import prices. Moreover, spending pressures arose from transfers to farmers and social protection in

¹ The oil fund is not classified as official international reserves since its holdings are not at the BCM’s disposal; they can only be mobilized through the budget law.

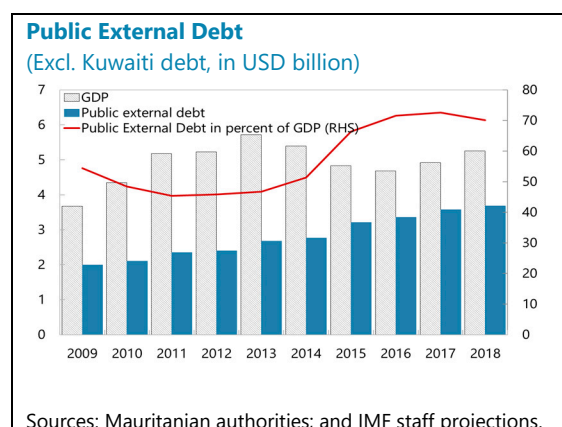
² Previously the external position was estimated to be “substantially weaker” than warranted.

response to the drought, and the AU summit and the elections. Overall, the budget yielded a primary surplus (excluding grants) of 2.6 percent of GDP in the year to August 2018. The end-June fiscal PC was met by a wide margin.

6. Bank credit to the private sector grew strongly in the first three quarters of the year, reaching 21 percent y-o-y in September. Credit was directed mainly to telecom companies for their investment needs. Banks financed this expansion mainly by drawing on their net foreign assets (NFA) and by increasing their capital. Broad money growth was contained at 10 percent y-o-y in September as BCM reserve money remained broadly flat and liquidity tight.

7. Banking sector vulnerabilities persisted in H1 2018 despite continued recovery from the economic slowdown in 2015. Vulnerabilities stem from sizable non-performing loans (NPLs)—which increased, despite the rapid rise in credit, from 22.4 percent of total loans at end-2017 to 22.9 percent in June, of which only 67 percent were provisioned—as well as from low profitability exacerbated by tight liquidity and high credit risks due to loan concentration (Table 5). Banks continued to carry old, fully provisioned NPLs and were reluctant to transfer them out of their balance sheets. Nevertheless, efforts toward tighter lending standards and the onset of higher capital requirements prescribed by the BCM resulted in a higher aggregate capital adequacy ratio of 24.5 percent in June.

8. Overall vulnerabilities remain elevated due to limited economic diversification and high external public debt at 72½ percent of GDP at end-2017.³ The economy remains highly vulnerable to lower metal prices, the aftermath of the drought which affected much of the Sahel, and regional security developments. Policy buffers are relatively limited with international reserves somewhat short of the 6 months of imports coverage suggested by the updated LIC reserve adequacy metric (Appendix I). The updated debt sustainability analysis (DSA) continues to point to a high risk of debt distress, with a projected exit two years later than previously on account of less favorable macroeconomic developments over the medium term. Governance and the business environment have improved over the past few years (28 ranks gained in four years in the Doing Business survey, although much remains to be done to rise above the current 148th rank, Figure 6).⁴



³ Excluding a passive debt in arrears to Kuwait dating from the 1970s, estimated at about 19 percent of GDP in 2018. The 2017 ratio was revised upward by 1.8 percent of GDP since the last review following incorporation of the late reconciliation of debt stocks (and related loan disbursements) with some creditors, and GDP revisions. The series was also revised downward to exclude Mauritania's SDR allocation (1.8 percent of GDP in 2017) although the authorities' officially published data include this allocation.

⁴ Main areas of weakness in the Doing Business survey include paying taxes, resolving insolvency, getting electricity, access to credit, and trade.

OUTLOOK AND RISKS

9. Despite a less favorable international environment and increased global uncertainties, the outlook remains positive owing to sustained growth in non-extractive sectors, ongoing policy efforts, and good prospects for investment in offshore gas. With lower commodity export prices and higher oil import prices, the outlook is less favorable than during the first program review. Current account projections in particular are less favorable (Figure 1), affecting projected reserve accumulation.^{5 6} Nevertheless, global commodity prices are projected to remain at relatively sustained levels which should still support the balance of payments and extractive sectors going forward (Panel 1 in Figure 1). Growth is projected to accelerate to 5¾ percent in 2019, driven mainly by extractive sectors (as past upgrades in iron ore and gold mines come online). Prospects for development of the offshore gas field are already generating positive investor confidence and are expected to continue to support investment. The budget will likely yield a primary surplus exceeding 1 percent of NEGDP this year given slower-than-projected implementation of some of the newly launched infrastructure projects; it is projected to maintain primary surpluses throughout the program period.

10. The outlook would significantly improve with the development of the offshore gas field Grande-Tortue/Ahmeyim (GTA). Feasibility studies are proceeding apace with a final investment decision expected by end-2018 (Box 1). Despite the upfront development costs borne by Mauritania's national oil company during the next four years (estimated at \$307 million, or 5.5 percent of GDP, if it takes a 14 percent share in the project), sizable revenues would accrue to the budget starting in 2022. So far, until the FID is made, the impact of this project has not been included in baseline macroeconomic projections; however, a preliminary illustrative scenario is outlined in Box 1.

11. Risks are significant but remain balanced on account of medium-term upside opportunities. Projections are highly sensitive to commodity price projections and investment in extractive sectors, giving rise to high downside risks amidst uncertain global prospects. Moreover, regional security risks in the Sahel remain a major concern and military spending could rise in the context of the G-5 Sahel military deployment. A contested political transition in the run-up to the presidential election in 2019 could trigger social unrest and affect economic activity. Weaker-than-expected global growth or deviations from baseline commodity and oil prices could affect export proceeds and import costs with adverse effects on growth and reserves. On the upside, the possible development of the GTA gas field could be a game-changer.

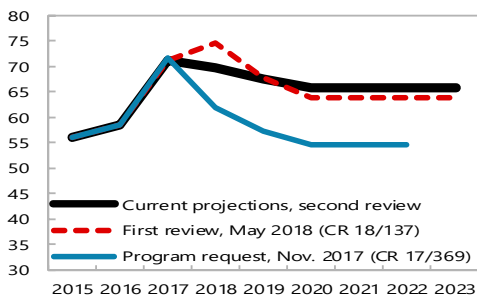
⁵ The impact on gross reserves is mitigated by the rescheduling, by three years, of the \$60 million annual repayment of the \$300 million Saudi deposit at the BCM.

⁶ The suspension by the mining company Kinross of a planned second expansion of its gold mine affects medium-term exports, debt, and reserves projections, as well as gold-related GDP growth, from 2020 onward.

Figure 1. Mauritania: Program Scenarios, 2015–23

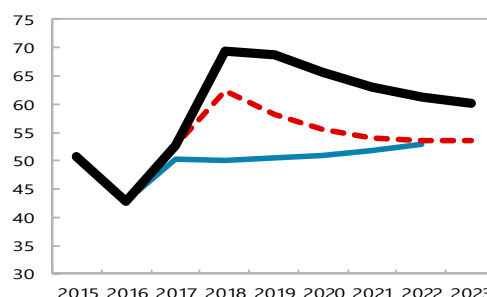
Iron Ore Prices

(In U.S. dollars per metric ton)



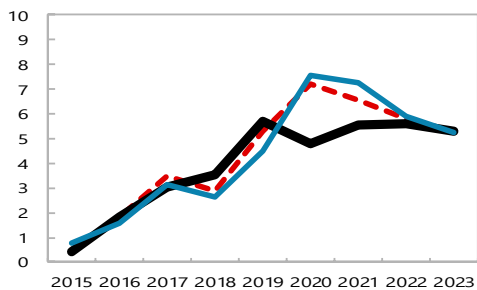
Oil Prices

(In U.S. dollars per barrel)



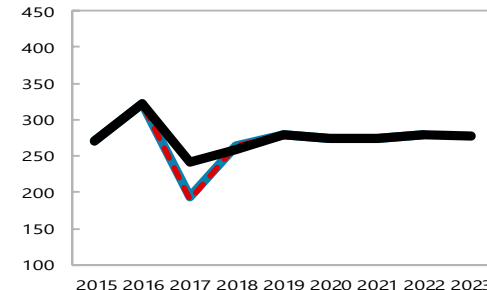
Real GDP Growth

(In percent)



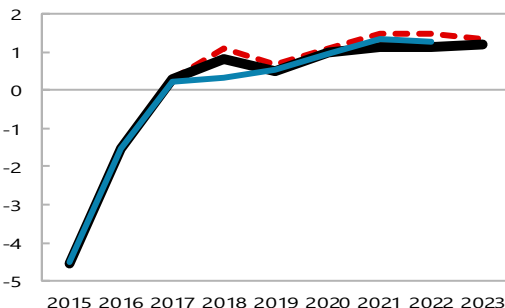
Gross Official Medium and Long-Term Borrowing

(In millions of U.S. dollars)



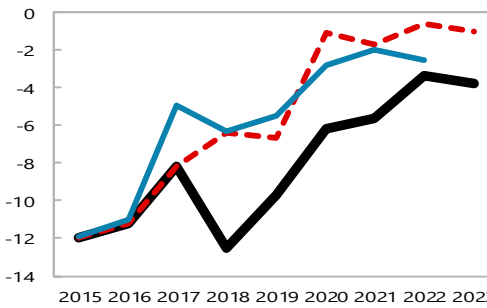
Primary Balance Excl. Grants

(In percent of non-extractive GDP)



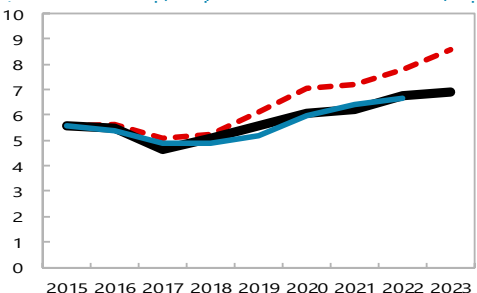
Current Account Balance

(Excl. FDI-financed imports of extractive capital goods, in percent of GDP)



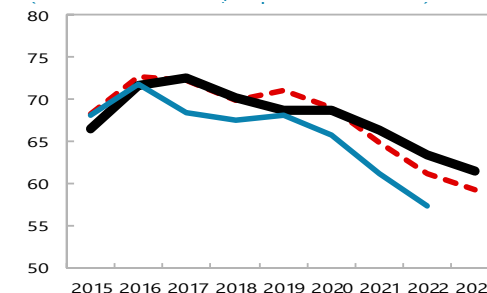
Official Foreign Exchange Reserves

(In months of prospective non-extractive imports)



External Debt

(Excl. Kuwaiti debt in percent of GDP)



Sources: Mauritania authorities; and IMF estimates and projections.

Box 1. The Grande-Tortue/Ahmeyim Gas Project and its Financial Impact¹

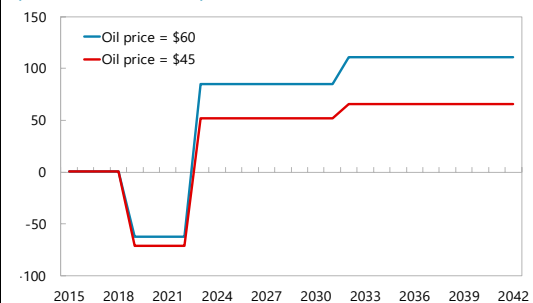
The Grande-Tortue/Ahmeyim (GTA) gas project is an offshore gas field straddling the maritime boundary between Mauritania and Senegal, under development by BP (operator). With gas resources estimated at 15 trillion cubic feet, the field will be developed as an export project. Phase 1 of production of 2.3 million tons annually (mtpa) would involve drilling several kilometers in very deep water of about 2,800 meters, bringing the gas through 80 km of flowlines to a floating treatment vessel and further to a liquification vessel anchored 8 km offshore in water 30 meters deep, protected by a newly built breakwater. First gas is planned for end-2021. During phases 2 and 3, gas processing and treatment would be done on platforms and each phase would raise production by 4 mtpa over 2–3 years, for about 25 years. The first phase has higher unit costs but allows production to be jumpstarted rapidly, while the subsequent phases would achieve higher rates of return. The final investment decision (FID) to launch the project is expected by end-2018.

Estimates suggest aggregate gross revenues for all three phases around \$80 billion over a total of 30 years, under a baseline Brent oil price of \$60 per barrel. Revenues minus costs will be shared among BP, Kosmos Energy, the two national oil companies, and the two governments as profit oil, income taxes, and dividends. Net revenues for Mauritania for all three phases could reach \$14 billion during 2022–51 (about 9 percent of 2018 GDP annually), of which \$1.4 billion in dividends to the national oil company SMHPM. These estimates vary between \$4.2 billion–\$25.5 billion under oil price assumptions between \$30–\$90 per barrel.

Mauritania’s financial participation in GTA as a shareholder is estimated at \$307 million (5.5 percent of GDP) for Phase 1, possibly rising to \$0.8–1 billion for all three phases, if it buys the maximum contractual share of 14 percent. The minimum participation is 10 percent. The share is payable over four years, with a first payment of \$70 million (1¼ percent of GDP) due in 2019. Financing options considered by the authorities include pre-financing by BP or by the gas marketing company, official and commercial loans, a drawdown of the government’s oil fund, the use of the 2015 Saudi deposit at the BCM, or combinations thereof. Phases 2 and 3 may be financed by the consortium through project financing, which would reduce the need for the government to fund subsequent development costs.

Projected revenues from Phase 1 are highly uncertain and depend largely on international oil price assumptions. Phase 1 entails payments by the national oil company SMHPM of its share in the project during the first few years, followed by positive cash flows during the production period 2022–42 (Text Figure). Total net revenues from Phase 1 for Mauritania—in the form of income taxes, profit oil, and dividends to SMHPM—could reach between \$0.9 billion for a Brent price of \$45 per barrel to \$1.7 billion at \$60 (17 percent to 31 percent of 2019 GDP).

Simulated GTA Phase 1 Net Revenues, 2015–42
(In millions of USD)



Sources: Mauritanian authorities; World Bank; and IMF staff calculations.

The medium-to-long-term economic gains from the GTA project will depend on the authorities’ revenue management strategy. The authorities have several options. They could use the revenues to

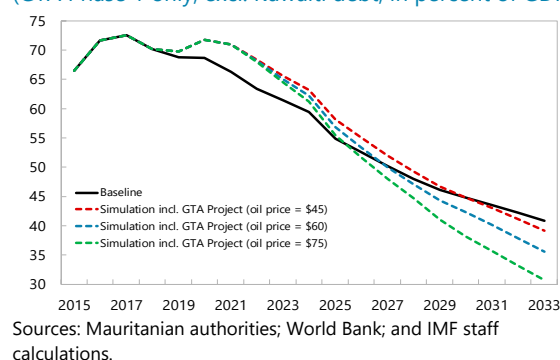
¹ Sources: Mauritanian authorities, World Bank, BP, Kosmos Energy, and IMF staff estimates.

Box 1. The Grande-Tortue/Ahmeyim Gas Project and its Financial Impact (concluded)

expand growth-enhancing spending which, if efficient and supported by structural reforms, could boost actual and potential growth and be a transformative game-changer. This option will be constrained by the economy's absorptive capacity which may lead to efficiency losses if public investment grows too rapidly. Appropriate governance and project selection processes will be key to transforming the revenue stream into growth-enhancing infrastructure and productive public goods. Alternatively, the authorities could save the revenues and use them to accumulate assets (e.g. in a sovereign wealth fund or the existing oil fund, with appropriately designed governance arrangements) or to reduce external public debt, which would eventually alleviate debt distress risks.

For illustrative purposes, the text figure simulates the assumption of the SMHPM's borrowing (to participate in the GTA) as part of external public debt, under three oil price projections. This would lead the debt-to-GDP ratio (or debt net of accumulated assets) to increase by 5 percent of GDP in 2022 relative to the baseline.²

Illustrative External Public Debt, 2015–33
(GTA Phase 1 only; excl. Kuwaiti debt, in percent of GDP)



The World Bank is supporting Mauritania and Senegal to strengthen their negotiating and institutional capacities, with grants of \$20 million and \$29 million, respectively.³

² Figures in this box are estimated in real terms. For simplicity, debt-to-GDP ratios are calculated using the same GDP in all three scenarios, i.e. excluding any possible direct or indirect growth effects.

³ See <http://www.worldbank.org/en/news/press-release/2018/03/28/world-bank-to-help-mauritania-manage-great-tortue-ahmeyim>.

PROGRAM PERFORMANCE

12. The program is on track and the authorities continued to make good progress in policy and reform implementation. All end-June PCs and five of the six June–September structural benchmarks (SB) were met; the sixth SB was implemented with a one-month delay (MEFP Table 2a). The three important banking, central bank, and organic budget laws were passed by parliament. The BCM prepared an action plan for developing an interbank foreign exchange market; a new memorandum of understanding on repayment of the government liabilities to the BCM was submitted to parliament; the registry of taxpayers was updated; and data on external debt stocks, loan disbursements, and debt service payments were integrated. New SBs were proposed for the twelve months ahead (MEFP Tables 2a and 2b), and the authorities requested modification of two PCs related to official reserves, on account of the less favorable global environment (¶24). Submission to parliament of a 2019 budget consistent with program targets is a prior action. The next section details these issues.

POLICY DISCUSSIONS

13. Discussions focused on measures to keep the program on track and to press forward with structural reforms supportive of inclusive growth, employment, and good governance.

Against the backdrop of a less favorable external environment and rising global risks, the authorities assured staff of their commitment to continuing with a disciplined policy mix to support high and inclusive growth while maintaining macroeconomic stability and improving debt sustainability.

A. Fiscal Policy

14. The 2018 budget outturn is projected to be broadly in line with the first program review despite spending pressures.

The authorities prepared a supplementary budget which consolidates the ongoing favorable trends. Exceptional exploration license fees (1.9 percent of NEGDP), overperformance of non-extractive tax revenues, and under-execution of foreign-financed capital spending should offset lower nontax revenues owing to the narrower domestic fuel price differential. With continued disciplined budget execution, the primary balance (excluding grants) could reach a surplus of at least 0.8 percent of NEGDP against 0.3 percent in 2017. The surplus could be higher if delays in project implementation continue. The authorities explained that slow execution of some of the newly launched infrastructure projects was due to planning issues. Given the importance of capital spending on growth, staff called for strengthening the management of investment projects, and not to use capital spending as an adjustment variable.

Mauritania Central Government Operations, 2016–19 1/

(In percent of non-extractive GDP)

	2016	2017	2018	2019		
			YT Aug.	Initial Proj.		
				2019 Prog.		
Revenue	29.6	30.7	20.0	30.1	31.1	31.0
Tax	19.6	20.8	15.3	20.5	21.0	21.3
Income and profits	6.5	6.5	4.6	6.1	6.4	6.5
Goods and services	10.1	10.7	7.1	10.1	10.2	10.5
International trade	3.2	3.5	2.4	3.3	3.5	3.7
Other	-0.2	0.2	1.2	0.9	0.9	0.6
Nontax	9.2	8.7	3.8	8.7	8.3	8.1
Oil price differential	3.0	2.1	0.5	1.4	0.6	0.5
Other	6.2	6.6	3.2	7.3	7.6	7.6
Oil and exploration	0.7	1.2	0.9	0.9	1.9	1.6
Grants	2.2	1.1	0.6	0.9	0.8	1.2
Expenditure and net lending	32.3	31.8	18.6	31.2	31.7	31.9
Current	19.0	19.4	12.2	18.2	18.5	19.0
Capital	13.3	12.4	6.0	12.7	12.8	12.9
Foreign-financed	3.1	2.4	1.1	4.4	3.7	4.3
Domestically financed	10.3	9.9	4.9	8.4	9.1	8.6
Net lending	0.0	0.1	0.3	0.3	0.4	0.0
Primary balance (excl. grants)	-1.5	0.3	2.6	0.3	0.8	0.5
Overall balance	-0.6	0.0	2.0	-0.2	0.2	0.3

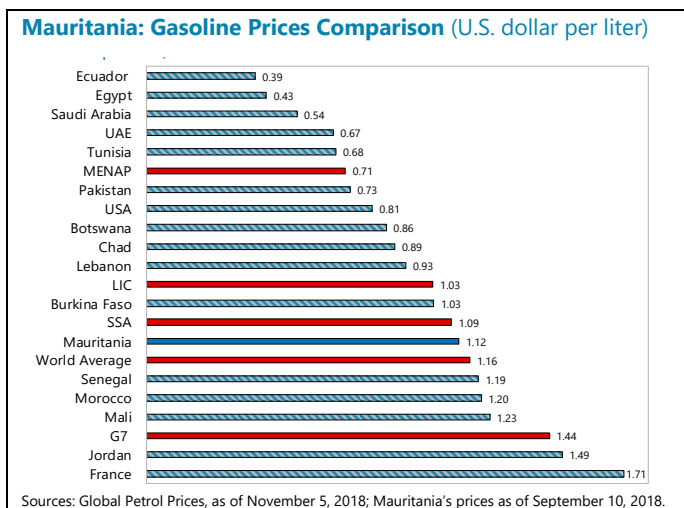
Sources: Mauritanian authorities; and Fund staff estimates and projections.

^{1/} Classification of revenue by tax type, different from classification in Table 3.

15. A significant source of budget pressure stemmed from higher global oil prices which reduced the differential between import and retail fuel prices by about 1 percent of NEGDP.

This differential had generated significant budget revenues since 2015 following the drop in

international oil prices, as the authorities decided to maintain retail fuel prices fixed. Currently, retail prices, which are not especially low in international comparison (text figure), still generate sizable net tax revenues, and the authorities are prepared to raise them as needed should international oil prices continue to increase significantly. Staff recommended starting to work on a flexible domestic fuel pricing mechanism which would protect budgetary revenues.



16. There was broad agreement on the need to continue with fiscal discipline in 2019 to preempt downside risks and improve debt sustainability. The authorities agreed to target a primary balance (excl. grants) of 0.5 percent of NEGDP in the 2019 budget (a draft budget law consistent with program targets was submitted to parliament, a prior action). With lower expected exploration license fees, this will involve strengthening tax collection, prioritizing current and capital spending, limiting wage bill increases by carefully calibrating sectoral wage increases, and containing election-related spending. However, downside risks remain elevated, as revenue could drop further if international oil prices rise beyond current projections, tax administration measures could disappoint, and spending pressures—especially to respond to wage pressures or regional security needs—could rise.

17. The 2019 budget will benefit from ongoing reforms in tax administration and public financial management (PFM). Tax collection should continue to rise owing to tighter controls over medium and large taxpayers, which are expected to improve tax compliance (proposed new SBs on setting internal indicators of on-time filing and payments and on tax audits for March and December 2019) and owing to improved post-clearance customs controls (proposed new SB for June 2019). Past reforms to remove ghost workers and strengthen control over the wage bill will also help. Passing implementation decrees for the new organic budget law will be next steps in modernizing PFM (proposed new SB for June 2019).⁷ Staff agreed to the authorities' request to postpone by eight months the adoption of the new general tax code and corporate income tax (initially SB for December 2018), given the complexities and to provide time for further consultations

⁷ To help identify further needs, the authorities are launching a Public Expenditure and Financial Accountability (PEFA) assessment. Staff advised that a Public Investment Management Assessment (PIMA) would also strengthen investment planning and execution

and a new revenue impact assessment (proposed SB reset for August 2019 and expanded to cover the general tax code).

18. The authorities agreed to continue with a prudent borrowing strategy to improve debt sustainability. Following the launch of a number of large public investment projects in 2017, the authorities do not intend to sign new large project loans this year. However, they will need to resume new borrowing in 2019 to support their national development strategy, focusing on concessional loans when available. While recognizing large infrastructure and development needs, staff called for avoiding new non-concessional borrowing (NCB) and strengthening project and debt management to put the debt-to-GDP on a firmly downward path. The authorities pointed to the low debt service burden, which in their view makes their largely concessional debt stock manageable.

19. To finance the national oil company's share in the GTA gas project, staff recommended choosing the most economical option while preserving adequate reserve buffers.

- Given the unavailability of concessional financing, the authorities requested an exception to the program's limit on NCB for the national oil company SMHPM's borrowing for the GTA project (currently estimated at about \$307 million, or 5.5 percent of GDP, over four years for the first phase). Considering the importance of the project for Mauritania's future development,⁸ and its commercial nature, staff was of the view that the conditions for exceptions foreseen by the debt limit policy are met. In particular, the project is viewed as integral to the authorities' development program given the large expected net revenues (over 200 percent of 2018 GDP), which should provide sizable funding for infrastructure and social capital in the future, and concessional financing is unavailable.⁹
- At the same time, staff called for developing a more robust fiscal management framework, with assistance from the Fund and the World Bank, to manage those future revenues efficiently. Staff also recommended carefully consider the costs and benefits of taking the maximum 14 percent share (instead of the minimum 10 percent), given the country's limited resources. The authorities explained that it was an issue of national sovereignty to obtain as high a stake as possible in the country's natural resources.
- Staff argued against drawing down reserves to pay for the government's share (for example by using the 2015 Saudi deposit at the BCM), given the program's objective of rebuilding buffers amidst an uncertain global environment.

⁸ The World Bank is supporting Mauritania's institutional capacity through a \$20 million grant aimed at mobilizing international expertise to strengthen all institutions involved in the sustainable management of GTA and to enhance the fiscal, legal, and regulatory framework, with the objective of contributing to accelerating inclusive growth.

⁹ The authorities informed staff that official creditors were not prepared to finance the project on concessional terms given that it is a commercial project.

- Staff agreed with the authorities that pre-financing from the operator or the gas marketer should be taken only if its cost was sustainable without government guarantee.
- Finally, staff called for using the sizable oil fund revenues to finance at least the first-year payment; seeking official or commercial financing for the remainder at conditions as concessional as possible; and avoiding pledging future government revenues as collateral for this borrowing.

B. Monetary and Exchange Rate Policies

20. The monetary and exchange rate policy framework still requires considerable upgrading despite the recent introduction of new monetary policy instruments. Under the program, the authorities are committed to (i) reforming the FX market with a view to achieving a more market-based satisfaction of FX demand and achieving greater exchange rate flexibility to absorb shocks and (ii) modernizing the monetary policy framework and improving liquidity management. However, limited progress has been achieved to date in these areas. No refinancing operation was conducted this year because of the BCM's high policy interest rate (9 percent since 2009), which is well above the current T-bill rate (4½ percent) and discourages banks. Last year's reform of the bidding process on the official FX market was a first step toward a more competitive price formation and improved access to the market. However, the BCM continues to target *de facto* a stable exchange rate as its main instrument to achieve price stability; it supplies a significant share of FX demand, and the auction does not yield a market-clearing exchange rate.

21. The central bank has prepared a detailed action plan to continue to reform the official FX market and develop an interbank FX market by end-2019. While preparing the action plan was a SB for end-September 2018 (observed), the next steps will be to (i) introduce wholesale bidding on the official FX market¹⁰ and further relax banks' obligation to use the official market for small transactions (SB December 2018), which will simplify auction processes; (ii) set up the regulatory framework and integrated technical platform for the FX interbank market (proposed new SBs for June 2019 and December 2019, respectively); and (iii) authorize the internal clearing of FX transactions between customers in the same bank and eliminate the obligation to use the official FX market (existing SB December 2019). These steps aim at developing and deepening an interbank FX market, which will help the formation of a market-based exchange rate, reduce transaction costs, and limit the need for BCM interventions on the official market. The BCM will benefit from technical assistance from the Fund and other central banks and donors to take this reform forward.

22. The BCM also agreed to limit its interventions on the official FX market to allow for greater exchange rate flexibility. While the authorities emphasized the BCM's important role as the provider for a large share of the country's FX needs, they agreed that calibrating interventions

¹⁰ Currently banks bid separately for each retail customer.

would help conserve official reserves and let the exchange rate absorb some of the terms-of-trade movements, especially in the context of a strengthening dollar.

23. Nevertheless, in light of the deteriorated external environment, the authorities requested a downward revision of the NIR PC for end-December 2018, to allow the BCM to partially absorb the lower projected balance of payments surplus, thereby avoiding a disruptive short-term economic adjustment. The proposed modified target is still set to raise gross reserves from \$849 million at end-2017 to \$900 million (5.1 months of non-extractive imports) at end-2018 to achieve the program objective of accumulating adequate reserves in the face of rising global uncertainties.^{11 12}

24. For 2019, there was agreement that reserves should increase further to 5.7 months of imports (\$984 million), with a view to underpinning greater exchange rate flexibility and reaching the LIC reserve adequacy metric of 6 months by 2020 (Appendix I). Heightened risks to the global outlook increasingly warrant rebuilding adequate buffers, all the more given the onset of repayments of the Saudi deposit starting in 2021. The objective is feasible in light of projected increases in gold and iron ore exports in 2019–20 following mine upgrades completed this year. Reforms of the FX market supporting a more flexible exchange rate policy would also strengthen external buffers.

25. The central bank also prepared detailed plans to establish an interest rate corridor around its policy interest rate with a view to activating its new monetary policy instruments. The corridor will apply to the new refinancing and deposit facilities, with various maturities (proposed new SB for December 2018), and will involve aligning the BCM's policy interest rate more closely to market conditions and T-bill rates to make it effective.¹³ The BCM will set up an integrated technical platform for its monetary policy operations by end-2019 (proposed new SB), while improving its analytical capacity to support the new monetary policy framework.

26. In parallel, the economy and finance ministry will modernize procedures for issuing T-bills, mainly by better distinguishing maturities in primary market auctions. This is expected to help improve domestic debt management, develop a yield curve, increase the attractiveness of T-bills for banks (which will be able to use the bills as collateral for refinancing), and reduce government financing costs. The revised regulations, which benefited from Fund technical assistance, will be finalized by end-December 2018 (proposed new SB) and implemented by end-

¹¹ A symmetrical modification of the PC on the BCM's net domestic assets (NDA) was also requested.

¹² In the context of the request for modification of the PC, the authorities also seek to correct the erroneous definition of an adjustor to the NIR PC. The existing adjustor to the NIR PC should not include principal repayments on liabilities of the BCM (such as the Saudi deposit) since such repayments are neutral on NIR (they affect both assets and liabilities). For the June PC, this adjustor was triggered due to the unexpected rescheduling of the amortization payment on the Saudi deposit, thereby raising the NIR floor; nevertheless, the PC was still met by a large margin. For the upcoming test dates, however, it is proposed to exclude principal repayments from the adjustor.

¹³ While these reforms are critical to strengthen the BCM's monetary policy framework and develop financial markets, they are not expected to lead to a significant injection of liquidity given the paucity of eligible collateral currently held by banks.

March 2019 (proposed new SB). After the new procedures are in place, the authorities will consider whether the market is sufficiently deep and competitive to eliminate the current interest rate ceilings in the T-bill auctions.

27. The BCM and the government agreed on a new memorandum of understanding to recapitalize the BCM through gradual repayment of the government's liabilities to the BCM.

The agreement, which was approved by the Council of ministers in June and submitted to parliament in July, recognizes debts to the BCM (10 percent of GDP) dating back as far as two decades and includes a repayment schedule starting this year for the next forty years. It will strengthen the BCM's income, balance sheet, and autonomy and support monetary policy operations. Staff urged prompt passage by parliament.

C. Financial Sector Policies

28. To address banking sector vulnerabilities, recent measures taken under the program focused on strengthening bank supervision and capital requirements, and upgrading emergency liquidity management. The new banking and central bank laws passed in July enhanced the BCM's supervisory powers, strengthened the bank resolution framework, and modernized the BCM's governance structure. The BCM also aligned its regulations on banks' capital and capital adequacy with Basel III principles. It required banks to double their minimum capital by 2020, which will strengthen balance sheets and encourage mergers (capital will need to be raised by one-quarter of current capital, equivalent to about 2 percent of GDP). The BCM is operationalizing the new emergency liquidity facility by proposing agreements with each bank on the pool of eligible collateral in case of activation.

29. Discussions focused on the need to continue to implement the 2014 FSAP recommendations aimed at strengthening financial soundness and bank supervision, and to carefully monitor credit developments and risks. The next reform steps will include operationalizing the new banking and central bank laws, which will require aligning and simplifying existing regulations and creating new governance structures, including the new financial stability committee. Staff welcomed the BCM's plan to strengthen bank capital adequacy and liquidity requirements by revising the calculation of risk-weighted assets and introduce a new liquidity coverage ratio in line with Basel III (proposed new SB for April 2019). Staff urged the BCM to continue to strengthen its bank supervision capacity by developing risk-based supervision and increasing off-site analysis and on-site inspections, especially in view of the rapid credit growth this year and continued high NPLs. It called for full enforcement of the end-year deadline given to banks to bring their loan portfolio in compliance with limits on related-party exposure, by starting to apply the statutory sanctions (proposed new SB for July 2019). In the context of its new collateral framework, the BCM is finalizing the evaluation and classification of assets that will underpin monetary policy operations and the new emergency liquidity facility. Staff urged the BCM to work with banks and the finance ministry to adapt regulations as needed to encourage banks to write-off their fully provisioned NPLs.

30. To support financial sector development and inclusion, the BCM is working with banks on several initiatives:

- **Establishing a new credit information bureau** (proposed new SB for February 2019). The new institution hosted by the BCM, which will include credit histories and NPLs, is expected to help address information asymmetry, reduce credit risk for banks, and support access to credit for SMEs and households.
- **Developing an integrated digital payments system** to ensure real time and secured operations settlement and interbank compensation. Modernizing the financial infrastructure and improving the efficiency of the payments system is expected to reduce transaction costs and enhance security, thereby supporting trade, economic activity, and financial stability.

31. The BCM is also setting up a new, specific regulatory framework for Islamic banks. The new banking law established a new overall regulatory framework for Islamic banks, which will now have to be detailed and operationalized. In addition, the refinancing of Islamic banks remains an issue due to the lack of Sharia-compliant refinancing mechanisms.

32. Staff welcomed the ongoing work to upgrade the AML/CFT framework and address pressures on correspondent bank relations (CBR). To start addressing the serious AML/CFT shortcomings identified by the MENA-FATF, the authorities are finalizing a national risk assessment accompanied by an action plan, with help from the World Bank, expected to be submitted to the Council of ministers by April 2019 (proposed new SB for April 2019), and plan to upgrade the AML/CFT legal framework in line with the FATF standard. In the meantime, faced with significant CBR pressures—as an increasingly limited number of banks are able to maintain CBRs—the BCM is working with legal advisors and banks to upgrade AML/CFT compliance practices.

D. Social and Development Policies, Governance, and Business Climate

33. The authorities are implementing their national development strategy for 2016–30. They have established a monitoring and evaluation framework to assess progress. Staff encouraged clear prioritization of the extensive list of projects in light of debt sustainability risks.

34. The expansion of targeted social protection measures is continuing apace, and social spending targets were met in H1. Staff welcomed the establishment of a unified social registry of vulnerable households, which is advancing with World Bank support: 18 regions are to be covered by the end of the year (out of 57) and another 20 in 2019, with the objective of identifying about 150,000 households throughout the territory. The registry will serve as a basis for conditional cash transfers and other social protection programs. Social spending targets covering education, healthcare, social protection, and other social spending were set to rise to 13.4 percent of NEGDP in 2019.

35. The authorities are keen to strengthen their governance framework, improve the business environment, and better communicate their anti-corruption efforts. The reform of the

public procurement framework last year, with World Bank support, and the new organic budget law adopted in May are expected to strengthen governance in PFM—even though the latter will require several years to be fully implemented. A new organic law on the Court of Accounts passed in May strengthened the audit institution’s attributions and autonomy.

36. Looking forward, staff stressed the need for stepped-up action on business climate and anti-corruption reforms with support from development partners. Staff welcomed the preparation of a new action plan for business climate reforms covering 2019–20 which focuses on the remaining shortcomings identified in the Doing Business surveys. The authorities acknowledged that “quick win reforms” had largely been implemented and that more complex, multi-faceted reforms lay ahead. These will focus on simplifying and digitalizing administrative processes, including the payment of taxes; improving payment systems and access to credit; and strengthening commercial justice and property rights. The authorities believe they are making strong efforts to fight corruption and plan to intensify their efforts along the lines of their 2016–20 strategy, including by stepping up the activities of audit institutions. Staff called for determined implementation of those plans.

E. Safeguards, Statistics, and Other Program Issues

37. The program covers key recommendations made by the May 2018 safeguards assessment, which found continuing capacity challenges and elevated risks. Conditionality, which has largely been met, covered amendments to the central bank law to strengthen governance and oversight arrangements and the BCM’s autonomy; a new MoU on repayment of the government’s debt to the BCM; and a new emergency liquidity assistance framework. Moreover, steps toward gradual transition to International Financial Reporting Standards (IFRS) are also covered by an existing SB for December 2018 on an IFRS gap analysis of the BCM’s 2017 accounts, and a proposed new SB on preparation of *pro forma* IFRS 2018 accounts by September 2019, as the authorities aim to introduce IFRS for the BCM’s 2020 statements. However, while the complete set of the 2015 and 2016 audited financial statements have been published, only an abridged version of the 2017 audited financial statements has been published; staff will continue to follow up on the necessary publication.

38. Gross domestic product will likely be increased as a result of ongoing revisions of national accounts to conform with SNA 2008. The methodological improvements have been supported by technical assistance from the Fund and other donors over the past few years; they also include updating the base year and incorporating household survey results on informal activities. The authorities held an international validation workshop in September and stated their intention to publish the revised 2014 base year by end-2018. Staff recommended that any revisions follow sound methodological principles and urged the authorities to request further technical assistance to consolidate the new series.

39. The authorities are continuing best efforts to resolve the debt in arrears with Kuwait and to seek debt relief on terms comparable to, or better than, those granted under the 2002 HIPC Initiative completion point. They reported ongoing talks between the relevant parties.

40. The program is fully financed for 2019 with grants expected from a variety of donors, with good prospects for the remainder of the arrangement, while Mauritania continues to have adequate capacity to repay the Fund. Credit outstanding to the Fund would peak at SDR 134 million in 2020 (17 percent of gross international reserves, or 3.3 percent of GDP) while debt service to the Fund would remain manageable, peaking at 1.3 percent of exports (Table 7).

STAFF APPRAISAL

41. The three-year ECF has started well; the authorities are strongly committed to the program and their reform efforts are on track. Macroeconomic stability has been maintained, fiscal space has been created for priority infrastructure and social spending, external debt has been stabilized, and several reforms have been launched to modernize economic institutions and the policy framework. The authorities are committed to continuing with a disciplined policy mix while pressing forward with structural reforms supportive of inclusive growth, employment, and good governance.

42. However, the international environment is less favorable than during the first program review. Higher oil import prices and lower commodity export prices weighed on the external and fiscal positions. The external current account deficit widened to close to 12 percent of GDP in the first half of 2018 as import costs rose, commodity exports remained subdued despite high fishing receipts, and the authorities made limited use of the scope for exchange rate flexibility. Nevertheless, gross international reserves rose to \$874 million (5.1 months of non-extractive imports) at end-September, supported by strong FDI. The fiscal position was burdened by higher oil prices which reduced its net revenues from fuel taxes but remained solid owing to robust tax collections and exceptional proceeds from gas exploration licenses, while execution of capital spending was slower than programmed.

43. The outlook remains positive owing to sustained growth in non-extractive sectors and ongoing reform efforts, although considerable challenges remain to achieve high and inclusive growth. Growth prospects are promising, supported by FDI in the extractive and non-extractive sectors and growth-enhancing public investment, which should support economic diversification, and favorable rainfall. As a result, growth is projected to accelerate to 3½ percent this year, led by brisk non-extractive growth reaching 5 percent, and to 5¾ percent next year as past mining upgrades come online. Following significant macroeconomic adjustment over the past two years in response to the terms-of-trade shock, the external position improved from “substantially weaker” to “weaker” than warranted by fundamentals and desirable policies, with the real exchange rate overvaluation declining to an estimated 5-15 percent. Nevertheless, vulnerabilities and risks are significant, debt and poverty remain high, and the global outlook faces rising downside risks. This make it imperative to continue with disciplined economic policies and accelerate wide-ranging

reforms to entrench macroeconomic stability and rebuild buffers, support higher and more inclusive growth, improve debt sustainability, and reduce poverty.

44. Development of the GTA gas field, on which a decision is to be made by end-2018, could be a game-changer with potentially large government revenues starting in 2022. Given the high short-term capital costs of the project, staff recommends that the authorities choose the most economical option to finance the government's share while preserving much-needed reserve buffers at a time of considerable global uncertainties. The sizable oil fund revenues should be used to finance at least part of the payments, while official or commercial financing for the remainder should be sought at conditions as concessional as possible. Pledging future government revenues as collateral should be avoided. Staff supports an exception to the zero NCB limit for the specific purpose of Mauritania's financial participation in the GTA gas project, since this project, which is expected to generate sizable revenues for the government, is integral to the authorities' development program and concessional financing is not available. At the same time, the authorities should urgently develop a more robust fiscal management framework, with help from the Fund and the World Bank, to manage those future revenues efficiently.

45. Against this background, policy implementation has been satisfactory. All June PCs and five of the six June–September SBs were met (the sixth was observed with a one-month delay). The authorities request the modification of two December 2018 PCs related to NIR and NDA to allow the central bank to partially absorb the lower projected balance of payments surplus due to less favorable terms of trade. At the same time, FX interventions will be calibrated to ensure that program reserve targets are achieved while allowing greater exchange rate flexibility. Given heightened global uncertainties, reserves targets should be raised for 2019.

46. The authorities' continued commitment to sound fiscal policy and debt sustainability is welcome. The budget is expected to yield a sizable primary surplus of 0.8 percent of NEGDP in 2018 owing to disciplined execution. The 2019 budget should similarly be prepared with prudence to preempt downside risks. While recognizing the large infrastructure needs, the authorities should also continue with a prudent borrowing policy—notably by avoiding non-concessional borrowing—and strengthen debt management to improve debt sustainability.

47. Continued budget reforms are needed to further expand fiscal space and raise education, health, and infrastructure spending. Priority reforms include strengthening tax policy and administration to ensure broad-based and equitable tax compliance and reforming budget management processes to enhance spending efficiency, accountability, and prioritization. Targeted social safety nets should be expanded throughout the country, and spending on education, healthcare, and social protection should be increased within a sustainable budget envelope to raise social outcomes, develop human capital, and reduce poverty.

48. The authorities should press ahead with monetary and exchange rate policy reforms to establish an efficient FX market allowing greater exchange rate flexibility. Modernizing the monetary policy framework is needed to start implementing a more active policy, help ease liquidity constraints, and support growth with due consideration for its impact on inflation. Reforming the FX

market and increasing exchange rate flexibility are needed to ensure regular, market-based access to FX and help absorb exogenous shocks while preserving an adequate level of official reserves. Procedures to issue government T-bill of longer maturities should be modernized to ensure efficient financing of the budget while developing a yield curve for financial markets.

49. Further strengthening of banking regulations and supervisions are needed to ensure financial sector stability and growth. Following the adoption of the new banking law, bank regulations and supervision should continue to be strengthened with a view to addressing financial sector vulnerabilities, supporting credit to the economy, and improving financial inclusion. The BCM should carefully monitor credit developments and risks and seek write-offs of fully provisioned NPLs. Steps towards adopting IFRS accounting for the central bank should be taken, and the agreement between the government and the BCM on repayment of the former's liabilities should be adopted and implemented swiftly.

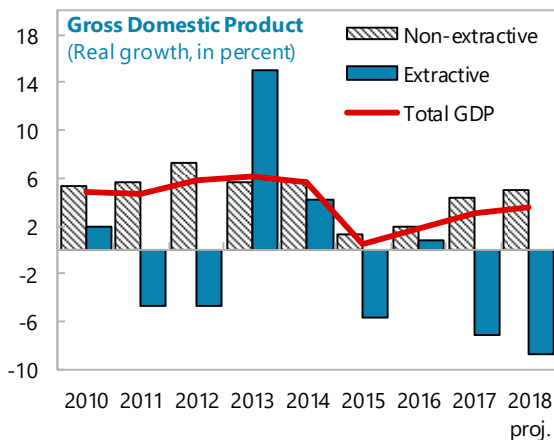
50. Fostering high and inclusive growth will require stepping up efforts to improve the business environment and governance and to fight corruption. The authorities have taken steps to strengthen public procurement practices and have prepared action plans to fight corruption. Implementation of those plans, including enforcement actions and strengthening of audit institutions, will be key. Moreover, despite progress over the past few years, further measures to improve the business environment are needed to encourage investors, strengthen competitiveness, and diversify into new sources of non-extractive growth.

51. Revisions to national accounts should follow sound methodological principles. The authorities would benefit from further technical assistance to consolidate new national accounts.

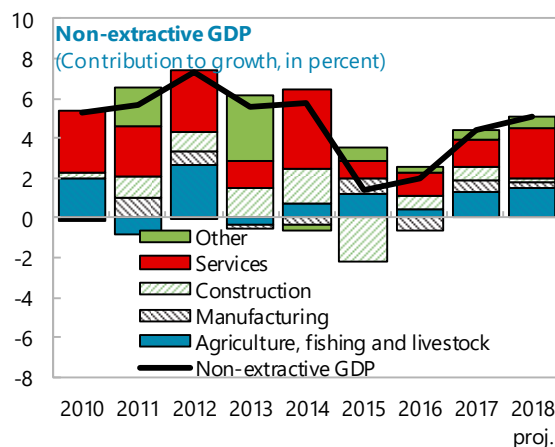
52. Staff supports completion of the second review under the ECF arrangement and the authorities' request for modification of two PCs. Program targets have been met and the authorities are maintaining the course on policy and reform implementation. The modification of the PCs related to official reserves follows from the impact of the deteriorated international environment on commodity prices, which the economy cannot immediately absorb without disruptive adjustment. The attached Letter of Intent and Memorandum of Economic and Financial Policies set out appropriate policies to continue and reinforce the program's objectives. The capacity to repay the Fund is adequate, and risks to the program are manageable given existing buffers and the government's solid track record of policy implementation.

Figure 2. Mauritania: Real Sector Developments, 2010–18

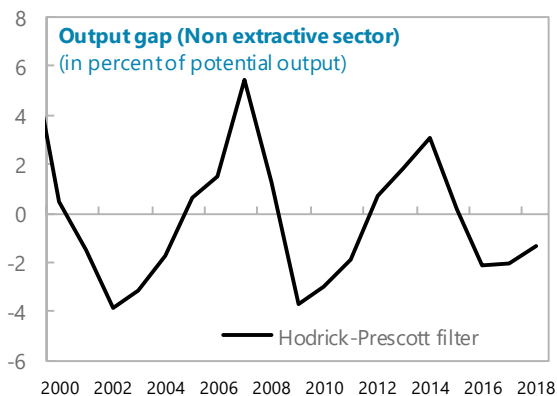
Growth is driven by non-extractive sectors while extractive sectors decline.



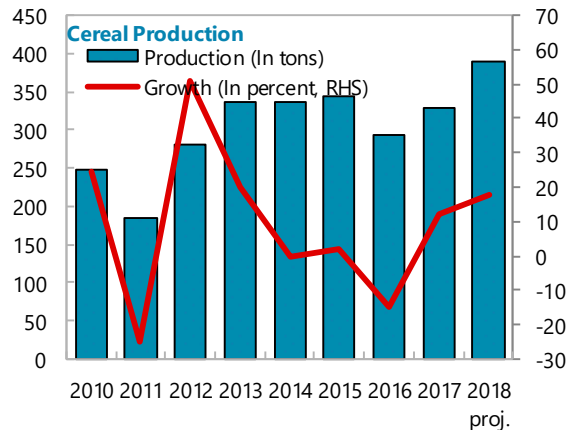
Non-extractive growth is driven mainly by services, agriculture, and fishing ...



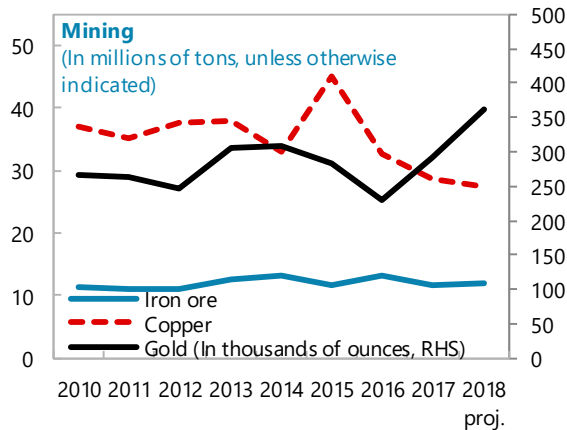
...but the output gap remains negative.



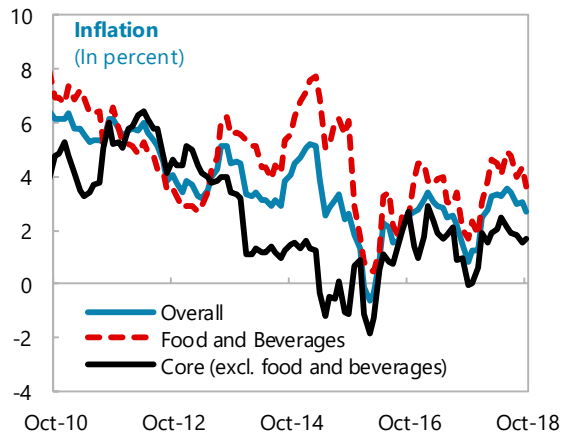
Cereal production increased.



Gold production has rebounded, while iron ore and copper production has been less than expected.



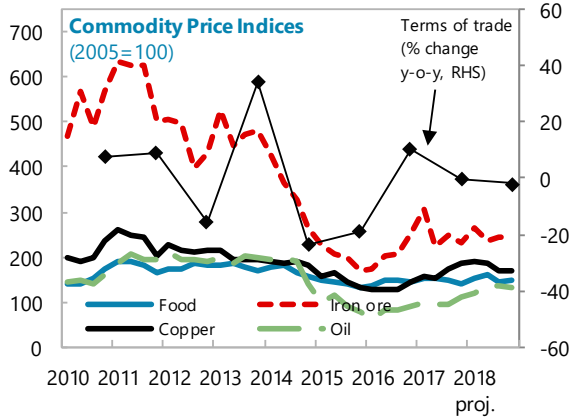
Inflation has moderated after a spike in Q2 2018 on the back of higher food prices...



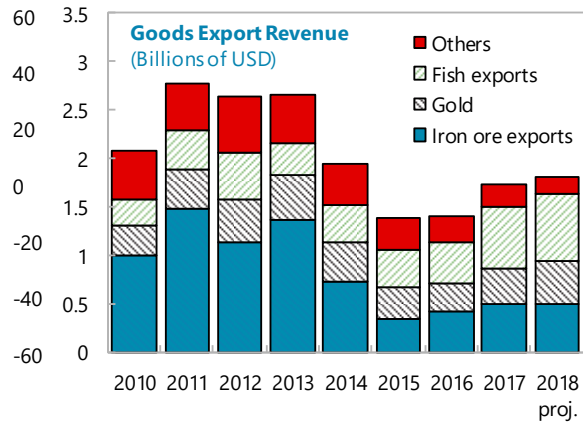
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 3. Mauritania: External Sector Developments, 2010–18

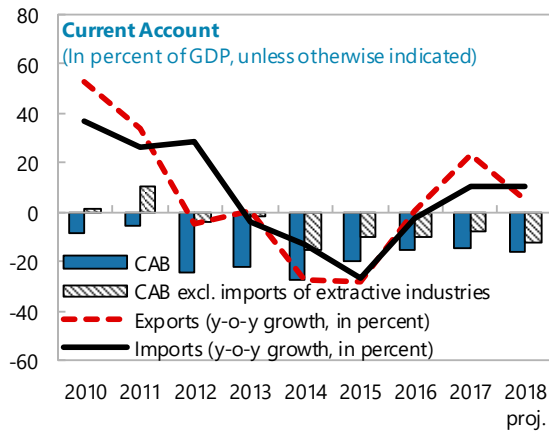
The terms of trade have deteriorated on account of lower metals prices and higher food and oil prices ...



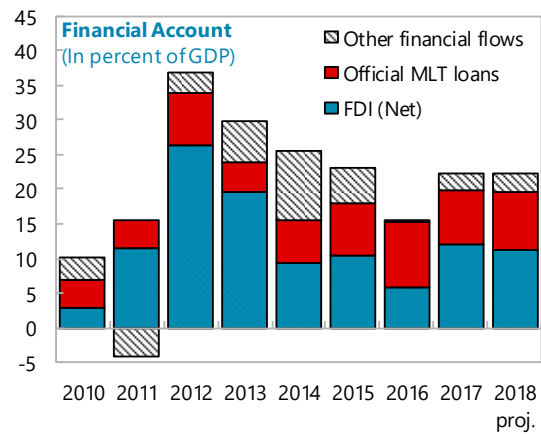
...which despite higher fish exports ...



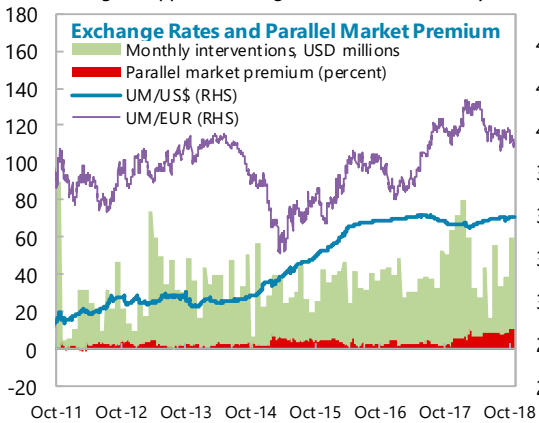
...widened the current account deficit...



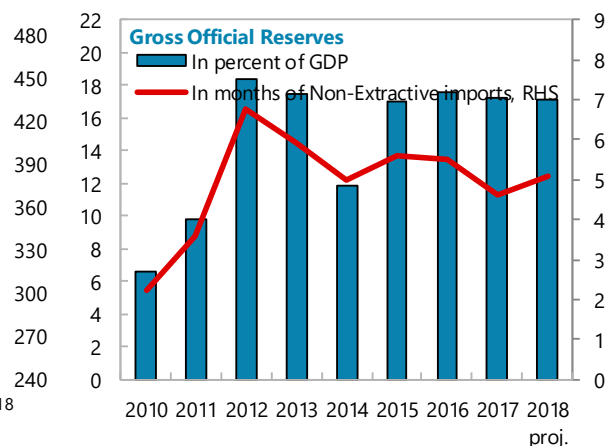
... while FDI continued to rebound strongly.



The exchange rate remained stable against the dollar, although it appreciated against the euro recently..

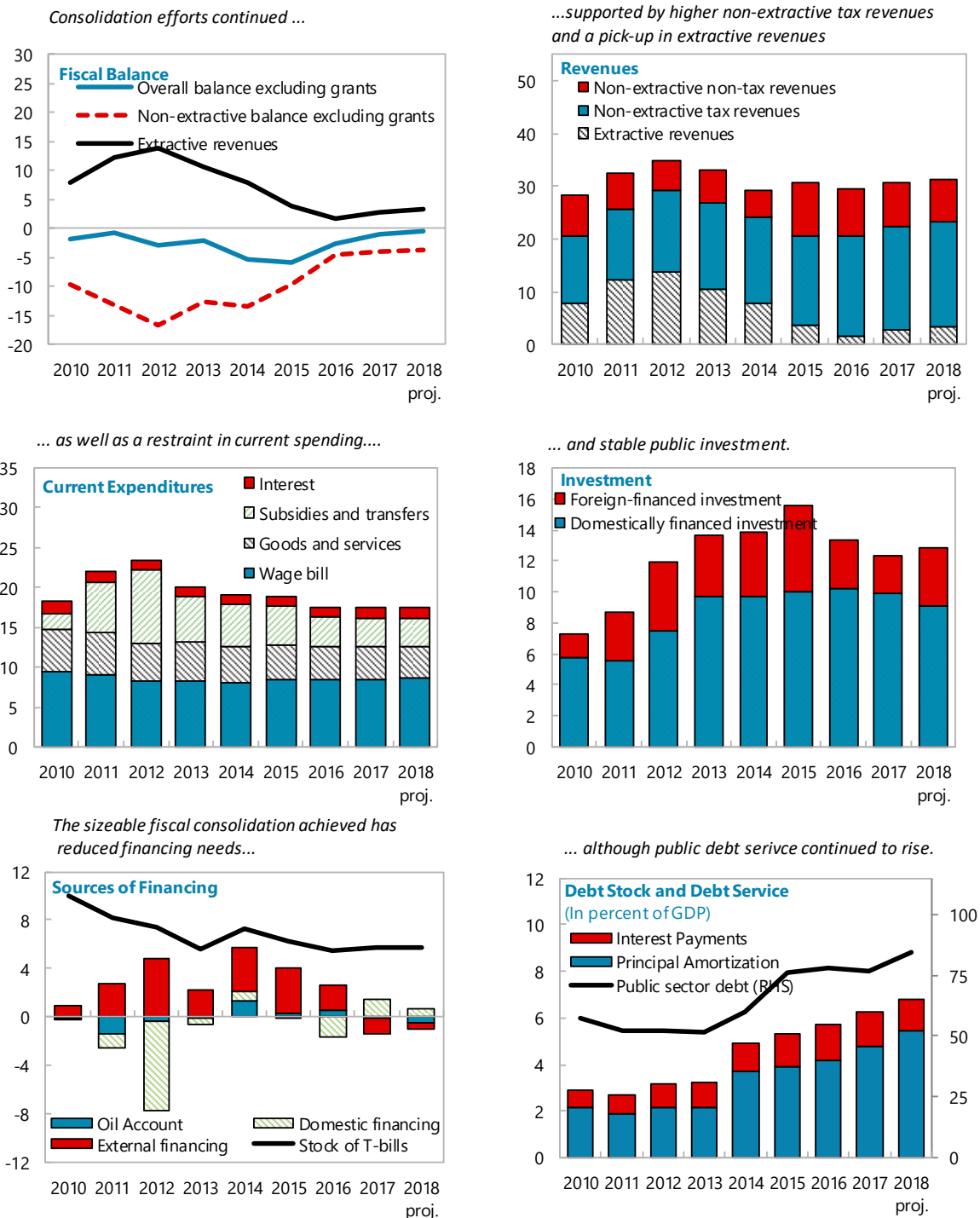


... while reserves remained broadly stable.



Sources: Mauritanian authorities; and IMF staff estimates.

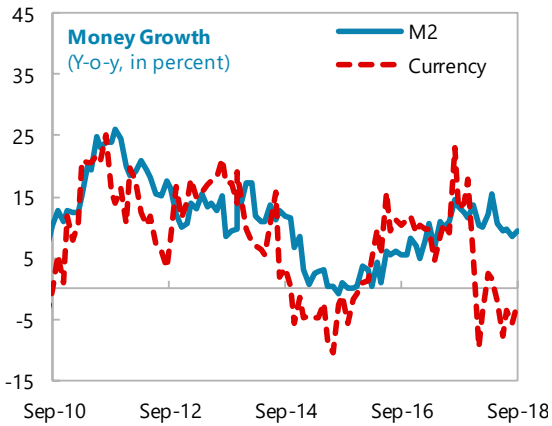
Figure 4. Mauritania: Fiscal Sector Developments, 2010–18
(Percent of non-extractive GDP, unless otherwise indicated)



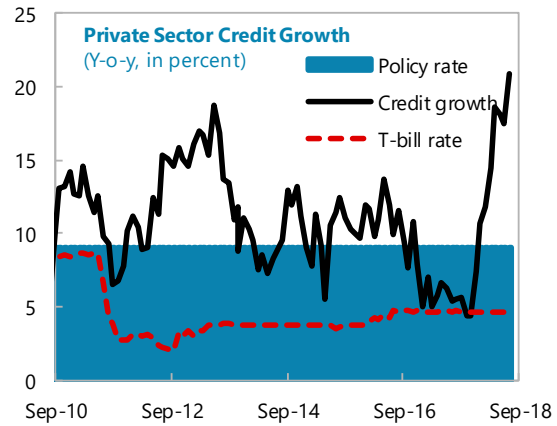
Sources: Mauritanian authorities; and IMF staff estimates.

Figure 5. Mauritania: Monetary and Financial Sector Indicators, 2010–18

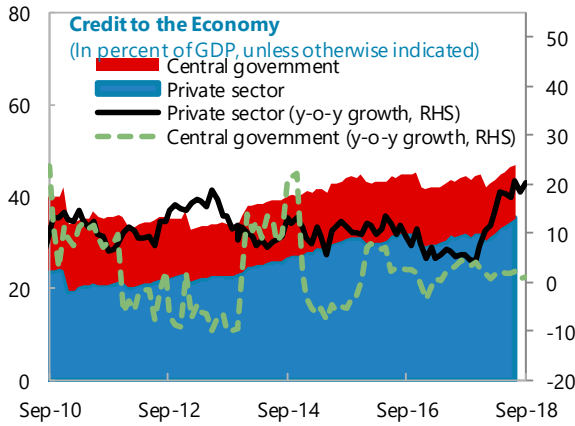
Broad money growth remained moderate...



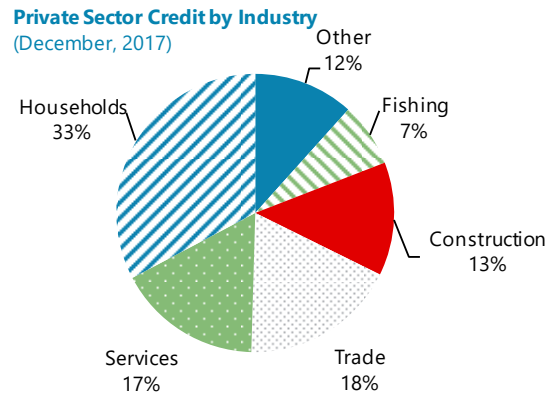
...but private sector credit growth accelerated...



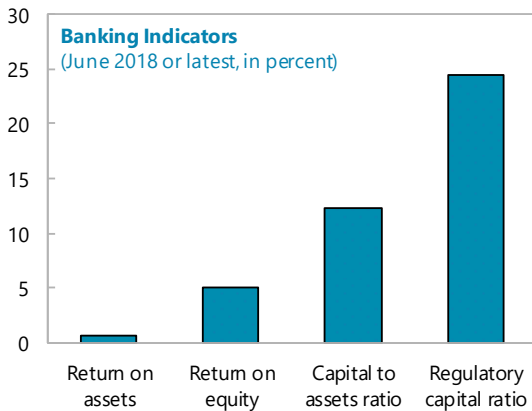
...while credit to the central government remained stable.



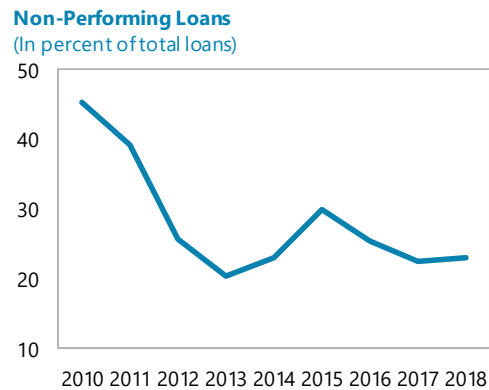
Household credit represents a sizeable share of credit to the private sector.



While banks' capital levels remain adequate, profitability remains low.



Asset quality is improving following the recent impact from the economic slowdown.



Sources: Mauritanian authorities; and IMF staff estimates.

Figure 6. Mauritania: Business and Governance Indicators, 2010–19



Sources: World Bank’s Doing Business Report; World Economic Forum’s Global Competitiveness Report; Worldwide Governance Indicators (WGI), by D. Kauffman (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank); and IMF staff calculations.

1/ The World Economic Forum’s Global Competitiveness Index combines both official and survey responses from business executives on several dimensions of competitiveness.

2/ WGI scores rely on perceptions-based data and should be treated with some caution. For each year, they are normalized to have a mean of zero across countries. Hence, the time series measures Mauritania’s performance relative to other countries over time. Ranges are for a 90 percent confidence interval (CI). Confidence intervals for peer group averages are negligible.

Table 1. Mauritania: Macroeconomic Framework, 2014–23

Per capita GDP: US\$ 1,335 (2014)
Poverty rate: 31 percent (2014)
Population: 4 million (2014)

Quota: SDR 128.8 million
Main exports: Iron ore, fish, gold, copper
Key export markets: China, Europe

	2014	2015	2016	2017	2018		2019		2020	2021	2022	2023
				Prelim.	CR/18/137	Proj.	CR/18/137	Proj.			Proj.	
(Annual change in percent; unless otherwise indicated)												
National accounts and prices												
Real GDP	5.6	0.4	1.8	3.0	2.9	3.5	5.3	5.7	4.8	5.6	5.6	5.3
Real extractive GDP	4.2	-5.6	0.7	-7.1	-2.4	-8.7	12.7	18.7	3.1	3.1	3.0	-0.1
Real non-extractive GDP	5.8	1.4	2.0	4.4	3.5	5.0	4.5	4.3	5.0	5.9	5.9	5.9
Iron ore production (million tons)	13.3	11.6	13.3	11.8	12.0	11.9	14.0	13.6	14.4	15.6	16.7	17.0
GDP deflator	-9.2	-4.2	3.3	3.5	4.9	3.0	3.6	2.9	2.7	2.9	3.1	2.2
Nominal GDP	-4.1	-3.8	5.3	6.6	7.9	6.7	9.1	8.8	7.7	8.6	8.9	7.7
Consumer prices (period average)	3.8	0.5	1.5	2.3	2.7	3.0	4.8	3.9	4.0	4.1	4.3	4.3
Consumer prices (end of period)	5.0	-2.8	2.8	1.2	4.7	3.2	5.0	4.0	4.1	4.3	4.3	4.3
(In percent of GDP)												
Savings and Investment												
Gross investment	52.2	38.8	39.9	39.5	38.9	40.8	39.8	37.2	32.6	31.7	29.3	29.3
Gross national savings	25.0	19.0	24.8	25.1	27.2	24.9	28.5	24.6	23.7	23.5	23.6	23.4
Saving - Investment Balance	-27.2	-19.8	-15.1	-14.4	-11.6	-15.9	-11.3	-12.6	-8.9	-8.1	-5.6	-5.9
(In percent of nonextractive GDP; unless otherwise indicated)												
Central government operations												
Revenues and grants	29.4	32.6	31.7	31.8	32.7	32.0	32.0	32.1	31.9	32.2	32.4	32.4
Nonextractive	21.3	26.8	27.9	27.9	27.3	27.9	28.9	27.6	27.5	28.1	28.4	28.4
Taxes	16.1	16.9	18.7	19.6	19.8	20.0	20.3	20.2	20.4	20.5	20.6	20.8
Extractive	8.0	3.8	1.7	2.8	4.4	3.2	1.9	3.4	3.5	3.4	3.4	3.4
Grants	0.2	2.0	2.2	1.1	1.0	0.8	1.2	1.2	0.9	0.7	0.7	0.6
Expenditure and net lending	34.7	20.8	32.3	31.8	32.1	31.7	31.8	31.9	31.6	31.8	31.9	31.8
Current	20.8	20.6	19.0	19.4	18.9	18.5	18.8	19.0	18.9	18.6	18.8	18.8
Capital	13.9	15.6	13.3	12.4	13.0	12.8	13.0	12.9	12.7	13.2	13.2	13.0
Primary balance (excl. grants)	-4.3	-4.5	-1.5	0.3	1.1	0.8	0.7	0.5	1.0	1.1	1.1	1.2
Overall balance (in percent of GDP)	-4.5	-3.4	-0.5	0.0	0.5	0.2	0.1	0.2	0.4	0.3	0.4	0.5
Public sector debt (in percent of GDP) 1/	78.6	96.7	98.9	97.0	96.9	103.5	96.5	100.0	97.7	92.8	87.8	84.2
Public sector debt (in percent of GDP) 1/ 2/	60.1	76.1	77.7	76.8	77.1	84.4	77.7	82.1	80.5	76.4	72.2	69.2
(Annual change in percent; unless otherwise indicated)												
Money												
Broad money	8.6	0.4	7.1	13.7	8.4	10.5	11.0	10.7	11.4	11.5	11.8	10.8
Credit to the private sector	11.3	9.7	8.1	7.5	6.9	16.9	9.2	12.2	13.1	11.1	12.1	11.0
External sector												
Exports of goods, f.o.b.	-27.0	-28.3	0.9	23.0	12.7	5.3	7.8	8.8	2.9	1.5	2.5	2.0
Imports of goods, f.o.b.	-13.1	-26.4	-2.5	10.2	11.1	10.1	5.1	3.6	-5.6	0.9	-1.8	3.2
Terms of trade	-23.4	-18.7	10.3	-0.2	6.9	-1.9	2.4	-1.9	3.7	4.4	3.9	4.4
Real effective exchange rate	3.0	7.8	-5.8	-2.1	...	...	...	...	...	...	...	...
Current account balance (in percent of GDP)	-27.3	-19.8	-15.1	-14.4	-11.6	-15.9	-11.3	-12.6	-8.9	-8.1	-5.6	-5.9
Excl. FDI-financed imports of extractive capital	-19.5	-12.0	-11.2	-8.2	-6.4	-12.5	-6.7	-9.7	-6.2	-5.6	-3.4	-3.8
Gross official reserves (in millions of US\$, eop) 3/	639.1	822.8	824.4	849.0	881.3	900.2	1,080.0	983.9	1,077.1	1,117.0	1,249.2	1,302.7
In months of prospective non-extractive imports	5.0	5.6	5.5	4.6	5.2	5.1	6.1	5.6	6.1	6.2	6.7	6.9
External public debt (in millions of US\$)	3,766.7	4,202.5	4,348.0	4,566.0	4,624.0	4,676.2	4,757.5	4,808.3	4,959.1	5,007.8	5,034.0	5,062.3
In percent of GDP	69.9	87.0	92.8	92.7	89.0	89.0	89.8	86.6	85.9	82.7	79.0	76.4
External public debt (in millions of US\$) 2/	2,769.5	3,208.6	3,354.9	3,571.6	3,629.6	3,681.9	3,763.1	3,813.9	3,964.7	4,013.4	4,039.6	4,067.9
In percent of GDP	51.4	66.4	71.6	72.5	69.9	70.1	71.1	68.7	68.7	66.3	63.4	61.4
Memorandum items:												
Nominal GDP (in billions of MRO)	1,626.5	1,564.6	1,646.7	1,755.5	1,900.0	1,872.3	2,073.2	2,036.3	2,192.6	2,380.6	2,591.9	2,790.7
Nominal non-extractive GDP (in billions of MRO)	1,381.0	1,413.3	1,453.9	1,551.3	1,657.8	1,686.0	1,795.2	1,820.6	1,961.0	2,128.7	2,316.0	2,496.9
Nominal GDP (in millions of US\$)	5,391.5	4,830.5	4,684.5	4,923.0	5,193.5	5,251.7	5,296.0	5,550.7	5,774.5	6,057.7	6,372.3	6,629.1
Nominal GDP (US\$, annual change in percent)	-5.8	-10.4	-3.0	5.1	5.2	6.7	2.0	5.7	4.0	4.9	5.2	4.0
Exchange rate (MRO/US\$)	301.7	323.9	351.5	356.6	...	...	...	...	...	...	...	...
Price of oil (US\$/barrel)	96.2	50.8	42.8	52.8	62.3	69.4	58.2	68.8	65.7	63.1	61.3	60.3
Price of iron ore (US\$/Ton)	97.4	56.1	58.6	71.1	74.6	69.6	67.8	67.5	65.8	65.8	65.8	65.8
Price of gold (US\$/Ounce)	1,266.2	1,160.1	1,248.3	1,257.1	1,340.3	1,261.0	1,374.5	1,217.7	1,255.4	1,303.8	1,343.2	1,381.8
Price of copper (US\$/Ton)	6,863.4	5,510.5	4,867.9	6,169.9	7,131.7	6,542.5	7,228.0	6,208.5	6,278.8	6,317.8	6,326.3	6,326.3

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

1/ Including government debt to the central bank recognized in 2018.

2/ Excluding passive debt to Kuwait under negotiation.

3/ Excluding oil fund.

Table 2. Mauritania: Balance of Payments, 2014–23
(In millions of US dollars, unless otherwise indicated)

	2014	2015	2016	2017	2018		2019		2020	2021	2022	2023
					Prelim.	CR/18/137	Proj.	CR/18/137					Proj.
Current account balance	-1,470.7	-956.1	-706.8	-709.0	-604.0	-836.9	-598.5	-699.6	-512.7	-491.9	-358.4	-394.3
Excl. FDI-financed imports of extractive capital goods	-1,052.6	-577.3	-524.2	-403.4	-331.0	-656.9	-353.5	-537.1	-357.7	-340.7	-215.2	-251.1
Trade balance	-710.9	-559.4	-499.4	-371.6	-365.8	-492.3	-332.0	-417.3	-225.8	-214.8	-121.1	-149.4
Exports, fob	1,935.4	1,388.6	1,400.7	1,722.4	1,931.3	1,813.9	2,081.1	1,972.9	2,030.0	2,060.3	2,112.7	2,154.9
<i>Of which:</i> Iron ore	730.7	340.0	418.3	495.6	536.2	494.4	568.5	550.0	567.8	615.1	659.3	670.3
Crude oil	194.8	73.1	87.0	65.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Copper	165.8	195.1	138.2	139.5	168.5	140.3	173.7	146.7	144.7	96.1	62.0	42.5
Gold	407.4	333.6	288.5	369.8	554.6	441.7	627.5	548.1	561.8	563.3	572.3	580.6
Fish	377.5	388.9	421.3	624.8	640.5	696.2	671.8	678.5	697.8	719.6	744.3	768.6
Imports, fob	-2,646.3	-1,948.0	-1,900.1	-2,093.9	-2,297.1	-2,306.2	-2,413.1	-2,390.2	-2,255.8	-2,275.1	-2,233.7	-2,304.3
<i>Of which:</i> Food	-370.5	-395.3	-334.4	-391.5	-412.6	-480.8	-430.1	-437.0	-451.9	-469.9	-491.2	-513.7
Petroleum	-595.9	-337.9	-355.3	-444.9	-515.8	-531.8	-489.2	-550.5	-522.7	-509.4	-501.9	-510.7
Capital goods	-954.8	-640.0	-538.1	-523.1	-622.0	-405.3	-712.9	-512.6	-394.2	-407.3	-385.5	-399.4
Services and income (net)	-873.5	-575.0	-452.0	-588.3	-406.9	-516.1	-443.6	-474.7	-467.2	-448.6	-412.0	-425.8
Services (net)	-731.0	-394.6	-335.5	-509.5	-421.8	-530.4	-458.7	-492.9	-446.7	-416.0	-392.8	-397.3
Credit	168.1	246.2	269.9	230.0	187.2	201.6	193.8	210.0	227.6	236.2	244.5	244.5
Debit	-899.1	-640.7	-605.4	-739.5	-609.0	-732.0	-652.5	-702.9	-674.3	-652.2	-637.3	-641.8
Income (net)	-142.5	-180.5	-116.5	-78.9	15.0	14.3	15.1	18.2	-20.4	-32.6	-19.2	-28.5
Credit	128.7	77.0	59.3	88.9	174.1	176.2	183.2	193.1	195.2	196.8	192.3	195.4
Debit	-271.1	-257.4	-175.8	-167.8	-159.2	-161.9	-168.1	-174.9	-215.6	-229.4	-211.5	-223.9
Current transfers (net)	113.7	178.4	244.6	250.9	168.7	171.4	177.2	192.4	180.3	171.4	174.6	180.9
Private unrequited transfers (net)	49.8	77.4	74.8	93.4	96.5	97.3	100.5	101.3	104.9	108.6	112.2	115.8
Official transfers	63.9	101.0	169.8	157.4	72.1	74.1	76.6	91.1	75.3	62.8	62.4	65.1
Capital and financial account	1,222.6	953.4	491.6	806.3	699.0	883.5	832.9	760.9	581.7	608.1	562.3	516.2
Capital account	16.0	31.2	8.4	10.9	0.0	70.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	1,206.6	1,222.2	483.2	795.4	699.0	813.5	832.9	760.9	581.7	608.1	562.3	516.2
Foreign direct investment (net)	501.9	501.7	271.1	588.2	466.3	592.5	431.4	388.1	387.5	396.2	377.4	395.7
Official medium- and long-term loans	175.3	173.6	204.7	89.5	84.8	78.6	99.2	94.6	84.6	83.0	97.8	96.8
Disbursements	256.8	270.4	321.5	242.3	264.1	259.1	279.0	279.0	274.0	274.0	279.1	276.7
Amortization	81.5	96.7	116.8	152.8	179.3	180.5	179.8	184.4	189.4	191.0	181.3	179.9
SNIM medium- and long-term loans	-51.5	-66.0	-60.5	-62.5	26.2	-37.3	167.1	128.4	-18.3	-16.2	-48.6	-43.3
Other financial flows	581.0	312.9	67.9	180.2	121.7	179.7	135.1	149.7	127.9	145.1	135.7	67.0
Errors and omissions	-61.3	-137.9	135.4	-54.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-309.4	-140.6	-79.8	43.3	95.0	46.6	234.4	61.3	69.0	116.2	203.9	121.9
Financing	309.4	140.6	79.8	-43.3	-95.0	-46.6	-234.4	-61.3	-69.0	-116.2	-203.9	-121.9
Net foreign assets	298.8	134.7	79.8	-48.6	-95.0	-46.6	-234.4	-61.3	-69.0	-116.2	-203.9	-121.9
Central bank (net)	312.1	102.7	-20.9	-8.3	-65.4	-25.5	-234.4	-61.3	-69.0	-116.2	-203.9	-121.9
Assets (negative=accumulation of reserves)	326.1	-182.1	-1.8	-25.7	-32.3	-51.2	-198.7	-83.7	-93.2	-39.9	-132.3	-53.4
Liabilities	-14.0	284.8	-19.1	17.4	-33.1	25.7	-35.7	22.4	24.2	-76.3	-71.6	-68.5
<i>Of Which:</i> Use of Fund resources (prospective)	0.0	0.0	0.0	23.4	48.2	47.0	48.5	46.6	46.8	0.0	0.0	0.0
Commercial banks (net)	-17.6	15.7	76.7	-17.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Oil account flow	4.3	16.3	23.9	-22.3	-29.6	-21.1	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	10.6	5.9	0.0	5.4	0.0	0.0	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	0.0	0.0	0.0
Memorandum items:												
Current account balance (in percent of GDP)	-27.3	-19.8	-15.1	-14.4	-11.6	-15.9	-11.3	-12.6	-8.9	-8.1	-5.6	-5.9
Excl. FDI-financed imports of extractive capital goods	-19.5	-12.0	-11.2	-8.2	-6.4	-12.5	-6.7	-9.7	-6.2	-5.6	-3.4	-3.8
Trade balance (in percent of GDP)	-13.2	-11.6	-10.7	-7.5	-7.0	-9.4	-6.3	-7.5	-3.9	-3.5	-1.9	-2.3
Total external financing requirements (in percent of GDP)	30.0	23.2	18.9	18.8	16.4	20.7	15.8	17.0	13.2	12.2	9.2	9.3
External public debt (in millions of US\$)	3,766.7	4,202.5	4,348.0	4,566.0	4,624.0	4,676.2	4,757.5	4,808.3	4,959.1	5,007.8	5,034.0	5,062.3
External public debt (in percent of GDP)	69.9	87.0	92.8	92.7	89.0	89.0	89.8	86.6	85.9	82.7	79.0	76.4
External public debt service (in millions of US\$)	89.9	97.3	111.7	205.7	316.6	257.7	320.6	265.4	270.6	327.7	313.8	309.6
External public debt service (in percent of revenue)	21.2	20.9	25.6	15.4	22.0	17.5	22.7	17.3	16.9	19.2	17.4	16.4
SNIM contribution to BOP (in millions of US\$)	430.2	135.4	102.2	209.8	233.4	225.8	257.3	288.8	245.0	279.1	305.3	290.7
Gross official reserves												
In millions of US\$	639.1	822.8	824.4	849.0	881.3	900.2	1,080.0	983.9	1,077.1	1,117.0	1,249.2	1,302.7
In months of imports excluding extractive industries	5.0	5.6	5.5	4.6	5.2	5.1	6.1	5.6	6.1	6.2	6.7	6.9
Oil account	92.8	76.6	52.6	74.9	85.9	96.0	85.9	96.0	96.0	96.0	96.0	96.0
Nominal GDP (in millions of US\$)	5,391.5	4,830.5	4,684.5	4,923.0	5,193.5	5,251.7	5,296.0	5,550.7	5,774.5	6,057.7	6,372.3	6,629.1

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

Table 3a. Mauritania: Central Government Operations, 2014–23
(In billions of MRO, unless otherwise indicated)

	2014	2015	2016	2017	2018		2019		2020	2021	2022	2023
					CR/18/137	Prog.	CR/18/137	Prog.				
Revenues and grants	406.0	460.2	461.3	493.3	542.0	538.9	573.6	585.1	626.4	684.8	750.9	809.2
Revenues	403.8	431.9	430.0	476.2	526.1	524.8	552.7	564.1	608.0	670.7	735.4	793.4
Nonextractive revenue	293.9	378.8	405.0	432.7	453.2	470.3	518.6	502.2	540.1	598.3	657.0	709.0
Tax revenue	222.7	238.2	272.1	304.7	327.7	337.0	364.1	368.3	399.8	437.2	477.1	519.9
Nontax revenue	71.2	140.6	132.9	128.0	125.5	133.3	154.5	133.8	140.3	161.1	179.9	189.1
Extractive revenue	109.9	53.2	25.0	43.4	72.9	54.5	34.1	62.0	67.8	72.4	78.4	84.4
Net revenue from oil	6.1	13.2	10.9	18.9	41.2	31.6	2.8	28.8	29.1	29.4	29.9	30.8
Mining revenue	103.8	40.0	14.1	24.6	31.7	22.9	31.3	33.2	38.8	43.1	48.4	53.5
Grants	2.2	28.3	31.3	17.1	15.9	14.1	20.9	20.9	18.5	14.1	15.5	15.9
Of which: Projects	1.6	7.8	6.3	6.2	3.4	9.4	3.7	5.3	4.1	4.1	4.1	4.1
Expenditure and net lending	479.1	513.7	469.8	494.1	533.0	535.2	570.7	580.1	618.7	677.4	739.8	794.7
Current expenditure	287.6	290.9	276.4	300.4	312.6	312.2	337.6	345.4	370.0	396.6	434.4	470.5
Compensation of employees	110.4	119.4	123.1	129.8	145.1	145.1	156.7	161.1	174.8	190.5	208.7	226.4
Goods and services	64.7	62.4	58.7	64.1	66.0	66.0	71.5	72.2	73.2	77.0	85.0	92.8
Subsidies and transfers 1/	72.5	67.8	55.8	55.0	58.1	61.0	63.1	63.8	66.0	71.3	80.0	86.9
Of which: Emergency program	18.0	21.0	16.0	16.0	21.9	21.5	24.5	23.0	26.7	30.8	36.2	39.1
Energy subsidies	14.0	6.9	1.9	3.5	0.0	7.5	0.0	7.8	5.5	5.5	5.5	5.5
Arrears repayments	3.6	3.6	3.6	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	15.8	17.8	17.4	22.3	25.2	23.9	30.4	25.1	30.2	30.6	30.7	31.3
External	11.9	12.7	13.4	17.6	18.0	16.7	20.2	17.5	18.6	19.7	21.0	22.6
Domestic	3.9	5.1	4.0	4.6	7.2	7.2	10.2	7.6	11.6	10.9	9.6	8.7
Special accounts	10.3	3.2	9.3	12.2	6.0	4.0	2.5	10.0	10.0	10.0	10.0	10.0
Common reserves	11.3	11.9	11.4	11.3	12.2	12.2	13.3	13.3	15.8	17.1	20.2	23.2
Others	2.6	8.5	0.8	5.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	191.5	219.9	193.7	192.1	215.9	216.0	233.2	234.7	248.8	280.8	305.3	324.2
Foreign-financed investment	57.9	78.2	44.6	37.8	74.1	62.8	78.4	78.4	78.5	84.9	88.1	85.6
Domestically financed investment	133.6	141.7	149.1	154.3	141.8	153.3	154.8	156.3	170.3	196.0	217.2	238.5
Restructuring and net lending	0.0	2.9	-0.4	1.6	4.5	7.0	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (excl. grants)	-59.5	-64.0	-22.4	4.4	18.3	13.5	12.4	9.1	19.4	24.0	26.3	30.0
Primary balance (excl. grants, prog. def.) 2/	...	...	...	...	5.7	10.1	...	9.1	19.4	...	...	...
Primary balance	-57.3	-35.7	8.9	21.5	34.2	27.6	33.2	30.0	37.8	38.1	41.8	45.8
Overall balance (excl. grants)	-75.3	-81.8	-39.8	-17.9	-6.9	-10.4	-18.0	-15.9	-10.8	-6.7	-4.4	-1.4
Overall balance	-73.2	-53.5	-8.5	-0.8	9.1	3.7	2.9	5.0	7.7	7.4	11.1	14.5
Financing	73.2	53.5	8.5	0.8	-9.1	-3.7	-2.9	-5.0	-7.7	-7.4	-11.1	-14.5
Domestic financing	11.0	-1.2	-23.8	21.9	-0.8	12.6	-4.8	-10.5	-10.1	-13.2	-21.4	-20.3
Banking system	50.0	12.2	-16.0	25.4	-8.8	4.5	-4.8	-6.8	-0.5	0.7	-12.1	-14.5
Treasury account	49.2	36.9	-10.1	33.4	-4.8	4.5	0.0	-6.8	4.5	5.7	-7.1	-9.5
Commercial banks	0.9	-24.7	-5.9	-8.1	-4.0	0.0	-4.8	0.0	-5.0	-5.0	-5.0	-5.0
Nonbanks	5.3	8.9	-7.1	12.8	8.0	8.1	0.0	-3.7	-9.6	-13.9	-9.3	-5.9
Domestic arrears	-8.8	-1.3	0.0	1.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits accounts	-31.4	7.5	-0.7	-6.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	68.2	57.2	38.1	-21.9	-8.3	-16.3	1.9	5.5	2.5	5.7	10.3	5.8
Oil account (net)	18.9	4.8	8.5	-1.3	-11.2	-7.6	0.0	0.0	0.0	0.0	0.0	0.0
Revenue from oil (net)	-6.1	-13.2	-10.9	-18.9	-41.2	-31.6	-2.8	-28.8	-29.1	-29.4	-29.9	-30.8
Oil account transfer to the budget	25.0	18.0	19.4	17.6	30.0	24.0	2.8	28.8	29.1	29.4	29.9	30.8
Other (net)	49.3	52.3	29.6	-20.6	2.9	-8.7	1.9	5.5	2.5	5.7	10.3	5.8
Net borrowing (net)	46.1	48.4	27.7	-16.9	2.9	-8.7	1.9	5.5	2.5	5.7	10.3	5.8
Disbursements	69.9	77.0	63.4	31.6	70.7	55.7	74.7	73.2	74.4	80.8	84.0	81.5
Amortization	-23.9	-28.3	-35.6	-48.5	-67.8	-64.4	-72.8	-67.6	-71.9	-75.0	-73.7	-75.7
Exceptional financing	3.1	3.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	-6.1	-2.5	-5.8	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Real growth rate of public expenditure	5.7	6.7	-9.9	2.8	5.3	5.4	2.1	4.3	2.6	5.2	4.7	3.0
Current expenditure	3.8	0.6	-6.3	6.2	4.8	4.3	3.0	6.5	3.0	3.0	5.0	3.8
Capital expenditure	8.8	14.3	-13.2	-3.0	5.5	5.2	3.0	4.6	1.9	8.4	4.2	1.8
Non-extractive balance (excl. grants)	-185.2	-134.9	-64.8	-61.3	-79.8	-64.9	-52.1	-77.9	-78.6	-79.1	-82.7	-85.7
Non-extractive balance	-183.0	-106.6	-33.5	-44.2	-63.8	-50.8	-31.2	-57.0	-60.1	-65.0	-67.3	-69.8
Basic budget balance (excl. grants) 3/	-17.4	-3.6	4.8	19.9	67.2	52.4	60.4	62.5	67.7	78.2	83.8	84.3
Social spending	179.6	186.9	187.4	194.1	217.7	221.9	239.3	243.3	273.9	297.4	323.5	348.8

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

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

2/ Adjusted for half of additional/shortfall in extractive revenue.

3/ Overall balance excluding foreign-financed investment expenditure.

Table 3b. Mauritania: Central Government Operations, 2014–23
(In percent of non-extractive GDP, unless otherwise indicated)

	2014	2015	2016	2017	2018		2019		2020	2021	2022	2023
					CR/18/137	Prog.	CR/18/137	Prog.					Proj.
Revenues and grants	29.4	32.6	31.7	31.8	32.7	32.0	32.0	32.1	31.9	32.2	32.4	32.4
Revenues	29.2	30.6	29.6	30.7	31.7	31.1	30.8	31.0	31.0	31.5	31.8	31.8
Nonextractive revenue	21.3	26.8	27.9	27.9	27.3	27.9	28.9	27.6	27.5	28.1	28.4	28.4
Tax revenue	16.1	16.9	18.7	19.6	19.8	20.0	20.3	20.2	20.4	20.5	20.6	20.8
Nontax revenue	5.2	9.9	9.1	8.3	7.6	7.9	8.6	7.4	7.2	7.6	7.8	7.6
Extractive revenue	8.0	3.8	1.7	2.8	4.4	3.2	1.9	3.4	3.5	3.4	3.4	3.4
Net revenue from oil	0.4	0.9	0.7	1.2	2.5	1.9	0.2	1.6	1.5	1.4	1.3	1.2
Mining revenue	7.5	2.8	1.0	1.6	1.9	1.4	1.7	1.8	2.0	2.0	2.1	2.1
Grants	0.2	2.0	2.2	1.1	1.0	0.8	1.2	1.2	0.9	0.7	0.7	0.6
Of which: Projects	0.1	0.6	0.4	0.4	0.2	0.6	0.2	0.3	0.2	0.2	0.2	0.2
Expenditure and net lending	34.7	36.3	32.3	31.8	32.1	31.7	31.8	31.9	31.6	31.8	31.9	31.8
Current expenditure	20.8	20.6	19.0	19.4	18.9	18.5	18.8	19.0	18.9	18.6	18.8	18.8
Compensation of employees	8.0	8.4	8.5	8.4	8.8	8.6	8.7	8.8	8.9	9.0	9.0	9.1
Goods and services	4.7	4.4	4.0	4.1	4.0	3.9	4.0	4.0	3.7	3.6	3.7	3.7
Subsidies and transfers 1/	5.3	4.8	3.8	3.5	3.5	3.6	3.5	3.5	3.4	3.3	3.5	3.5
Of which: Emergency program	1.3	1.5	1.1	1.0	1.3	1.3	1.4	1.3	1.4	1.4	1.6	1.6
Energy subsidies	1.0	0.5	0.1	0.2	0.0	0.4	0.0	0.4	0.3	0.3	0.2	0.2
Arrears repayments	0.3	0.3	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	1.1	1.3	1.2	1.4	1.5	1.4	1.7	1.4	1.5	1.4	1.3	1.3
External	0.9	0.9	0.9	1.1	1.1	1.0	1.1	1.0	0.9	0.9	0.9	0.9
Domestic	0.3	0.4	0.3	0.3	0.4	0.4	0.6	0.4	0.6	0.5	0.4	0.3
Special accounts	0.7	0.2	0.6	0.8	0.4	0.2	0.1	0.5	0.5	0.5	0.4	0.4
Common reserves	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.9	0.9
Others	0.2	0.6	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	13.9	15.6	13.3	12.4	13.0	12.8	13.0	12.9	12.7	13.2	13.2	13.0
Foreign-financed investment	4.2	5.5	3.1	2.4	4.5	3.7	4.4	4.3	4.0	4.0	3.8	3.4
Domestically financed investment	9.7	10.0	10.3	9.9	8.6	9.1	8.6	8.6	8.7	9.2	9.4	9.6
Restructuring and net lending	0.0	0.2	0.0	0.1	0.3	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Primary balance (excl. grants)	-4.3	-4.5	-1.5	0.3	1.1	0.8	0.7	0.5	1.0	1.1	1.1	1.2
Primary balance (excl. grants, prog. def.) 2/	...	...	...	...	0.3	0.6	...	0.5	1.0	...	...	...
Primary balance	-4.2	-2.5	0.6	1.4	2.1	1.6	1.9	1.7	1.9	1.8	1.8	1.8
Overall balance (excl. grants)	-5.5	-5.8	-2.7	-1.2	-0.4	-0.6	-1.0	-0.9	-0.5	-0.3	-0.2	-0.1
Overall balance	-5.3	-3.8	-0.6	0.0	0.5	0.2	0.2	0.3	0.4	0.3	0.5	0.6
Financing	5.3	3.8	0.6	0.0	-0.5	-0.2	-0.2	-0.3	-0.4	-0.3	-0.5	-0.6
Domestic financing	0.8	-0.1	-1.6	1.4	0.0	0.7	-0.3	-0.6	-0.5	-0.6	-0.9	-0.8
Banking system	3.6	0.9	-1.1	1.6	-0.5	0.3	-0.3	-0.4	0.0	0.0	-0.5	-0.6
Treasury account	3.6	2.6	-0.7	2.2	-0.3	0.3	0.0	-0.4	0.2	0.3	-0.3	-0.4
Commercial banks	0.1	-1.7	-0.4	-0.5	-0.2	0.0	-0.3	0.0	-0.3	-0.2	-0.2	-0.2
Nonbanks	0.4	0.6	-0.5	0.8	0.5	0.5	0.0	-0.2	-0.5	-0.7	-0.4	-0.2
Domestic arrears	-0.6	-0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other deposits accounts	-2.3	0.5	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External financing	4.9	4.0	2.6	-1.4	-0.5	-1.0	0.1	0.3	0.1	0.3	0.4	0.2
Oil account (net)	1.4	0.3	0.6	-0.1	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Revenue from oil (net)	-0.4	-0.9	-0.7	-1.2	-2.5	-1.9	-0.2	-1.6	-1.5	-1.4	-1.3	-1.2
Oil account transfer to the budget	1.8	1.3	1.3	1.1	1.8	1.4	0.2	1.6	1.5	1.4	1.3	1.2
Other (net)	3.6	3.7	2.0	-1.3	0.2	-0.5	0.1	0.3	0.1	0.3	0.4	0.2
Net borrowing (net)	3.3	3.4	1.9	-1.1	0.2	-0.5	0.1	0.3	0.1	0.3	0.4	0.2
Disbursements	5.1	5.5	4.4	2.0	4.3	3.3	4.2	4.0	3.8	3.8	3.6	3.3
Amortization	-1.7	-2.0	-2.4	-3.1	-4.1	-3.8	-4.1	-3.7	-3.7	-3.5	-3.2	-3.0
Exceptional financing	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omissions/financing gap	-0.4	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Non-extractive balance (excl. grants)	-13.4	-9.5	-4.5	-4.0	-4.8	-3.8	-2.9	-4.3	-4.0	-3.7	-3.6	-3.4
Non-extractive balance	-13.3	-7.5	-2.3	-2.8	-3.9	-3.0	-1.7	-3.1	-3.1	-3.1	-2.9	-2.8
Overall balance (in percent of GDP)	-4.5	-3.4	-0.5	0.0	0.5	0.2	0.1	0.2	0.4	0.3	0.4	0.5
Basic budget balance (excl. grants) 3/	-1.3	-0.3	0.3	1.3	4.1	3.1	3.4	3.4	3.5	3.7	3.6	3.4
Social spending	13.0	13.2	12.9	12.5	13.1	13.2	13.3	13.4	14.0	14.0	14.0	14.0

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

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

2/ Adjusted for half of additional/shortfall in extractive revenue.

3/ Overall balance excluding foreign-financed investment expenditure.

Table 4. Mauritania: Monetary Survey, 2014–20
(In billions of MRO at end-of-period exchange rates, unless otherwise indicated)

	2014	2015	2016	2017	2018		2019		2020
					CR/18/137	Proj.	CR/18/137	Proj.	
Monetary survey									
Net foreign assets	108.1	78.5	61.4	70.1	99.7	80.7	201.6	106.4	136.8
Net domestic assets	402.1	433.5	487.0	553.7	576.3	608.4	548.9	656.4	713.3
Net domestic credit	618.2	669.5	693.4	749.3	786.6	848.3	837.7	921.0	1016.3
Net credit to the government	175.3	183.8	168.9	185.8	177.0	190.2	172.5	183.5	183.0
Credit to the economy	443.0	485.7	524.4	563.5	609.6	658.0	665.1	737.6	833.3
Other items net	-216.1	-236.0	-206.4	-195.6	-210.3	-239.9	-288.8	-264.6	-303.0
Broad money (M2)	510.2	512.1	548.4	623.8	676.0	689.1	750.4	762.8	850.1
Monetary authorities									
Net foreign assets	126.1	102.4	115.2	117.0	149.9	128.5	255.2	155.9	188.0
Net domestic assets	101.0	118.3	127.4	153.0	142.7	146.1	69.5	125.7	104.2
Net domestic credit	142.7	172.5	163.1	181.7	176.9	186.2	176.9	179.4	183.9
Net credit to the government	138.1	167.8	158.9	177.6	172.8	182.0	172.8	175.3	179.8
Other items net	-41.8	-54.2	-35.7	-28.7	-34.2	-40.1	-107.4	-53.7	-79.7
Reserve money	227.0	220.7	242.6	270.0	292.6	274.6	324.8	281.5	292.2
Currency in circulation	130.9	129.7	141.4	148.9	161.4	164.5	179.2	182.1	203.0
Reserves of banks	96.1	91.0	101.2	121.0	131.2	110.1	145.6	99.4	89.2
Of which : Banks deposits in FX	28.5	20.8	28.8	35.5	38.5	32.3	42.7	29.2	26.2
Commercial banks									
Net foreign assets	-18.0	-23.9	-53.7	-46.9	-50.1	-47.8	-53.7	-49.5	-51.2
Net domestic credit	475.5	497.1	530.2	567.6	609.7	662.1	660.7	741.6	832.4
Net credit to the government	37.1	16.0	10.0	8.2	4.2	8.2	-0.3	8.2	3.2
Credit to the private sector	438.4	481.1	520.2	559.4	605.5	653.9	661.0	733.4	829.2
Other items net	-174.4	-181.8	-170.7	-166.9	-176.1	-199.8	-181.4	-189.8	-190.6
(Annual change in percent)									
Monetary survey									
Net foreign assets	-45.1	-27.3	-21.8	14.1	42.3	15.1	102.1	31.9	28.5
Net domestic assets	47.3	7.8	12.3	13.7	4.1	9.9	-4.8	7.9	8.7
Net domestic credit	18.3	8.3	3.6	8.1	4.0	13.2	6.5	8.6	10.3
Net credit to the government	41.1	4.9	-8.1	10.0	-4.7	2.4	-2.5	-3.6	-0.3
Credit to the economy	11.2	9.7	8.0	7.5	6.9	16.8	9.1	12.1	13.0
Other items net	-13.4	9.2	-12.6	-5.2	3.9	22.7	37.3	10.3	14.5
Broad money (M2)	8.6	0.4	7.1	13.7	8.4	10.5	11.0	10.7	11.4
Monetary authorities									
Net foreign assets	-42.7	-18.8	12.5	1.6	28.2	9.9	70.3	21.3	20.6
Net domestic assets	829.5	17.1	7.8	20.1	-6.8	-4.5	-51.3	-14.0	-17.1
Net domestic credit	47.7	20.8	-5.4	11.4	-2.6	2.5	0.0	-3.6	2.5
Net credit to the government	50.4	21.5	-5.3	11.7	-2.7	2.5	0.0	-3.7	2.6
Reserve money	-1.6	-2.8	9.9	11.3	8.4	1.7	11.0	2.5	3.8
Commercial banks									
Net foreign assets	-22.7	32.4	125.0	-12.8	7.0	2.0	7.0	3.5	3.5
Net domestic credit	11.5	4.5	6.7	7.0	6.1	16.7	8.4	12.0	12.2
Net credit to the government	14.8	-56.9	-37.4	-18.1	-48.8	0.0	-107.0	0.0	-60.9
Credit to the private sector	11.3	9.7	8.1	7.5	6.9	16.9	9.2	12.2	13.1
Memorandum items:									
Broad money (M2) to GDP (in percent)	31.4	32.7	33.3	35.5	35.6	36.8	36.2	37.5	38.8
Velocity of broad money (to non-extractive GDP)	2.7	2.8	2.7	2.5	2.5	2.4	2.4	2.4	2.3
Credit to the private sector (percent of non-extractive GDP)	31.7	34.0	35.8	36.1	36.5	38.8	36.8	40.3	42.3
Net foreign assets of banks (in millions of U.S. dollars)	-57.7	-70.5	-150.7	-132.6	-132.6	-132.6	-132.6	-132.6	-132.6

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

Table 5. Mauritania: Banking Soundness Indicators, 2010–18
(In percent, unless otherwise indicated)

	2010	2011	2012	2013	2014	2015	2016	2017	Jun. 2018
								Est.	Est.
Balance sheet									
Assets / GDP	31.1	30.9	32.5	35.2	42.5	43.2	45.6	52.5	47.6
Net private-sector credit / total assets	53.2	48.2	50.8	52.1	55.5	57.0	54.9	43.8	42.7
Public enterprise credit / total assets	13.3	10.2	7.2	3.4	6.9	3.3	5.4	5.3	6.1
Government securities / total assets	18.8	11.1	11.2	5.8	5.8	2.0	2.0	1.0	0.5
Private-sector credit growth (y-o-y)	16.0	10.6	15.1	14.9	21.3	8.0	8.3	7.5	17.7
Gross NPLs / gross loans	45.3	39.2	25.7	20.4	23.0	30.0	25.5	22.4	22.9
<i>Of which: accrued interest on NPLs / gross loans</i>	11.6	11.5	8.3	7.1	10.1	5.1	7.2	6.0	6.0
<i>Of which: legacy NPLs (pre-2010) / gross loans</i>	16.7	13.7	13.8	12.8	9.7	9.7	9.7	...	...
<i>Of which: new NPLs / gross loans</i>	17.0	14.1	3.6	0.5	0.4	0.4	0.6	...	...
Provisions / (gross NPLs - accrued interest)	30.0	31.2	53.1	52.9	52.5	78.5	63.0	70.7	66.5
Provisions / loans 360+ days in arrears	87.7	90.7	88.0	88.8	87.0	93.0	58.0	72.3	92.6
Deposits / total assets	59.3	60.9	59.1	57.8	61.0	60.8	59.0	60.2	55.2
Private-sector gross loans / private-sector deposits	118.4	105.9	110.7	113.7	137.7	134.1	110.4	88.4	96.0
Capital ratios									
Capital / total assets	16.7	18.5	17.5	18.7	14.7	13.7	14.2	13.8	12.3
Capital adequacy ratio	34.0	35.2	29.2	32.4	28.1	23.1	23.7	22.2	24.5
Foreign exchange exposure									
Fx assets / total assets	10.5	10.5	10.5	10.6	10.5	6.7	8.9	12.0	10.1
Fx assets / fx liabilities (on balance sheet)	112.1	135.2	100.1	106.6	138.6	108.2	116.0	102.5	90.2
Open fx position / capital (including off balance sheet)	-16.0	-32.7	-45.9	-26.0	-70.4	-72.7	-69.8	25.0	-35.8
Profitability and liquidity									
Return on assets	0.4	1.2	1.4	1.2	1.2	0.7	...	...	...
Return on equity	2.7	6.0	8.4	6.4	6.6	5.1	...	...	...
Liquid assets / total assets 1/	29.5	29.7	29.8	24.0	23.5	21.4	17.0	24.6	19.5
Memorandum items:									
Share of assets held by three largest banks	53.7	50.7	45.4	42.3	45.7	42.0	41.0	38.8	...
Number of banks	10	12	12	15	15	16	16	17	17

Sources: Mauritanian authorities; and IMF staff.

1/ Liquid assets: cash, reserves, and treasury bills.

Table 6. Mauritania: External Financing Requirements and Sources, 2015–20
(In millions of US dollars)

	2015	2016	2017	2018	2019	2020
					Proj.	
Total Requirements	-1,251.1	-1,105.1	-1,088.1	-1,181.2	-1,060.8	-860.3
Current account deficit, excl. grants	-1,057.1	-876.6	-866.4	-911.0	-790.7	-588.0
External public debt amortization 1/	-194.0	-228.5	-221.7	-270.2	-270.1	-272.3
<i>Of which</i> : Saudi Arabia	-2.6	-3.3	-7.2	-67.2	-68.1	-68.2
Arab Monetary Fund	-3.8	0.0	-22.2	-47.0	-39.2	-28.8
Arab Fund for Economic and Social Dev.	-30.3	-36.9	-39.1	-45.9	-46.6	-53.4
Islamic Development Bank	-18.3	-19.6	-20.4	-23.6	-24.4	-25.3
China	-19.3	-18.0	-19.1	-22.0	-24.9	-24.9
IMF	-4.6	-10.1	-14.5	-19.1	-21.9	-20.3
Total Sources	1,251.1	1,105.1	1,088.1	1,060.1	923.1	738.2
Foreign direct investment and capital inflows (net)	533.0	279.6	599.1	662.5	388.1	387.5
Official grants	101.0	169.8	157.4	...	...	...
<i>Of which</i> : European Union	12.6	11.2	11.4	...	...	...
World Bank	0.0	26.0	26.0	...	...	...
AfDB	...	10.0	10.0	...	...	...
United Arab Emirates	...	40.0	...	...	...	...
Saudi Arabia	50.0	5.3	...	...	...	...
Official loan disbursements	270.4	321.5	242.3	259.1	279.0	274.0
<i>Of which</i> : Arab Monetary Fund	20.8	99.6	...	...	...	...
Arab Fund for Economic and Social Dev.	127.7	80.7	122.1	...	...	...
Islamic Development Bank	83.2	50.7	25.4	...	...	...
China	8.9	39.4	7.1	...	...	...
IMF	...	...	23.4	...	...	...
Deposit from Saudi Arabia at the Central Bank	300.0	...	...	...	...	...
Other flows 2/	212.7	312.1	137.3	210.7	339.7	169.9
Drawdown of reserves (negative = accumulation)	-182.1	-1.8	-25.7	-51.2	-83.7	-93.2
Drawdown of oil account (negative = accumulation)	16.3	23.9	-22.3	-21.1	0.0	0.0
Financing gap	...	...	...	121.1	137.7	122.2
Expected sources of financing	...	...	...	121.1	137.7	122.2
Official grants	...	...	...	74.1	91.1	75.3
IMF ECF arrangement (prospective)	...	...	...	47.0	46.6	46.8
Residual gap	...	...	...	0.0	0.0	0.0

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

1/ Including central government, central bank, and SNIM.

2/ Including SNIM, commercial banks, errors and omissions, and exceptional financing.

Table 7. Mauritania: Capacity to Repay the Fund, 2018–32

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Payments to the Fund based on existing credit															
Principal (in million of SDRs)	5.52	15.46	14.35	9.94	6.62	6.07	6.62	6.62	6.62	6.62	1.66	0.00	0.00	0.00	0.00
Charges and interest (in million of SDRs)	0.14	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.00	0.00	0.00
Payments to the Fund based on existing and prospective credit															
Principal (in million of SDRs)	5.52	15.46	14.35	9.94	6.62	6.07	11.59	18.22	23.18	23.18	18.22	11.59	4.97	0.00	0.00
Charges and interest (in million of SDRs)	0.14	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59	0.59
Total payments to the Fund based on existing and prospective credit															
In millions of SDRs	5.66	16.05	14.94	10.53	7.21	6.66	12.18	18.81	23.77	23.77	18.81	12.18	5.56	0.59	0.59
In millions of US\$	7.93	22.63	21.15	14.98	10.30	9.54	17.45	26.95	34.05	34.05	26.95	17.45	7.96	0.85	0.85
In percent of exports of goods and services	0.39	1.04	0.94	0.65	0.44	0.40	0.73	1.10	1.35	1.31	1.01	0.63	0.29	0.03	0.03
In percent of debt service	3.08	8.55	7.83	4.58	3.29	3.09	5.34	7.90	11.23	10.17	7.86	5.02	2.25	0.23	0.21
In percent of GDP	0.15	0.41	0.37	0.25	0.16	0.14	0.25	0.36	0.43	0.40	0.30	0.18	0.08	0.01	0.01
In percent of Gross International Reserves	0.88	2.30	1.96	1.34	0.82	0.73	1.37	2.03	2.40	2.31	1.77	1.10	0.47	0.05	0.04
In percent of quota	4.39	12.46	11.60	8.18	5.60	5.17	9.46	14.60	18.45	18.45	14.60	9.46	4.32	0.46	0.46
Outstanding Fund credit															
In millions of SDRs	97.2	114.8	133.6	123.7	117.0	111.0	99.4	81.1	58.0	34.8	16.6	5.0	0.0	0.0	0.0
In millions of US\$	136.1	161.9	189.1	175.8	167.1	158.9	142.3	116.2	83.0	49.8	23.7	7.1	0.0	0.0	0.0
In percent of exports of goods and services	6.8	7.4	8.4	7.7	7.1	6.6	6.0	4.7	3.3	1.9	0.9	0.3	0.0	0.0	0.0
In percent of debt service	52.9	61.1	70.1	53.8	53.4	51.4	43.6	34.1	27.4	14.9	6.9	2.0	0.0	0.0	0.0
In percent of GDP	2.6	2.9	3.3	2.9	2.6	2.4	2.1	1.6	1.0	0.6	0.3	0.1	0.0	0.0	0.0
In percent of gross international reserves	15.1	16.5	17.6	15.7	13.4	12.2	11.2	8.8	5.9	3.4	1.6	0.4	0.0	0.0	0.0
In percent of quota	75.4	89.1	103.7	96.0	90.9	86.1	77.1	63.0	45.0	27.0	12.9	3.9	0.0	0.0	0.0
Net use of Fund credit (in millions of SDRs)															
Disbursements	33.1	33.1	33.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	5.5	15.5	14.4	9.9	6.6	6.1	11.6	18.2	23.2	23.2	18.2	11.6	5.0	0.0	0.0
Memorandum items:															
Exports of goods and services (in millions of US\$)	2015.5	2182.8	2257.6	2296.5	2357.2	2399.4	2374.3	2460.5	2528.0	2598.1	2681.0	2758.3	2746.2	2744.1	2761.6
Debt service (in millions of US\$)	257.1	264.8	270.0	327.0	313.2	309.0	326.6	341.2	303.2	334.9	343.0	347.6	354.1	364.5	396.6
Nominal GDP (in millions of US\$)	5251.7	5550.7	5774.5	6057.7	6372.3	6629.1	6858.0	7469.5	7946.0	8458.3	9009.1	9601.1	10141.4	10730.1	11369.1
Gross international reserves (in millions of US\$)	900.2	983.9	1077.1	1117.0	1249.2	1302.7	1270.5	1325.1	1416.5	1471.0	1526.5	1588.5	1680.6	1793.5	1919.1
Quota (millions of SDRs)	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8	128.8

Sources: IMF staff estimates and projections.

Table 8. Mauritania: Access and Phasing Under the Three-Year ECF Arrangement, 2017–20

Availability	Amount		Conditions
	Millions of SDR	Percent of Quota 1/	
December 6, 2017	16.560	12.857	Approval of the arrangement (drawn).
March 31, 2018	16.560	12.857	Completion of the first review (relevant PCs for end-December 2017). Drawn
September 30, 2018	16.560	12.857	Completion of the second review (relevant PCs for end-June 2018).
March 31, 2019	16.560	12.857	Completion of the third review (relevant PCs for end-December 2018).
September 30, 2019	16.560	12.857	Completion of the fourth review (relevant PCs for end-June 2019).
March 31, 2020	16.560	12.857	Completion of the fifth review (relevant PCs for end-December 2019).
September 30, 2020	16.560	12.857	Completion of the sixth (final) review (relevant PCs for end-June 2020).
Total	115.920	90.000	

Source: IMF staff calculations.

1/ Mauritania's quota is SDR 128.8 million. Percentages are rounded.

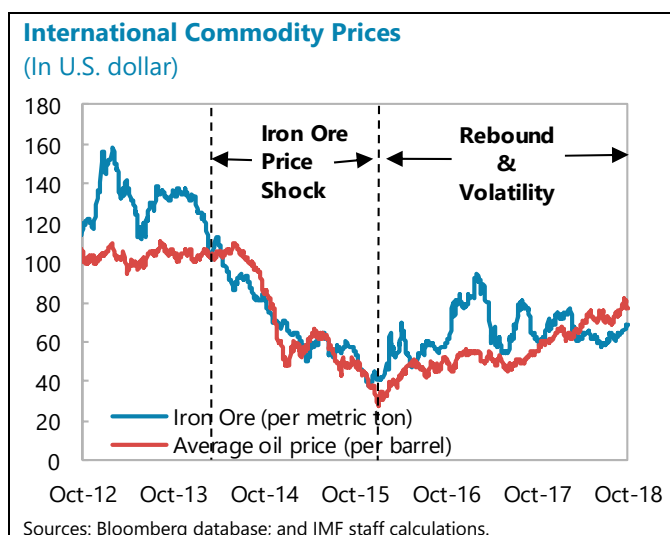
Appendix I. External Sector Assessment

Staff assesses Mauritania's external position in 2017 to have been weaker than warranted by medium-term fundamentals and desirable policy settings, given the still-substantial current account (CA) deficit. Addressing this imbalance requires ongoing policy and reform efforts, as targeted under the authorities' program, including continued fiscal discipline, enhanced exchange rate flexibility, and structural reforms to boost productivity.

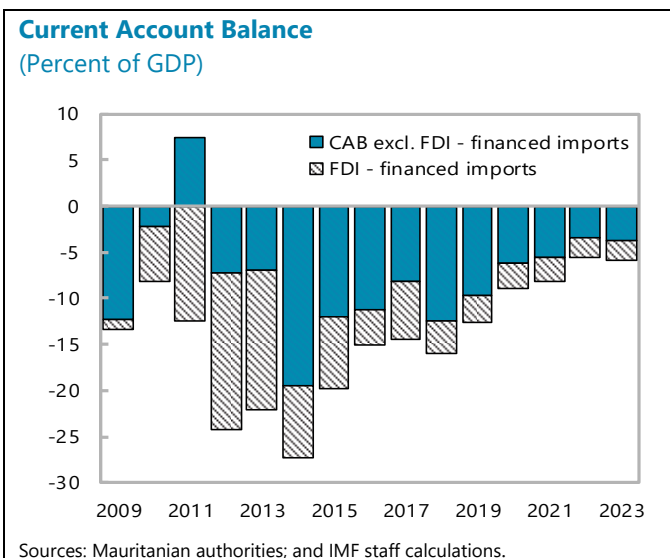
Recent Developments and Outlook

1. External imbalances caused by the 2014–15 terms-of-trade shock narrowed in 2016–17 following sizable policy adjustment and a recovery in commodity prices, while growth rebounded.

The shock was driven by a sharp decline in the price of iron ore and other metals, Mauritania's main export commodities, and resulted in a halving of exports. In response, the extractive sector adjusted and imports of capital goods destined for that sector contracted. Fiscal policy tightened significantly in 2016–17 and the exchange rate depreciated relative to the US dollar, which led to a contraction in domestic demand. The severity of the shock was also partly mitigated by the concurrent fall in the price of oil (Mauritania is a net importer). Iron ore prices rebounded in 2017 but are projected to remain well below pre-2014 levels.

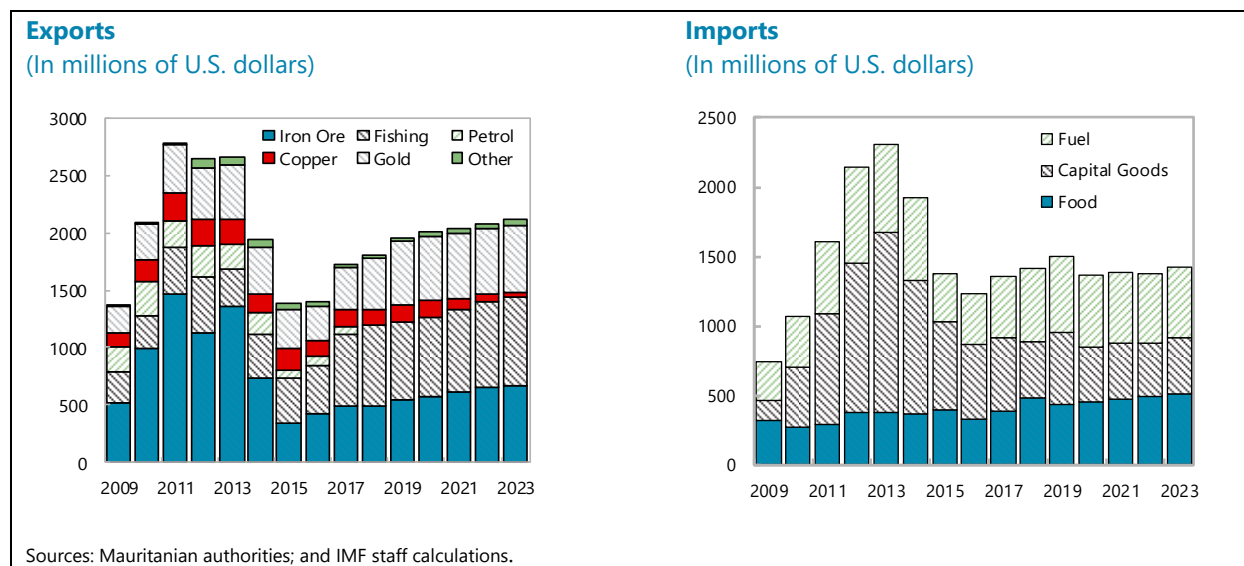


2. The adjustment was significant, as the current account deficit narrowed from a high 27 percent of GDP in 2014 to 14½ percent in 2017. Excluding FDI-financed capital imports of extractive sectors, which are neutral on reserves, the deficit narrowed to 8 percent of GDP in 2017 (from 19½ percent in 2014) financed mainly by official loans and mining companies. However, a large swing in errors and omissions of close to 6 percent of GDP between 2015–16 complicates the



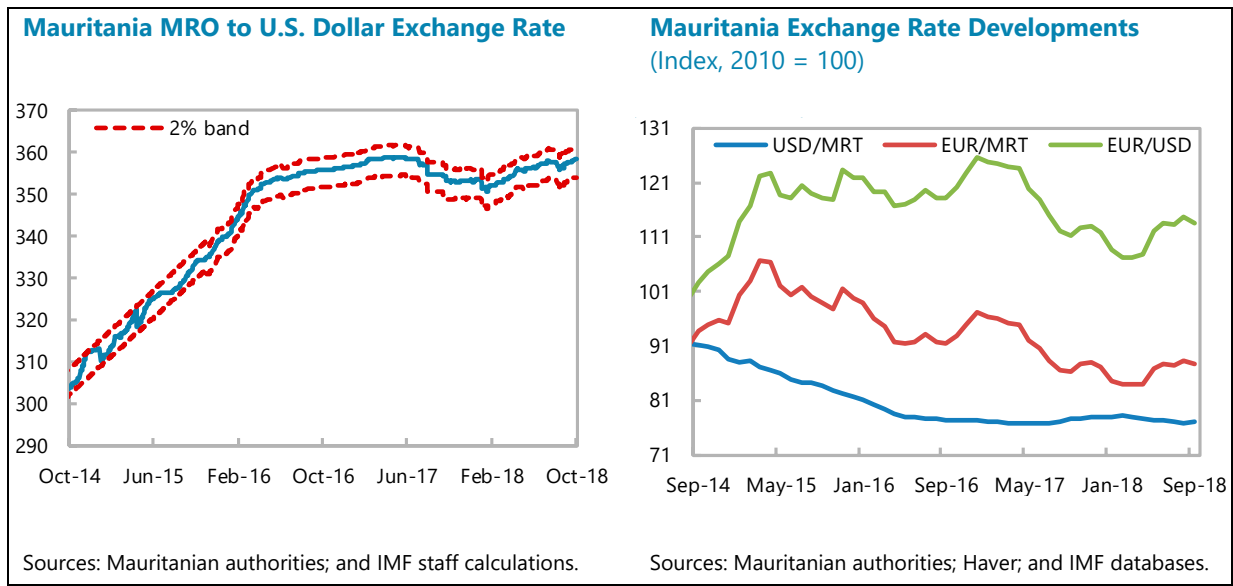
assessment of current account developments.¹ Moreover, the CA deficit (excluding extractive imports) is expected to widen to 12½ percent of GDP in 2018 due to higher oil import prices, lower commodity export prices, and the exhaustion of oil production.

3. Over the medium term, external imbalances are expected to narrow—provided commodity prices remain around current levels—owing to sustained growth in non-extractive sectors and ongoing policy and reform efforts. The current account deficit, excluding FDI-financed extractive capital imports, is projected to decline from about 8 percent of GDP in 2017 to around 4 percent of GDP over the projection period. Expansion of iron ore and gold mining as a result of past investment, and development of the fishing sector are expected to drive export growth. Imports (excluding FDI-financed imports), would expand modestly, as investment in non-extractive sectors starts yielding some import substitution while policies remain tight while private domestic demand continues to adjust to the depreciation of the real effective exchange rate since 2014. Foreign direct investment, official borrowing, and revenues from the public mining company are expected to continue to finance the bulk of external needs. At the same time, the economy is expected to remain highly vulnerable to lower commodity prices and global growth, which would widen external and fiscal deficits, raise debt ratios, and strain buffers, with attendant stability risks.

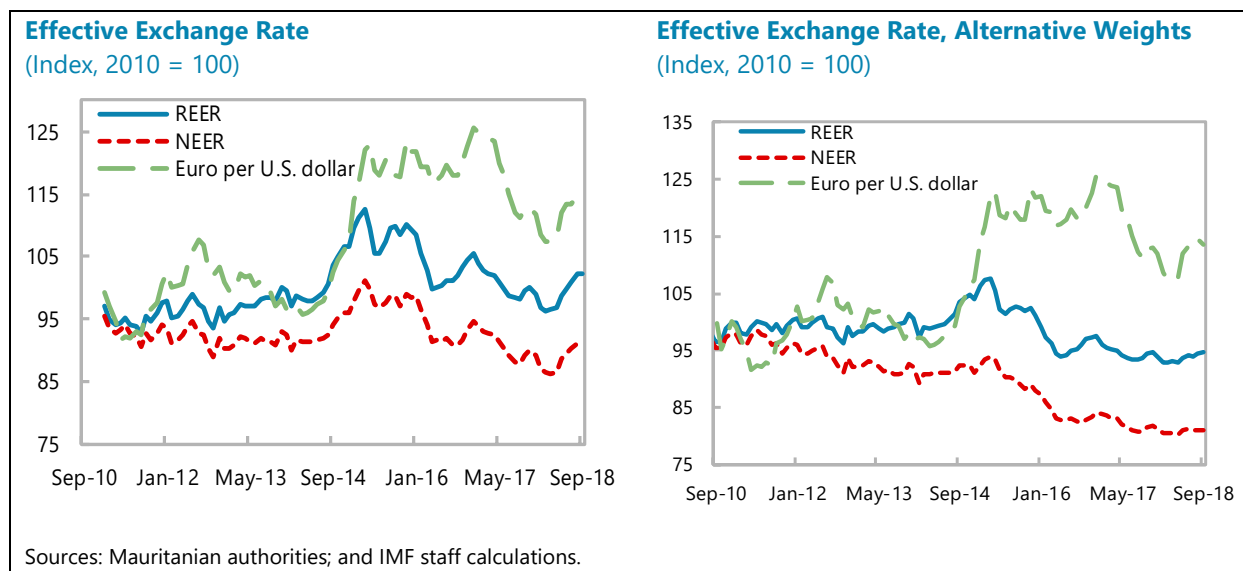


4. Following sizable exchange rate depreciation in 2015–16, the exchange rate has been relatively stable vis-à-vis the U.S. dollar in 2017–18. The cumulative depreciation, managed by the central bank, reached about 16.5 percent between mid-2014 and mid-2017, although the pace slowed from mid-2016. However, since mid-2017 the exchange rate has fluctuated within a narrow band and has depreciated by only 1 percent in the year to September 2018. Relative to the euro, the exchange rate depreciated by about 10 percent in 2017 but appreciated slightly by 0.5 percent in the year to September 2018 due to the dollar appreciation.

¹ These errors and omissions could be due to underestimation of imports, omission of grants and financing items, or lags between export transactions and payments.



5. The real effective exchange rate (REER) depreciated in 2016–17 but appreciated again in 2018 due to the strengthening of the U.S. dollar. The REER as calculated by the Fund’s INS (based on 2010 trade weights giving prominence to the euro) suggests a real *depreciation* of 6.2 percent in 2017 followed by a real *appreciation* of 3.3 percent in the year to September 2018, reflecting the co-movements of the dollar and the euro. However, using alternative weights based on currency shares in trade (which give more prominence to the U.S. dollar, in which an estimated 65 percent of Mauritanian trade is denominated) leads to smaller movements: a real *depreciation* of 3.7 percent in 2017 followed by a real *appreciation* of 0.9 percent in the year to September 2018.



Model-Based Estimates of External Balance

6. The real exchange rate is overvalued according to the External Balance Assessment (EBA-lite) current account (CA) and external sustainability (ES) models.^{2,3} The two estimates of real exchange rate overvaluation range between 4–12 percent, with the CA model based on the 2017 CA outturn and the ES model based on the projected 2027 CA (text table). By contrast, the equilibrium real effective exchange rate (REER) model suggests an undervaluation of 11½ percent. These estimates of the over/undervaluation of the real exchange rate are subject to considerable uncertainty. There are challenges in applying the EBA-lite methodologies to resource-rich low-income countries associated with the poor statistical fit of the regressions,⁴ and the use of trade elasticities that do not account for the concentration of trade on a small number of natural resources. The ES estimate is also subject to significant uncertainties relating to the future path of commodity prices and other projection assumptions. The REER model is less reliable for countries such as Mauritania with a short sample span (1995-2013) or that have experienced large structural changes. In fact, large negative regression residuals during the early years of the sample period are likely to have biased the value of the parameter down, thereby reducing/increasing the estimate of over/undervaluation. For this reason, staff puts greater weight on the CA-model indication of overvaluation in the case of Mauritania. At the same time because of the uncertainties discussed above in the estimates of CA and REER gaps, staff recognizes that the magnitude of the indication of real exchange rate overvaluation also is uncertain.

7. The current estimates suggest a smaller overvaluation than last year owing to the depreciation of the real effective exchange rate and an improved current account in 2017.

Estimates suggest an improved external position which is now “weaker” than warranted by fundamentals and desirable policies, instead of “substantially weaker”. The previously estimated overvaluation, based on the 2016 current account outturn, was between 14–21 percent.⁵

² See IMF (2016), “Methodological Note on EBA-Lite.” For the EBA-lite current account assessment, the reference current account excludes FDI-financed imports of capital goods of the extractive sector, as those represent self-financed investments unrelated to the country’s external competitiveness. The external sustainability assessment targets an external debt position (rather than international investment position (IIP) in the absence of IIP data) of -60 percent of GDP in ten years, in line with a plausible medium-term debt target. The elasticities used are import and export elasticities weighted by imports and exports to GDP. For the current account approach, the elasticity is calculated excluding FDI-financed capital imports of the extractive sector.

³ The external sustainability approach uses the current account elasticity and norm to calculate the real exchange rate gap for a given external debt/IIP target over a specified time horizon.

⁴ In part the poor fit is due to missing data, e.g. the CA model includes country risk as an explanatory variable, but the International Country Risk Guide dataset does not include Mauritania and a proxy based on comparable countries was used. This also makes it difficult to examine how much of the variance in the current account is explained by the model or the residuals.

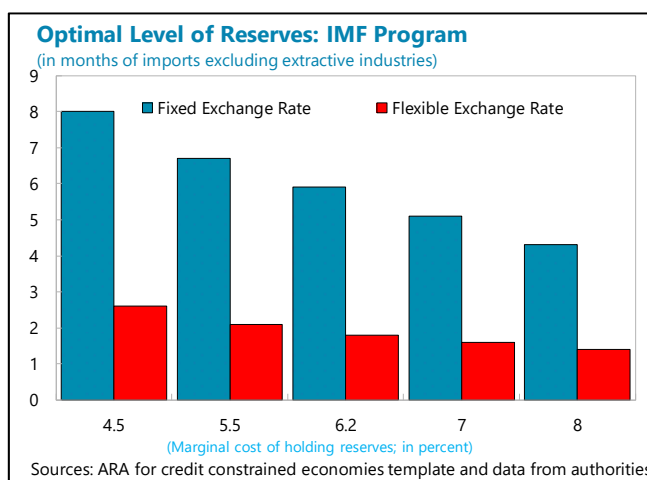
⁵ IMF Country Report No. 17/324, Annex III.

External Balance Assessment (EBA-lite) (In percent of GDP, unless otherwise indicated)			
	Current Account Model 1/	External Sustainability Approach 2/	Real Effective Exchange Rate Model 1/
Current account reference 3/	-8.2	-3.8	...
Current account norm	-4.6	-2.6	...
Current account gap	-3.9	-1.2	...
o/w Policy gap 4/	1.0		
Real exchange rate gap 5/	12.0	3.8	-11.5

1/ Based on EBA-lite methodology (Methodological Note on EBA-Lite, February 2016).
2/ Achieve an External Debt Position equal to -60 percent of GDP in 2027 (from -92.7 percent in 2017).
3/ For the CA method: 2017 outcome excluding FDI-financed capital imports of extractive sectors. For the ES method: 2027 projection.
4/ A negative policy gap from the need to accumulate reserves is more than offset by fiscal policy in the rest of the world being more expansionary than desirable, among other factors. The resulting
5/ Positive numbers indicate overvaluation, in percent. The elasticity of the current account to the real exchange rate in the first two methods is -0.32.

Reserve Adequacy

8. Official international reserve holdings are below the adequacy metric for LICs. The Fund's LIC reserves template applied to Mauritania suggests an adequate reserve level of 5.9 months of non-extractive sector imports, assuming a fixed exchange rate, an IMF program, and the standard 6.2 percent marginal cost of holding reserves.⁶ By comparison, reserves were 4.6 months of non-extractive sector imports at end-2017 and are projected to increase to 5.1 months by end-2018 and 5.6 months by end-2019. While the assessment of the adequate level of reserves is sensitive to the assumed marginal cost of holding reserves—which is uncertain—Mauritania's official reserves would be assessed as less than adequate using a reasonable range of values for that cost. A key objective of the current ECF program is to introduce greater exchange rate flexibility which would reduce the need for reserves.



⁶ The methodology for assessing reserve adequacy compares the marginal costs and benefits to determine the optimal level of reserves; see IMF Policy Paper, April 2015, *Assessing Reserve Adequacy—Specific Proposals*. For Mauritania, the methodology applied is for a resource-rich credit constrained economy. The cost of holding reserves is proxied by the marginal productivity of capital (the net rate of return on using reserves to invest in real assets); the cost of holding reserves used (6.2 percent) is the one proposed for Mauritania in the aforementioned paper.

9. The authorities' policies envisaged under the current ECF-supported arrangement seek to strengthen reserve buffers to mitigate the impact of possible future shocks. Under the baseline scenario, reserves are projected to rise steadily over the medium term to reach 6.9 months of non-extractive sector imports in 2023, above the LIC adequacy metric for Mauritania. Notwithstanding this projection, greater exchange rate flexibility would contribute to further reducing vulnerabilities to negative external shocks, such as a possible decline in commodity prices or increases in global food and oil prices.

Competitiveness Indicators

10. The economy has benefitted from improvements in the business environment, although much remains to be done. Indicators for governance, competitiveness, and doing business have improved since 2014 (Figure 6). Mauritania gained 28 ranks between 2014–18 in the Doing Business survey, reaching 148 out of 190 countries this year. Main areas of weakness include paying taxes, resolving insolvency, getting electricity, access to credit, and trade.

Staff Assessment, Policy Implications, and Authorities' Views

11. Overall, staff assesses the external position in 2017 to be weaker than warranted by medium-term fundamentals and desirable policy settings. Specifically, staff assesses the exchange rate in 2017 to be overvalued by 5–15 percent. Consistent with this, the CA gap in 2017 is estimated to be $-1\frac{1}{2}$ to $-4\frac{3}{4}$ percent of GDP. These estimates result from giving the most weight to the CA model, for the reasons discussed above, while allowing for substantial uncertainty around any point estimate. The expected widening of the CA deficit (excluding FDI-financed imports of extractive capital goods) and REER appreciation in 2018 (Table 2) also suggest that the estimated gap may again widen in 2018 due to the adverse terms-of-trade shocks.

12. Strong policies will help reduce external imbalances. Priorities in this regard include continued fiscal discipline, increased exchange rate flexibility, and structural reforms to boost productivity, in line with the authorities' Fund-supported program.

13. Authorities' views. The authorities noted that their economic and financial program supported by the Fund seeks to address external weaknesses through disciplined policies and wide-ranging structural and institutional reforms aimed at diversifying the economy, increasing broad-based and inclusive growth, and maintaining macroeconomic stability. While agreeing in principle that the exchange rate could be used as a shock absorber, the authorities felt that staff overstated the ability of the exchange rate to correct external imbalances given the limited non-extractive production base and the low elasticity of essential imports, notably food. They saw structural reforms and infrastructure improvements as priorities to address external imbalances by promoting economic diversification and broad-based growth.

Appendix II. Letter of Intent

Central Bank of Mauritania

Ministry of Economy and Finance

Nouakchott, November 20, 2018

Madame Christine Lagarde
Managing Director
International Monetary Fund
Washington DC

Madame Managing Director,

The economic and social program implemented by the Mauritanian authorities with support from the International Monetary Fund (IMF) is on track. The program aims to consolidate macroeconomic stability; promote strong, lasting, and inclusive growth; develop human capital and access to basic social services; reduce poverty; and improve all dimensions of governance.

Guided by the Strategy for Accelerated Growth and Shared Prosperity (SCAPP) covering 2016–30, the key economic policies of our program aim to: (a) continue with fiscal consolidation and reinforcing debt sustainability at a gradual pace favorable to the recovery of growth; (b) mobilize public revenue by expanding the tax base and modernizing tax administration procedures, and prioritize public investment; (c) modernize and strengthen monetary policy to better manage bank liquidity; (d) strengthen bank supervision and regulation and the financial infrastructure to ensure the stability of the financial system and expand credit to the private sector; (e) reform the foreign exchange market to introduce greater exchange rate flexibility; (f) increase the fiscal space for social spending, especially in education, health, and social protection to consolidate progress in poverty reduction; and (g) continue reforms to improve the business environment and economic governance and to fight corruption, with a view to supporting private sector development and economic diversification.

All the performance criteria and structural benchmarks for the period June–September 2018 under the three-year arrangement under the ECF approved by the IMF Board on December 6, 2017 were met. Accordingly, we request approval of the second program review and disbursement of a new tranche of SDR 16.560 million. We also request modification of the definition and amount of two performance criteria concerning the Central Bank of Mauritania’s net international reserves and net domestic assets for December 2018 in light of less favorable terms of trade than anticipated, which weigh on our balance of payments. Finally, we request an exception to the limit on non-concessional borrowing to finance Mauritania’s participation in the upcoming offshore gas project, which is a commercially run project with the potential to generate large budgetary revenues in the medium term.

The next semiannual review will be conducted on or after March 31, 2019 and the following review on or after September 30, 2019, based on the quantitative performance criteria and structural benchmarks as described in the attached Memorandum of Economic and Financial Policies (MEFP) and the Technical Memorandum of Understanding (TMU). We will continue to provide the IMF with all the data and information required to monitor implementation of the measures and achievement of the objectives in accordance with the TMU.

We believe the policies described in the attached MEFP are appropriate to achieve the program objectives, but we will take any additional measures that become necessary for this purpose. We will consult the IMF on the adoption of such measures, and prior to any revision of the policies set forth in the MEFP, in accordance with the Fund's policies on such consultations. We consent to the publication of this letter and its attachments and the related staff report.

Very truly yours,

/s/

Mr. Abdel Aziz Dahi
Governor of the Central Bank of Mauritania

/s/

Mr. El Moctar Djay
Minister of Economy and Finance

Attachments (2):

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies

Introduction

1. This memorandum describes Mauritania's Fund-supported economic and financial program under the Extended Credit Facility (ECF) for the period 2017-2020. The program aims to preserve macroeconomic stability, consolidate the bases for sustained, inclusive growth, and reduce poverty in accordance with the Strategy for Accelerated Growth and Shared Prosperity (SCAPP).
2. The SCAPP, adopted by the Council of Ministers in January 2018 and ratified by the National Assembly in April, covers the period 2016-2030. Based on the lessons learned from the 2012-2015 development strategy, it aims at boosting growth and employment, reducing inequality, eliminating extreme poverty and halving global poverty by accelerating the structural transformation of the economy and reforming social policy. To this end, we intend to: (i) revitalize the sectors with strong employment and growth potential by better integrating the value chain in agriculture, pastoral activities and fishing; (ii) continue to modernize public infrastructure; and (iii) promote a stronger private sector role via improvements to the business climate, the development of public-private partnerships, improved access for small and medium-sized enterprises (SMEs) to financing, and encouraging foreign direct investment (FDI). Our strategy will also focus on developing human capital and improving access to basic social services, particularly education, vocational training and healthcare. Particular attention will be paid to gender equality through the launch and implementation of a national gender equality strategy. Lastly, strengthening governance is at the core of our development strategy. On the economic front, the new organic budget law will strengthen transparency and responsibility, while statistics will be reinforced to improve economic policymaking. and Greater efforts devoted to the fight against corruption and the inherent legal system will be strengthened.

A. Economic Environment and Reforms: Developments in 2017

3. Growth accelerated in 2017 to about 3 percent (preliminary estimate), supported by favorable terms of trade and a significant expansion of irrigated farming areas, which compensated for the rainfall deficit. Inflation remained moderate at an annual average of 2.3 percent, reflecting steady import prices and a relatively stable exchange rate.
4. The substantial fiscal rebalancing efforts and reforms begun in 2016 continued in 2017 and produced an overall fiscal balance. A substantial improvement in revenue supported by the economic recovery, increased tax collection, continued budget rigor, and slower-than-expected execution of externally financed investment expenditure reduced the primary deficit (excluding interest and grants) by 1.8 percent of non-extractive gross domestic product (NEGDP), resulting in a positive primary balance (excluding interest and grants) of 0.3 percent of NEGDP.
5. The external current account deficit (excluding FDI-financed imports of extractive sectors) narrowed significantly in 2017 to about 8 percent of GDP (compared to 11 percent in 2016) owing to

a strong recovery of exports of the mining and fishing sectors supported especially by an increase in international commodity prices. The efforts of the Central Bank of Mauritania (BCM) to apply exchange rate regulations and abolish direct sales of foreign currency contributed to maintaining official reserves at US\$849 million (5 months of non-extractive imports) at end-December 2017 while significantly improving the demand satisfaction rate for currencies.

B. Short-Term and Medium-Term Outlook

6. We have prepared an ambitious 2016-2030 strategy for inclusive growth that aims to diversify the economy through human capital development, expanded access to services, and improved governance. However, the short-term outlook deteriorated recently in response to higher international petroleum and food prices and weaker iron ore prices since April 2018. Those developments weighed on the balance of payments during the first half of 2018, and the economic outlook remains highly dependent on commodity price trends, foreign investment in the extractive sector, and progress on reforms.

7. The macroeconomic framework agreed with the IMF staff projects prudent growth rates of 3.5 percent in 2018 and between 5 percent in 2018 and 6 percent in 2023 for the non-extractive sectors. Growth will be sustained by the anticipated performance in agriculture, fisheries, livestock, construction, and services driven by public and private investment and structural reforms. Inflation will remain moderate, averaging around 3 percent in 2018, reflecting steady import prices and a disciplined monetary policy. In the medium term, the current account deficit (excluding FDI-financed imports) is expected to narrow to about 3 percent of GDP by 2023, reflecting increased exports, an adjustment of domestic demand, improved competitiveness, and fiscal consolidation. Development of the recently discovered offshore gas field, shared with Senegal, could significantly improve the economic and financial outlook as of 2021 if the final investment decision is taken by the consortium in 2018.

C. Economic Program for 2018–20

Objectives

8. The government's objective is to successfully complete the first phase of the SCAPP—the 2016–20 priority action plan—to lay the foundation for faster, stronger, and equitably distributed economic growth in an environment of sound governance, social justice, and sustainable development. Our ultimate objective is to transform our economy into a diversified economy that can withstand exogenous shocks. The support of the ECF program will enable us to pursue appropriate monetary and fiscal policies and implement ambitious structural reforms to correct macroeconomic imbalances in order to support the economic recovery and ensure the medium-term sustainability of our economic policies. To that end, our policies in 2017–20 will aim, in particular, to (a) restore growth at more than 5 percent, (b) contain inflation at less than 5 percent in the medium term, (c) reduce the current account deficit (excluding FDI-financed imports) to 5 percent of GDP, (d) reduce external public debt to less than 67 percent of GDP (excluding Kuwaiti

debt), while maintaining a high level of concessionality, and (e) increase international reserves to at least six months of imports excluding extractive industries.

Monetary and Exchange Policy

9. We plan to establish a more flexible and proactive monetary and exchange policy during the program period. With support from the IMF staff, we aim to anchor inflation expectations by targeting monetary aggregates while strengthening the role of the exchange rate in absorbing shocks. In parallel, we will develop the prerequisites for an interest rate-based system.

Strategic Framework for the Monetary Policy

10. Our monetary policy will focus more on its primary mission, which is price stability. In a transitional phase, we will adopt the growth rate of the money supply (M2) as an intermediate target. We will pursue a flexible monetary base target as the operational objectives.

11. We strengthened the BCM's autonomy by adopting a new law establishing the BCM charter in July 2018 (structural benchmark). The law modernizes the BCM institutional structures and incorporates IMF staff recommendations for governance, internal and external audit, publication of financial statements, and accounting standards. The new BCM bodies, such as the Prudential, Resolution, and Financial Stability Board, the Sharia Committee, and the Audit Committee, will be created by end-2018. The BCM has already established a macroeconomic framework and quarterly monetary programming; with support from the IMF, it will continue to develop an analytical and forecasting framework to serve as the basis for monetary policy decisions, and will adapt its institutional mechanism and organization accordingly.

12. In the short term and in view of relatively low inflation and the slowdown in credit, the BCM will gradually introduce flexibility in its monetary policy, taking care to avoid the return of inflationary pressures. In that context, we will gradually lower the policy rate to align it more closely to market rates and improve its effectiveness.

Operational Framework for Monetary Policy and Liquidity Management

13. The pressures and volatility that characterized bank liquidity in 2016-17, while less pronounced recently, demonstrate the urgency of managing bank liquidity in a more active and flexible manner while promoting development of the interbank market. Our essential priorities are to: (a) continue developing our liquidity forecasting and monitoring capacities, with increased management staff for the directorate in charge of these efforts, and (b) improve and leverage the full range of instruments available to us to manage liquidity. Since November 2017, the BCM applies banks' reserve requirement on a monthly basis to afford banks greater flexibility in managing cash flows while reducing volatility in bank liquidity. It will lower the required reserves ratio if circumstances permit.

14. The BCM has reformed the operational framework for monetary policy implementation by adopting a directive introducing new intervention instruments with different maturities, particularly

deposit and refinancing facilities (structural benchmark, December 2017). We will establish an interest rate corridor for new deposit and refinancing facilities to be announced by end-December 2018 (new structural benchmark). These instruments will be implemented through two newly created committees: a monetary market committee and a monetary policy technical committee. Finally, we will implement an integrated technical platform for monetary policy operations by end-December 2019 (new structural benchmark).

15. While committing to accord preference to Treasury bills or BCM bills as collateral, the BCM defined a framework for collateral eligible for its monetary policy operations (priority, discounts, and conditions of use) with technical assistance from the IMF (structural benchmark for March 2018). On that basis, the BCM transmitted draft bilateral agreements setting out the parties' obligations to all banks, and prepared a procedures manual detailing the system to mobilize collateral for refinancing purposes. More active cash flow management by the Ministry of Economy and Finance (MEF), including new procedures for issuing Treasury bills, combined with convergence between the BCM policy rate and Treasury bill rates, will be crucial to enabling banks to reconstitute their portfolios of Treasury bills (see paragraph 31).

16. Implementation of the monetary policy requires strengthened operational autonomy for the BCM. This will entail, inter alia, recapitalizing the BCM through gradual repayment of government debts to the BCM and withholding of dividends on that income. To this end, a new memorandum of understanding between the BCM and the MEF, with a repayment schedule, replacing the 2013 agreement, was submitted to parliament in June 2018 (structural benchmark) with payments beginning in 2018. Later on, securitization of this debt could also provide the central bank with instruments of different maturities for its monetary policy operations and promote the formation of a yield curve, facilitating migration to an interest rate-based framework in the medium term.

17. To improve the transparency of the BCM financial position and harmonize its accounting system with international standards, the BCM will publish a quantification of its 2017 accounts based in the International Financial Reporting Standards (IFRS) by end-December 2018 (structural benchmark). This analysis will serve as a prelude for preparing an action plan and timetable to transition to the IFRS standards with a view to adopt those norms in principle by 2020. In the interim, we will prepare the 2018 financial statements of the BCM pro forma in accordance with the IFRS international accounting standards (new structural benchmark September 2019). The BCM is also arranging for the verification of the program's quantitative performance criteria by external auditors.

Exchange Policy

18. The exchange policy is geared toward modernizing the foreign exchange market to improve its functioning and introduce greater flexibility in the exchange rate so as to enhance its role in absorbing exogenous shocks and preserving external equilibrium while limiting exchange rate volatility.

19. The objective of the reform is to establish a system of competitive, multiple-price auctions that would limit the interventions of the BCM in the foreign exchange market and save BCM foreign currency holdings, unify the foreign exchange market, and develop the interbank market. In parallel, we will continue to monitor the strict application of exchange regulations and prudential standards relating to foreign exchange positions. The reform will be implemented in several stages:

- The first stage represented a major step in improving the functioning of the foreign exchange market. In November 2017, the BCM modified regulations to relax the obligation to execute currency transactions on the foreign exchange market by raising the threshold from US\$100,000 to US\$200,000, and limited the rejection of sell-side bids to exceptional circumstances. In the same month, the BCM also modified the fixing system so that sellers receive the marginal rate determined by the BCM on the supply side (rate that maximizes matching transactions, minimizes net supply/demand), currency purchases are settled at the rate offered, and the maximum purchase price is limited to the marginal rate plus 2 percent. We will also gradually eliminate BCM commissions on those transactions.
- The second stage will promote the deepening of the foreign exchange market and convergence of BCM operating practices toward international standards. To this end, the BCM will gradually introduce one-way wholesale auctions: initially, it will continue relaxing the obligation to use the foreign exchange market by increasing the threshold to US\$300,000 and will implement two-way wholesale auctions (structural benchmark, December 2018). Thereafter, the BCM will eliminate the obligation to go through the official foreign exchange market and will migrate to one-way wholesale auctions by authorizing the internal clearing of customer orders (structural benchmark, December 2019). In parallel, it will establish the regulatory framework by June 2019 and the technical platform to create an interbank foreign exchange market by end-2019 (new structural benchmarks, June 2019 and December 2019), based on the action plan to develop the interbank market prepared in September 2018 (structural benchmark).

20. In light of the transmission of exchange rate fluctuations to domestic prices, we will limit the volatility of the exchange rate. To this end, we will define an intervention budget in line with the reserve objectives established in the program. We will also determine a tolerance threshold for exchange rate volatility defined with respect to the marginal rate for the previous auction. The current context of moderate global inflation combined with the absence of excess bank liquidity and prudent fiscal policy in the program context will serve to eliminate the risk of increased exchange rate volatility. If terms of trade improve during the program, we will accumulate international reserves, which could serve as a shock absorber to smooth exchange rate fluctuations in the event of adverse shocks.

Fiscal Policies

21. Our fiscal policy will remain anchored in a rebalancing of public finances to ensure the sustainability of public debt over the medium term and contribute to the external adjustment. However, given the impact on growth of the combined effects of low prices for our exports and the macroeconomic adjustment, we expect to modulate the pace of fiscal rebalancing to support the

recovery of growth to reach the objectives of our priority action plan (PAP). At the same time, we will work to make revenue sustainable, public spending more efficient and to limit the fiscal risks by undertaking thoroughgoing structural reforms to promote economic diversification. To that end, our objective by 2020 is to improve non-extractive GDP by at least 0.7 percent of the primary balance (excluding grants) with respect to 2017, following the already substantial improvement of 4.8 percent of non-extractive GDP achieved in 2016 and 2017.

22. The execution of the 2018 budget remains disciplined, and we generated a substantial budget surplus in the first half of the year. The objective, anchored in the supplemental budget law, is to achieve a primary surplus (excluding interest and grants) of 0.5 percent of NEGDP in 2018 as a whole, an increase with respect to last year. We continued to improve the performance of tax revenue and to control spending while increasing budget support for the emergency program to counter the effects of the drought. Revenue from offshore exploration fees received in January offset the revenue losses related to petroleum products under the *Fonds d'assistance et d'intervention pour le développement* (FAID) account. We will take all necessary measures during the year, in particular by controlling the level of current spending, to achieve the fiscal quantitative targets of the program and the objectives related to social spending.

23. The 2019 budget objective is to consolidate gains and maintain the primary surplus (excluding interest and grants) at 0.5 percent of NEGDP through continued improvement in tax revenue performance to generate additional fiscal space and expenditure control by improving the quality of expenditure. This should offset the low revenue from petroleum products due to international prices, which should remain high next year and lead to a drop in FAID revenues stemming from the differential between fuel prices at the pump and international market prices. At the same time, we will continue to increase social spending in education, health, and social protection. We submitted to parliament a 2019 budget consistent with the program targets in October (a prior action).

24. The Mauritanian authorities are currently evaluating the available options for economical, sustainable financing of Mauritania's participation in the first 2019-21 phase of the gas project with Senegal, estimated at US\$307 million, taking into account its limited resources. We will seek an economically and financially advantageous financing solution while maintaining prudent international reserves buffers as planned in our program. Moreover, during the program, we will strengthen our fiscal policy framework to take into account the potential increase in government revenue from the extractive industries, particularly the gas sector. This framework will help to inform the choices for allocating these revenues, design fiscal rules that account for the volatility and finite nature of non-renewable resources, and to ensure good governance and transparency.

Tax Policy and Administration

25. Our tax policy and tax administration strategy will be based on optimizing tax performance, putting revenue on firmer footing, and simplifying and modernizing our tax system. To this end:

- The parliament passed a new Customs code in December 2017 designed to simplify procedures and improve transparency (structural benchmark).
- We will adopt a Tax procedures code, after consultation with economic operators, which will consolidate and clarify all tax procedures for taxpayers and the administration (the tax procedures code was submitted to the Council of Ministers in March 2018, structural benchmark).
- We will strengthen legal security for taxpayers by submitting to the Council of Ministers, by August 2019 (new structural benchmark), a new, modernized General Tax Code (CGI) purged of the contradictory regulatory provisions contained in the current code adopted in 1982. The CGI will improve tax revenue mobilization and tax equity and will reduce informality and tax fraud. The slight delay in the schedule is due to the need to incorporate the numerous comments received following consultation with the private sector and to conduct new revenue simulations.
- Finally, in the context of the CGI revision, we will submit to parliament a new unified corporate tax to modernize and simplify the tax structure and encourage participation in the formal economy (submission to the Council of Ministers, structural benchmark deferred from December 2018 to August 2019 to coordinate with the CGI).

26. Furthermore, building on the good performance of our tax revenue in recent years, our objective is to implement a set of reforms to sustain durably the receipts of the Directorate General of Taxation (DGI) and the Directorate General of Customs (DGD) through:

- *Expansion of the tax base.* We will first protect the tax base by ensuring the integrity of the register of taxpayers through regular updates of the central file and by limiting the number of inactive taxpayer identification numbers (NIFs). We will strengthen risk management in terms of taxpayer compliance, beginning with control over the taxpayers register. In keeping with the IMF's technical assistance recommendations, the register was audited to eliminate duplicate entries, clean up the number of temporary taxpayer identification numbers, identify taxpayers that are managed effectively, are dormant or not registered, and monitor compliance with the tax system; the DGI also designed a procedure accompanied by the appropriate actions to update the register on a regular basis (structural benchmark for end-June 2018). These procedures will be implemented strictly in 2019. The operationalization of our risk management unit, created in September 2017, will facilitate the analysis and effective use of available information to prepare an action plan and take appropriate measures to expand the tax base, in particular by seeking to identify unregistered large and medium-size businesses.
- *Improvement of taxpayer timely filing and payment rates.* We will take vigorous measures to monitor taxpayers and, if necessary, impose sanctions to increase those rates, especially for large and medium-size businesses subject to VAT and profit tax, to ensure that taxpayers declare and pay their taxes on a timely basis. Our objective is to achieve a timely filing rate of 85–90 percent for large businesses and 65–75 percent for medium-size businesses by end-2019, and a timely payment rate of at least 50 percent by December 2019. We will establish internal DGI

performance targets by March 2019 regarding the timely payment rates for large and medium-size businesses in 2019–20 (new structural benchmark for March 2019) to guide and measure the effectiveness of our taxpayer monitoring actions.

- *Strengthening of taxpayer audits by the DGI.* We will increase the number of on-site taxpayer audits with a view to improving voluntary compliance. Our objective is to conduct at least 15 general audits and 40 targeted audits of large and medium-size businesses in 2019 (new structural benchmark for December 2019) and to double this number in 2020 by reallocating DGI resources, improving auditor training, and providing auditors with appropriate analytic tools and procedures.
- *Elimination of certain tax loopholes.* With support from the World Bank, we compiled a list of tax exemptions in effect in 2014-2016 and estimated the cost of the foregone taxes. We will then evaluate the relevance and social cost with a view to eliminating tax exemptions deemed ineffective. The estimated tax expenditures were presented in an appendix to the 2018 budget law, and will be presented again in 2019.
- *Improved collection of arrears.* We intend to improve the management and collection rate of tax arrears. We have identified recoverable arrears and have set up settlement plans that have already improved tax collections. The DGI's Directorate of Public Entities (DEP) and the Directorate of Financial Supervision (DTF) rigorously monitor collection efforts in respect of public corporations and concluded tripartite agreements for those providing services to the government. We will also focus our collection efforts on large and medium-size businesses and the most recent arrears, and will accelerate procedures to write off unrecoverable arrears.
- *Improved DGD inspection and valuation mechanisms.* We are currently putting in place a program to strengthen customs inspection and valuation mechanisms for the DGD. We strengthened customs units and their capacity to effectively manage the national valuation bureau (BNV) and took appropriate measures to operationalize this tool, including the preparation of a BNV procedures guide. The next steps will be to automate disputes in the ASYCUDA system by June 2019 and exemptions by December 2019. With technical assistance from the IMF, we are launching a new program to strengthen post-clearance inspections by establishing a supervision committee, restructuring and expanding the directorate of investigations, and revising the regulatory framework by June 2019 (new structural benchmark).

Public Expenditure Management

27. The new organic budget law (LOLF), approved by the National Assembly in May 2018 and promulgated in October 2018, will considerably improve public financial management (submission of the law to parliament, which occurred in January 2018, was a structural benchmark for March 2018) by unifying the government budget, promoting the introduction of program budgeting, capping the public debt, and improving budget formulation in a multiyear framework.

Implementation of the LOLF will take place through implementation decrees in 2018-19, enabling the law to be used for budget formulation beginning in 2020. In particular, we will adopt a decree

setting out the General Regulations on Budget Management and Public Accounting by June 2019 (new structural benchmark) and a decree on budget governance (new structural benchmark for June 2019). We have already introduced elements of the reform, such as the inclusion of externally financed capital expenditure, in the 2017 budget and have done the same for 2018, notably by presenting 2016 tax expenditure in a budget annex.

28. Our objective is to continue rationalizing current expenditure within a framework of budgetary efficiency. The reforms aimed to control budget risks by executing all government revenue and expenditure through a single channel, capturing the full amount of the wage bill, aligning public entities' budget cycles to improve cash flow management, limiting extra budgetary spending, and facilitating the consolidation of public finance statistics.

- *Wage bill.* To control the impact of salaries on the government budget and capture all components of the general government wage bill, we have included employees of all administrative public entities (EPA) in the 2017 supplementary budget, and we have included non-permanent staff in the 2018 budget. We will continue to control the wage bill and improve our management of wages and salaries by adapting the current RATEB payroll system, which uses the new schedule of salaries introduced in the reform of the government human resource management system, while awaiting deployment of the dedicated human resource management system (SIGRHE).
- *Public consumption expenditure.* We will continue rationalizing public consumption expenditure and strictly limit nonpriority spending. In the context of the 2017 and 2018 budgets and civil service reform, we have already reduced subsidies to a number of public entities and rationalized goods and services consumption. The resulting fiscal space will be reallocated to social spending or increased investment in strategic sectors.

29. We intend to further improve the efficiency of capital expenditure. First, we implemented the reforms provided in the decree on the public investment program (PIP) adopted in 2016 to strengthen the selection and programming of public investment projects, and facilitate institutional coordination in implementing and financing the PIP. In that context, we will prepare a manual of procedures to improve the preparation and follow-up of project execution and set up a committee to assess and schedule public investment projects (*Comité d'analyse et de programmation de l'investissement public*—CAPIP) which is now operational. We implemented a new automated application, the Integrated Public Investment Management System (SIGIP), which supports all phases of capital project management (from contract signature to disbursement). The new SIGIP system—which analyzes the project life cycle and determines a project's social impact—will enable us to assess and prioritize investments. It will also allow us to systematically monitor disbursements of external debt and strengthen the external debt management framework. Thus, consistent with this new framework, we have prepared the 2018–20 PIP that will form the basis for selecting priority projects. We will also request assistance from the IMF to analyze the effectiveness of public expenditure using the Public Investment Management Assessment (PIMA) framework.

30. To continue investing in infrastructure while containing the growth of public spending and to support private sector development, we adopted a new law on public-private partnerships (PPP) in February 2017 as well as its implementation texts. A portfolio of projects eligible for this mode of contracting was adopted by the inter-ministerial committee in charge of PPPs, and the first project was launched in this context in September 2018 for a port infrastructure project in Nouakchott. We will proceed cautiously, however, to minimize contingent risks for public finances.

31. We will modernize and strengthen our cash flow management through the following actions:

- We will reinvigorate the Treasury bill market by modernizing the issuance system on the primary market and aligning it with international standards, particularly by distinguishing auctions by maturities, following the recommendations of IMF technical assistance. This will provide for cost-effective financing of public expenditure while developing financial markets. We will finalize a decree establishing the new issuance procedures for Treasury bills by end-December 2018 (including differentiating maturities) (new structural benchmark) and will introduce them by March 2019 (new structural benchmark). Once the new system is in place and the auctions prove to be competitive, we will consider eliminating the interest rate ceiling.
- We will continue the implementation of a modern Treasury single account (TSA), and have already created a committee for that purpose. We prepared a government account maintenance convention between the MEF and the BCM which will serve as a binding contractual framework (with firm deadlines) for both parties to fulfill all conditions for the implementation of the TSA in line with applicable industry practices. We will request technical assistance, preferably over a long term, to fully implement the convention.
- To ensure the comprehensiveness of the government cash management plan, the Public Contracts Oversight Commission (CCMP) and the Directorate General of Budget will transmit, respectively, the monthly contracting plan and the budget commitment plan to the Directorate General of Treasury and Public Accounting (DGTCP).

32. To improve fiscal transparency, we will establish a strategy to modernize the presentation of the government fiscal reporting table (TOFE) in accordance with the international standards of the *2001/2014 Government Finance Statistics Manual*. We will also gradually expand the scope of coverage to include subnational jurisdictions, followed by EPAs, and thereafter by all public corporations as and when these entities are integrated in the automated expenditure cycle system (RACHAD), by 2019.

Public Enterprises

33. The DTF will continue to monitor and closely supervise the quasi-public sector, the country's second largest employer after the general government. In view of the need for more effective sector management to limit future budget risk, a study will be conducted to provide recommendations for rationalizing public entities and an action plan to improve management and governance.

34. We will strengthen surveillance and reporting on the quasi-public sector, with support from the World Bank, to strengthen control of expenditure and borrowing. In particular, nearly all public entities will be covered by the automated expenditure cycle system (RACHAD) by 2019.

35. After clarifying the cost and risk of public entities for the government, we plan to reduce budget subsidies to public enterprises and EPAs while intensifying financial monitoring. Their performance will be regularly measured twice a year by means of financial statements (June and December) and an auditor's report; and will be monitored by the DTF as from December 2017. The recent financial audits of the largest public corporations (SOMELEC, SOMAGAZ, SNDE, Mauripost, and SONIMEX) will be finalized and published on the Treasury website. Also, to limit potential budgetary risks that the Caisse des Dépôts et de Développement (CDD) may generate in the medium term, we will oversee the allocation of resources and closely monitor the projects financed. Under the new banking law, the CDD is now covered by the BCM's supervision. In applying these guidelines, we have terminated the activities of a public enterprise facing significant financial difficulties (the SONIMEX) and merged two other enterprises (the ATTM and the ENER).

External Debt and Public Debt

36. To avoid excessive and costly borrowing, we will avoid non-concessional loans and will finance our investments through grants and concessional loans at the pace compatible with debt sustainability and within the limit of the ceiling indicated for reference in Table 1. However, in view of limited access to concessional resources, we will contract a limited amount of non-concessional external loans on an exceptional basis, subject to the ceiling indicated in Table 1, for two priority projects identified in our economic development program for which concessional financing is not available, and for Mauritania's participation in the upcoming offshore gas project.

37. We will improve our debt management framework. To align borrowing with spending priorities, especially for large infrastructure projects, and to ensure institutional coordination, we will improve procedures for borrowing and providing government guarantees by clarifying responsibilities and conditions of approval among the ministries. To this end, we have reactivated and updated the terms of reference of the National Public Debt Committee (CNDP), which will hold regular meetings, through a new decree in April 2018 (structural benchmark for end-March 2018) to make sure it will be involved in the process of selecting, scheduling and monitoring public investment projects established under the new PIP institutional framework. It will also play a role in aligning external borrowing with our investment priorities, and assessing the impact on debt of any new project funded through external borrowing before its inclusion in the PIP. To this end, we will strengthen the Debt Directorate's capacity to perform debt sustainability analyses, and will have adopted a coordination procedure between the CAPIP and the CNDP outlining their responsibilities in terms of project selection in April 2018 (structural benchmark for end-March 2018). In addition, in the context of the reactivation of the CNDP, we have integrated in the new decree on the CNDP a provision aimed at strengthening its involvement in the process of selecting and including projects in the PIP.

38. At the same time, in September 2018 we finalized the establishment of a gateway interface between the SYGADE-SIGIP-RACHAD software applications for institutions involved in debt servicing (the Debt Directorate, Budget Directorate, DGTCP, DGIPCE, and the BCM) that will be used to keep track of external debt disbursements and debt service payments (structural benchmark for end-September 2018). This interface will strengthen debt management capacity through the systematic monitoring of external debt disbursements (SYGADE-SIGIP) and will make sure debt service payment transactions are included in the automated chain of expenditure system (SYGADE-RACHAD).

39. Our ongoing dialogue with the IMF, including consultations prior to the approval of new loans, will help us to strengthen our strategy for reducing our medium-term debt levels.

Financial Sector Policy

40. Our roadmap for the financial sector will be in line with the recommendations of the Financial Sector Assessment Program (FSAP) to preserve financial stability and deepen the financial markets. We will continue our efforts to implement risk-based bank supervision. To this end, our actions will be structured around continued improvement of the regulatory framework, strict enforcement of the framework, and improved quality of statistics.

41. We improved considerably the regulatory framework and adapted it to international standards by adopting a new law on credit institutions (banking law) in July 2018 (structural benchmark for end-June 2018). The law aligns prudential standards on the principles of Basel II and III and strengthens the crisis management mechanism by establishing a new framework for bank resolution and depositor protection. It expands the scope of bank supervision to include insurance companies and the CDD, strengthens the legal force of BCM decisions by strictly framing the conditions for appealing its decision before the courts, and establishes a general regulatory framework for Islamic banks.

42. To strengthen banks' solvency and resilience to shocks, we adopted a new directive on capital composition and solvency requirements based on Basel II and III in March 2018 (structural benchmark). The directive also increased the minimum capital of banks to MRU 1 billion over two years, which should encourage bank mergers and reduce the number of new license applications.

43. We will continue to raise the prudential standards applicable to banks. Pursuant to the new banking law, we will adopt a new method to calculate banks' net weighted assets and liquidity ratios in accordance with Basel II and III, with technical assistance from the IMF (new structural benchmark for end-April 2019). The directive will supplement the provisions reinforcing prudential solvency rules and banks' capital requirements.

44. We will facilitate the elimination of nonperforming loans from banks' balance sheets. We will revise the associated directive by extending the time limit for eliminating bad loans from banks' balance sheets from the current two years, which is too short, to four years. We submitted to parliament in March 2018 a draft law on loan recovery aimed at improving mechanisms for credit recovery and enforcement of collateral by banks (structural benchmark). We will clarify the

accounting treatment of these debts and eliminate tax obstacles to the resolution of nonperforming loans.

45. To limit credit and concentration risks, we continue to closely monitor the adjustment of banks' net positions toward related entities that exceed concentration limits, which are expected to be corrected by end-2018. From July 2019, we will fully apply the prudential standards in this area (new structural benchmark) and will require noncompliant banks to increase their capital to comply. In the meantime, we will examine the possibility of gradually tightening concentration rules.

46. With respect to liquidity, we established an emergency refinancing facility in March 2018 that can be used to provide liquidity to banks experiencing temporary cash flow pressures in exchange for collateral (structural benchmark March 2018). This mechanism will be implemented through the signature, with each bank wishing to access the facility, of a convention detailing the parties' obligations and defining the eligible collateral.

47. The BCM strengthened its supervisory capacity and focuses its supervision on a comprehensive analysis of banking risks. In the context of the annual supervision program, the BCM has strengthened the on-site inspections which cover anti-money laundering and countering the financing of terrorism (AML-CFT), control of foreign currency transfer and surrender operations, general control of bank activities, and compliance with foreign exchange positions. It also stepped up offsite surveillance and conducts systematic analyses of banks' financial position. The BCM monitors compliance with prudential standards and sanctions noncompliant banks. Work is under way to reinforce sanctions and make them more of a deterrent. In 2015, the BCM raised the contribution of banks to the deposit guarantee fund; we will continue to raise this contribution until the fund stands at MRU 0.6 billion. In view of the limited size of the Mauritanian market, the new banking law tightened conditions for licensing new banks, which will encourage mergers among existing banks.

48. The BCM is strengthening the AML-CFT framework and its implementation, in concert with all parties involved including banks. We expect to complete the national risk assessment as well as an action plan by end-April 2019 (new structural benchmark April 2019). In parallel, we are conducting a technical review of regulations to conform to the international standards of the Financial Action Task Force (FATF) and are working with the Mauritanian banks to modernize their practices.

49. We will focus our attention to improving the quality and timeliness of monetary statistics, including the sectorization of credit, in line with technical assistance recommendations. In particular, we will focus on standardizing data and automating data transfers. In this context, we have installed a secure line between the BCM and banks to facilitate secure, efficient data transfer, and with respect to the data storage and transmission mechanism, we will accelerate the integration of automated controls and analytical and feedback tools such as monitoring dashboards for banks.

50. We launched a project to modernize the financial infrastructure and payments system based on a new law adopted in July 2018. A modern payments system (large-value transfers, check

clearing system, interbank money market operations), which should be completed by end-2019, will represent a lever for development of the financial system and the economy as a whole by promoting larger and faster trade while strengthening financial stability and enhancing the security of financial transactions. We have also embarked on the development of automatic payment instruments and mobile banking to reduce cash in the economy and promote financial inclusion for the poorest. We have also established a banknote sorting center at the BCM.

51. We are establishing a new credit information bureau, which will compile and make available to banks consolidated information on borrowers' credit and payment histories. By improving information, this entity will serve to reduce banks' credit risk, thereby promoting bank credit and access to credit. The bureau will launch activities in February 2019 (new structural benchmark).

52. Our objective is to promote financial inclusion and strengthen the role of the financial sector in financing the economy. Consistent with the FSAP development module, we will focus on the following pillars:

- *Reform of the microfinance sector.* We will prepare an action plan to reform the microfinance promotion agency (PROCAPEC) and another to withdraw from the sector.
- *Promotion of Islamic finance.* In view of the potential of this segment to better accommodate activity in the sector, the BCM intends to implement a regulatory framework specific to Islamic banks with technical assistance from the IMF.
- *Financing of small and medium-size enterprises (SMEs).* To address the scarcity of long-term bank resources to finance productive investment, particularly for SMEs, we contracted a US\$50 million line of credit in 2014 which was fully disbursed and allocated by banks to SMEs. Given its largely positive impact on credit to SMEs and since it is now starting to be repaid, we will seek to renew this facility on concessional terms to maintain external debt sustainability while improving access to bank financing for SMEs.
- *Regular monitoring of financial inclusion indicators.* We are in the process of defining these indicators and will regularly produce a dashboard to support the evaluation of policies in this area.

Social Policies and Anti-Poverty Measures

53. To increase the effectiveness of our social spending, our social programs will be better targeted to protect the most vulnerable households. After reducing the poverty rate by 11 percentage points over the period 2008-2014, we began deployment of a better-targeted social support system with assistance from the World Bank in December 2016. We plan to expand the coverage of the single social registry of vulnerable households to the entire national territory by 2020, so as to cover 150,000 households and facilitate better targeting of transfers to the most vulnerable. We expect to complete the targeting and surveys in 18 departments by end-2018 and in another 20 departments in 2019. A number of programs such as the "Tekavoul" social transfers

program and other partners already use the social registry for their support to the most vulnerable households.

54. Our program provides for an increase in social spending (including education, health, social protection, housing and small-scale collective infrastructures, culture, recreation, and religious affairs) of MRO 7 billion in 2017, MRU 2.4 billion in 2018, and MRU 2.3 billion in 2019, representing over 44 percent of primary budget expenditure, or 13.4 percent of NEGDP. These expenditures will continue to be increased continuously during the program period, and will be subject to a spending floor (indicative target, Table 1). By the next review, we will work on a more targeted definition of the social protection spending targeted by this floor.

Governance, Business Environment and the Fight Against Corruption

55. We have significantly improved the business environment over the last few years. Specifically, we gained 26 ranks in three years in the “Doing Business” rankings of the World Bank published in October 2017, reaching the 150th rank out of 190 countries. However, much progress remains to be made to maintain and improve this ranking.

56. In addition to the five reforms recognized in the last “Doing Business Report”, we are well advanced in implementing the 2018-19 road map for reforms to improve the business environment, adopted by the government in January 2018. We are focused in particular on: (a) the real property rights code; (b) the law on the resolution of small disputes; (c) elimination of registration fees for SMEs; (d) the one-stop center for the connection to medium voltage electric power; (e) the customs code; (f) publication of all court rulings on the website of the Ministry of Justice; (g) the implementation decrees under the urban development code; (h) integration of payment incidents in the credit risk bureau; and (i) revision of the banking law. Most of these measures were or are currently being implemented.

57. The public-private sector dialogue is being strengthened. To this end, a forum for dialogue was held in February 2018 and a joint coordinating commission was created to identify and resolve problems encountered by businesses in their interactions with the government.

58. The Mauritanian authorities have started to design and implement an anti-corruption strategy which includes fostering transparency, the rule of law, and institutional reforms. In this context, the authorities adopted in December 2010 a National Strategy to Fight Corruption. An anti-corruption law was adopted in April 2016, which defines the criminal acts and related sanctions and creates a specialized court; implementation decrees were adopted that same year. These efforts have started to produce results: Mauritania progressed in the African Governance indicator (measured by Global Integrity) in 2017 and in the report of Transparency International in 2018.

59. The Mauritanian authorities will seek to accelerate the implementation of the norms of the Extractive Industries Transparency Initiative (EITI). The validation of 2017 suggested that significant progress had been made in some areas covered by the EITI, but also that a number of areas had not seen satisfactory progress. The Mauritanian authorities will seek to take corrective measures in the

areas identified in time for the next EITI validation. They will also ensure that the new gas project and the companies involved comply with all transparency principles of the EITI.

60. To improve public investment outcomes, public procurement procedures were reformed in 2017, with assistance from the World Bank, to separate the functions of contracting, oversight, and regulation to increase the transparency of procurement management. This led to the consolidation of the four decrees implementing the law into a single text, the adaptation of regulations to conform to the law, and simplification of procedures. Furthermore, to improve public expenditure management, the new organic budget law recently approved by parliament provides for unification of the government's budget, promotes program budgeting, establishes a ceiling on public debt, and improves budget formulation in a multi-year framework. It will be implementing through the associated decrees from mid-2019.

61. To step up the fight against corruption, the authorities are planning the following actions in the short term: (i) establish the implementation committee of the national anti-corruption strategy—with members selected from the public administration, private sector, and civil society; (ii) implement the action plan of the anti-corruption strategy for 2016-20; and (iii) launch judicial and criminal proceedings in cases of misappropriation of public funds.

62. The government strengthened the authority and operations of the Court of Audit through a new organic law on the court of audit. The government also plans to support the judiciary in reinforcing the activities of the commission on financial transparency in public affairs, which is charged with implementing the 2007 law requiring all senior officials to declare their assets. It will revitalize the other institutions charged with audit and control such as the Government Inspector General, the Inspector General of Finance, and the internal ministerial inspection units.

Economic Statistics

63. Statistical development remains one of our priorities to allow us to better evaluate the impact of our economic policies and monitor the implementation of our development strategy. We plan to make up for delays in preparing and finalizing the national accounts and migrate to the 2008 System of National Accounts (SNA 2008) by end-2018. We will also take all necessary measures to improve external debt statistics. With support from the World Bank, we will also undertake an organizational reform of the National Statistics Office (ONS) and strengthen its institutional capacities in parallel with improving the statistics function in the ministerial departments. Finally, in the context of regular monitoring of social indicators and to better evaluate the impact of our economic policies, we have initiated the second survey on informal sector employment and are preparing to launch the household living conditions survey this year.

D. Program Monitoring

64. We created a Program Monitoring Committee (PMC) in May 2018 to ensure the effective implementation of the program. Composed of representatives of the MEF and the BCM, the PMC will be able to call upon representatives of other government ministries and agencies, as needed.

The committee's actions will be guided by an inter-ministerial committee which will include the BCM governor and the minister of economy and finance. The PMC will have a permanent secretariat and will meet regularly to assess progress and forward the data required to monitor program performance.

65. Program implementation will be evaluated semiannually by the IMF's Executive Board based on performance criteria and quantitative indicators and structural benchmarks (Tables 1 and 2). The next review of the program will be completed on or after March 31, 2019 based on the performance criteria and quantitative indicators at end-December 2018 (Table 1) and structural benchmarks (Table 2). Those criteria and quantitative benchmarks are defined in the Technical Memorandum of Understanding (TMU), as well as adjusters in case of contingencies.

Table 1a. Mauritania: Performance Criteria and Quantitative Benchmarks for 2017–19 1/
(Cumulative changes) 1/

	End-June 2017	End-Dec. 2017				End-Mar. 2018	End-June 2018				End-Sept. 2018	End-Dec. 2018		
	Initial Level	Performance criteria	Adjusted Performance Criteria	Actual	Status	Indicative Target	Performance Criteria	Adjusted Performance Criteria	Actual	Status	Indicative Target	Performance Criteria	First Review	Proposed Modification
Quantitative targets														
Net international reserves of the BCM (floor); in million of U.S. dollars	200.2	-14.3	-15.9	9.7	Met	-24.3	-35.0	13.4	25.1	Met	-10.4	46.8	7.9	
Net domestic assets of the BCM (ceiling); in billions of ouguiyas (MRO)	145.6	15.4	16.0	6.3	Met	11.8	23.6	6.3	-9.4	Met	16.0	7.3	26.0	
Primary balance excluding grants; in billions of ouguiyas (MRO) 2/	6.5	-3.6	-5.1	-2.1	Met	4.5	9.0	20.5	57.2	Met	4.5	5.6	5.6	
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/ 4/	...	0.0	18.0	18.0	Met	0.0	0.0	18.0	18.0	Met	0.0	0.0	0.0	
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/	...	0.0		0.0	Met	0.0	0.0		0.0	Met	0.0	0.0	0.0	
New external payment arrears (continuous ceiling) 5/	0.0	0.0		0.0	Met	0.0	0.0		0.0	Met	0.0	0.0	0.0	
Social spending (indicative target); in billions of ouguiyas (MRO)	97.2	97.2		97.0	Not met	55.2	110.3		110.9	Met	165.5	217.7	217.7	
Adjustment Factors (in millions of U.S. dollars)														
Net international assistance	....	-101.8		19.1		-41.2	-147.0		-124.9		-187.7	-278.0	-197.4
Cumulative disbursements of official loans and grants in foreign currency	....	18.8		25.3		7.7	7.7		0.0		18.2	34.8	34.8
Cumulative amounts of external cash debt service payments	....	-120.7		-6.2		-48.9	-154.7		-124.9		-205.9	-312.8	-232.2
FNRH contribution to the budget	20.0	30.2		29.1		0.0	12.9		39.2		26.6	32.5	32.5	
European Union fishing compensation fee	....	66.2		65.8		0.0	0.0		0.0		0.0	66.2	66.2
Extractive revenues, in billions of ouguiya	21.1	25.5		22.4		9.7	21.8		44.7		38.0	47.7	47.7	
Memorandum items:														
Indicative Target: Contracting or guaranteeing of new medium- and long-term concessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling) 3/	...	100.0		0.0	Met	200.0	200.0		13.2	Met	200.0	200.0	200.0	
Program exchange rate (MRO/USD)	358.5	358.5		358.5		358.5	358.5		358.5		358.5	358.5	358.5	

1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year, unless otherwise indicated. For 2017, cumulative changes are calculated with respect to June 2017.

2/ Adjusted by half of the difference between recorded and projected extractive industry budgetary revenues.

3/ Cumulative limit from November 1, 2017 for loans approved by the Council of Ministers.

4/ Adjusted upward, up to \$103 million, exclusively for the following two projects: additional financing for the Boulenoir wind farm project, and financing for the Nouakchott fishing port project (development hub at PK28).

And adjusted upward, up to \$307 million, exclusively for the Grande Tortue/Ahmeyim off-shore gas project.

5/ Excluding arrears subject to rescheduling.

Table 1b. Mauritania: Performance Criteria and Quantitative Benchmarks for 2019
(Cumulative changes) 1/

	End-Mar 2019	End-Jun 2019	End-Dec 2019
	Indicative Target	Proposed Performance Criteria	Proposed Indicative Target
Quantitative targets			
Net international reserves of the BCM (floor); in million of U.S. dollars	15.8	31.5	62.7
Net domestic assets of the BCM (ceiling); in billions of ouguiyas (MRO)	8.3	9.0	10.6
Primary balance excluding grants; in billions of ouguiyas (MRO) 2/	8.1	16.6	9.1
Contracting or guaranteeing of new medium- and long-term nonconcessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/ 4/	0.0	0.0	0.0
Contracting or guaranteeing of new nonconcessional external debt with an original maturity of less than one year by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling); in millions of U.S. dollars 3/	0.0	0.0	0.0
New external payment arrears (continuous ceiling) 5/	0.0	0.0	0.0
Social spending (indicative target); in billions of ouguiyas (MRO)	60.8	121.6	243.3
Adjustment Factors (in millions of U.S. dollars)			
Net international assistance	-49.2	-107.9	-192.2
Cumulative disbursements of official loans and grants in foreign currency	7.5	14.6	43.8
Cumulative amounts of external cash debt service payments	-56.7	-122.5	-236.0
FNRH contribution to the budget	0.0	64.2	80.3
European Union fishing compensation fee	0.0	0.0	77.1
Extractive revenues, in billions of ouguiya	13.7	28.4	62.0
Memorandum items:			
Indicative Target: Contracting or guaranteeing of new medium- and long-term concessional external debt with maturities of one year or more by the government, BCM, or state-owned enterprises, excluding non-guaranteed debt of SNIM (continuous ceiling) 3/	200.0	200.0	200.0
Program exchange rate (MRO/USD)	358.5	358.5	358.5
1/ For definitions, see Technical Memorandum of Understanding. Quantitative targets correspond to cumulative changes from the beginning of the relevant year, unless otherwise indicated.			
2/ Adjusted by half of the difference between recorded and projected extractive industry budgetary revenues.			
3/ Cumulative limit from November 1, 2017 for loans approved by the Council of Ministers.			
4/ Adjusted upward, up to \$103 million, exclusively for the following two projects: additional financing for the Boulenoir wind farm project, and financing for the Nouakchott fishing port project (development hub at PK28). And adjusted upward, up to \$307 million, exclusively for the Grande Tortue/Ahmeyim off-shore gas project.			
5/ Excluding arrears subject to rescheduling.			

Table 2a. Mauritania: Structural Benchmarks, 2017–19

Measure	Date	Objectives
Exchange policy		
Prepare an action plan for development of the interbank foreign exchange market by end-2019	September 2018 (Met)	Deepen the foreign exchange market
Introduce two-way wholesale auctions on the foreign exchange market; and raise the threshold for the requirement to go through the foreign exchange market to US\$300,000	December 2018	Deepen the exchange market and allow greater exchange rate flexibility
Authorize the internal clearing of foreign exchange transactions between customers in the same bank; and eliminate the obligation to go through the official foreign exchange market	December 2019	Deepen the exchange market and allow greater exchange rate flexibility
Monetary policy		
Adopt a directive on monetary policy instruments	December 2017 (Met)	Enhance the effectiveness of monetary policy instruments
Define a collateral framework for monetary policy operations	March 2018 (Met)	Enhance the effectiveness of monetary policy instruments
Submit to parliament the 2013 memorandum of understanding on repayment of the government's liabilities to the BCM or a new memorandum to be agreed by then	June 2018 (Met)	Strengthen the central bank's autonomy and its capacity to conduct the monetary policy
Financial sector policy		
Submit the bill on loan recovery to parliament	March 2018 (Met)	Improve the business environment and facilitate access to credit
Adopt a directive reforming calculation of the solvency ratio and raising the minimum capital requirement for banks to MRU 1 billion over two years	March 2018 (Met)	Strengthen the banking system and encourage bank mergers
Establish an emergency liquidity facility for banks	March 2018 (Met)	Broaden macro-prudential instruments to strengthen financial stability and the monetary policy
Submit the banking law prepared in consultation with IMF staff to parliament	June 2018 (Met with delay in July; law adopted in July, promulgated in September)	Improve the prudential and bank resolution framework

Table 2a. Mauritania: Structural Benchmarks, 2017–19 (Concluded)

Measure	Date	Objectives
Submit the law on the BCM charter prepared in consultation with IMF staff to parliament	June 2018 (Met: law adopted in July, promulgated in August)	Strengthen the central bank's autonomy and capacity to conduct monetary policy
Publish a quantification of the BCM's 2017 financial statements in accordance with IFRS accounting standards	December 2018	Harmonize central bank financial reports with international standards
Fiscal policy		
Submit the draft organic finance law to parliament	March 2018 (Met, law adopted May)	Strengthen budget formulation and public finance management to support fiscal consolidation
Submit the draft tax procedures code to the Council of Ministers	March 2018 (Met)	Clarify tax procedures and strengthen tax administration
Submit the draft Customs Code to parliament	March 2018 (Met, the code was enacted)	Strengthen customs administration to mobilize revenue and facilitate trade
Reactivate the National Public Debt Committee (hold regular meetings and update its terms of reference)	March 2018 (Met with delay, decree adopted in April)	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Establish a coordination procedure between CAPIP and CNDP outlining their responsibilities for project selection	March 2018 (Met with delay, procedure adopted in April)	
Purge the taxpayer register in line with IMF technical assistance recommendations; design a procedure to update the taxpayer register on a regular basis	June 2018 (Met)	Improve tax revenue mobilization and tax equity by maintaining control over the register of taxpayers
Establish a gateway interface between the SYGADE, SIGIP and RACHAD software applications to keep track of external debt disbursements and debt service payments	September 2018 (Met)	Strengthen the management, coordination and monitoring of public investment and debt to improve debt sustainability
Submit the draft laws on the General Tax Code and the corporate tax to the Council of Ministers	August 2019 (deferred from December 2018)	Improve tax revenue mobilization and tax equity, reduce informality and tax fraud

Table 2b. Prior Actions and Structural Benchmarks, 2018-2019

Measure	Date	Objectives
Prior action: Submit a 2019 budget consistent with the program's budget targets to parliament	Second ECF review by the IMF Executive Board (Met)	Maintain macroeconomic stability and strengthen debt sustainability
Fiscal policy		
Finalize the decree establishing new procedures to modernize the issuance of Treasury bills based on technical assistance from the IMF	December 2018	Support cost-effective financing of the government, monetary policy, and development of financial markets
Adopt the new rules for issuing Treasury bills	March 2019	
Establish indicative internal performance objectives for the DGI regarding timely payment rates of large and medium-size businesses in 2019-20	March 2019	Improve tax revenue mobilization and tax equity, and reduce tax arrears
Strengthen post-clearance inspections by establishing a supervision committee, restructuring and strengthening the directorate of investigations, and revising the regulatory framework	June 2019	Strengthen the customs administration to mobilize revenue and facilitate trade
Adopt implementation decrees under the new organic budget law (decrees on the general budget management and public accounting regulations and decree on budget governance)	June 2019	Strengthen budget formulation, institutions, and governance in public financial management to support efficient spending and fiscal consolidation
Conduct at least 10 general tax audits and 40 targeted audits of large and medium-size businesses by the DGI in 2019	December 2019	Improve tax revenue mobilization and tax equity, and reduce tax arrears
Monetary and exchange policy		
Establish an interest rate corridor for the new BCM deposit and refinancing facilities	December 2018	Improve the effectiveness of monetary policy instruments
Establish the regulatory framework for the interbank foreign exchange market	June 2019	Deepen the foreign exchange market
Prepare pro forma BCM financial statements for 2018 in accordance with IFRS international accounting standards	September 2019	Increase the transparency of the central bank's accounts
Implement the integrated technical platform for monetary policy operations	December 2019	Improve the effectiveness of the new monetary policy framework
Implement the integrated technical platform for the interbank foreign exchange market	December 2019	Deepen the foreign exchange market

Table 2b. Prior Action and Structural Benchmarks, 2018-2019 (Concluded)		
Measure	Date	Objectives
Financial sector policy		
Establish the credit information bureau	February 2019	Improve access to bank credit
Adopt a directive on the calculation of banks' net weighted assets and liquidity ratios in accordance with Basel III	April 2019	Tighten the capital and liquidity requirements applicable to banks and strengthen the solvency of the banking system
Finalize the national risk assessment with respect to AML-CFT, accompanied by an action plan, and submit them to the Council of Ministers	April 2019	Strengthen measures to combat money laundering and terrorism financing
Apply concentration limits on banks' net positions toward related entities	July 2019	Strengthen banks' soundness and improve bank governance

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding describes the quantitative and structural assessment criteria established to monitor the program supported by the Fund's Extended Credit Facility and described in the Memorandum of Economic and Financial Policies (MEFP), Tables 1 and 2. It also specifies the content and periodicity of the data that must be forwarded to Fund staff for program monitoring purposes. Under this memorandum, the government is defined as the central government exclusively.
2. The quantitative targets are defined as ceilings and floors set on cumulative changes between the reference periods described in Table 1 of the MEFP and the end of the month covered, unless otherwise indicated.

A. Definitions

3. **Net international reserves (NIR) of the Central Bank of Mauritania (BCM)** are defined as the difference between the reserve assets of the BCM (i.e., the external assets that are readily available to, and controlled by, the BCM, as per the 6th edition of the IMF *Balance of Payments Manual*), minus the BCM's foreign exchange liabilities to residents and nonresidents (including letters of credit and guarantees issued by the BCM, but excluding resident foreign exchange deposits that are payable in local currency). Monetary gold holdings will be evaluated at the gold price in effect on June 30, 2017 (US\$1,242.3 per oz.), and the U.S. dollar value of the reserve assets (other than gold) and foreign exchange liabilities will be calculated using the program exchange rates, namely, the June 30, 2017 rates for exchange of the U.S. dollar against the ouguiya (\$1 = MRO 358.5), the SDR (\$1.39 = SDR 1), the euro (\$1.14 = 1 euro), and other currencies published in the IMF's database *International Financial Statistics (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 plus the commercial banks' cash in vaults); and (b) deposits of commercial banks at the BCM. NFA are defined as the gross foreign assets of the BCM, including external assets not included in the reserve assets, minus all foreign liabilities of the BCM (i.e., $NDA = \text{reserve money} - NFA$, based on the BCM balance sheet). NFA will be measured at the program exchange rates described in paragraph 3.
5. **The primary fiscal balance excluding grants** is defined, for program monitoring purposes, as the overall balance, apart from grants, of the central government, excluding interest due on public debt. This balance is equal to government revenue (excluding grants) minus government expenditure (excluding interest due on public debt). The primary fiscal balance will be measured on the basis of Treasury data. Revenue is defined in accordance with the *Government Finance Statistics Manual (GFSM 2001)*. It will be monitored on a cash basis (*revenue taken by the Treasury*). Expenditure will be monitored on a commitment basis, including interest on domestic debt (paid by the Treasury or automatically debited from the Treasury's account at the BCM, including but not

limited to discounts on Treasury bills held by banks and nonbanks as well as interest due on the government's consolidated debt to the BCM).

6. Treasury float (technical gap) is defined as the stock of payments validated and recorded at the Treasury but not yet executed by the latter. With the introduction of the payment module in the RACHAD system, this technical gap is defined as the stock of payments validated in the RACHAD payment module but not yet executed by the Treasury.

7. Poverty reducing expenditure is estimated using the functional classification of public expenditure introduced on the basis of the recommendations in the January 2006 technical assistance mission report of the IMF Fiscal Affairs Department ("Les réformes en cours de la gestion budgétaire et financière" [Ongoing Fiscal Management Reforms], March 2006). This estimate will take into account only domestically funded expenditure under the following headings: "General public services," "Economic affairs," "Environmental protection," "Community facilities and housing," "Health, religious affairs, culture, and leisure," "Education," and "Social action and welfare."

8. For program purposes, the definition of external debt is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements, attached to IMF Executive Board Decision No. 15688-(14/107) adopted on December 5, 2014.¹

- (a) For the purposes of these guidelines, the term "debt" is understood to mean a current (i.e., noncontingent) liability created by a contractual arrangement whereby a value is provided in the form of assets (including currency) or services, and under which the obligor undertakes to make one or more payments in the form of assets (including currency) or services at a future time, in accordance with a given schedule; these payments will discharge the obligor from its contracted principal and interest liabilities. Debt may take several forms, the primary ones being as follows:
- i) Loans, that is, advances of money to the borrower by the lender on the basis of an undertaking that the borrower will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits), as well as temporary swaps of assets that are equivalent to fully collateralized loans, under which the borrower is required to repay the funds, and often pays interest, by repurchasing the collateral from the buyer in the future (repurchase agreements and official swap arrangements);
 - ii) Suppliers' credits, that is, contracts under which the supplier allows the borrower to defer payments until sometime after the date when the pertinent goods are delivered or the services are provided; and
 - iii) Leases, that is, agreements governing the provision of property that the lessee has the right to use for one or more specified period(s), generally shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purposes of the guidelines, the debt is the present value (at the inception of the lease) of all lease payments

¹ <http://www.imf.org/external/pp/longres.aspx?id=4927>.

expected to be made during the period of the agreement, apart from payments related to the operation, repair, or maintenance of the property.

- (b) According to the above-mentioned definition, debt includes arrears, penalties, and damages awarded by the courts in the event of a default on a contractual payment obligation that represents a debt. Failure to make payment on an obligation that is not considered a debt according to this definition (e.g., payment on delivery) does not give rise to a debt.

9. External payment arrears are defined as payments (principal and interest) on external debt contracted or guaranteed by the government or the BCM that are overdue (taking into account any contractually agreed grace periods). For the purposes of the program, the government and the BCM undertake not to accumulate any new external payments arrears on its debt, with the exception of arrears subject to rescheduling

10. External debt, in the assessment of the relevant criteria, is defined as any borrowing from or debt service payable to nonresidents. The relevant performance criteria are applicable to external debt contracted or guaranteed by the government, the BCM, and public enterprises (excluding the debt of the National Industrial and Mining Company (SNIM) not guaranteed by the government), or to any private debt for which the government and the BCM have provided a guarantee that would constitute a contingent liability. Guaranteed debt refers to any explicit legal obligation for the government and the BCM to repay a debt in the event of default by the debtor (whether payments are to be made in cash or in kind). For program purposes, this definition of external debt does not include routine commercial debt related to import operations and maturing in less than a year, foreign currency-denominated deposits at the BCM, rescheduling agreements, and IMF disbursements.

11. Medium- and long-term external debt contracted or guaranteed by the government, the BCM, and public enterprises corresponds, by definition, to borrowings from nonresidents maturing in one year or more. **Short-term debt** corresponds, by definition, to the stock of borrowings from nonresidents initially maturing in less than one year and contracted or guaranteed by the government, the BCM, and public enterprises.

12. External debt is deemed to have been contracted or guaranteed on the date of approval by the Council of Ministers. For program purposes, its U.S. dollar value of is calculated using the average exchange rates for July 2017 as described in the *IFS* (International Financial Statistics) database of the IMF, namely, the rates of exchange for the US dollar against the SDR (\$1.3955 = SDR 1) and other national currencies, namely, the euro (0.86873 euro = \$1), the Kuwaiti dinar (KWD 0.302668 = \$1), the Saudi rial (SR 3.75 = \$1), and the pound sterling (£0.769827 = \$1).

13. For program purposes, a loan is deemed concessional if it contains a grant element representing at least 35 percent, calculated as follows: the grant element is the difference between the present value (PV) of the loan and its face value, expressed as a percentage of the loan's face value. The PV of a loan is calculated by discounting future principal and interest payments, on the basis of a discount rate of 5 percent. Concessional will be assessed on the basis of all aspects of

the loan agreement, including maturity, grace period, repayment schedule, front-end fees, and management fees. The calculation is performed by the authorities, using the IMF model,² and verified by IMF staff on the basis of data provided by the authorities. For loans with a grant component of zero or less, the PV is set at an amount equal to the face value.

14. In the case of debt with a variable interest rate represented by a reference interest rate plus a fixed margin, the PV of the debt is calculated on the basis of a program reference rate plus a fixed margin (in basis points) specified in the loan agreement. The program reference rate for the US dollar six-month LIBOR is 3.23 percent and will remain unchanged until December 31, 2017. From January 1 to December 31, 2018, the benchmark rate is 3.42 percent. From January 1 to December 31, 2019, the benchmark rate is 3.31 percent. For 2019, the margin between the euro six-month LIBOR and the US dollar six-month LIBOR is -250 basis points. The margin between the yen six-month LIBOR and the US dollar six-month LIBOR is -300 basis points. The margin between the pound sterling six-month LIBOR and the US dollar six-month LIBOR is -200 basis points. For interest rates applicable to currencies other than the euro, the yen, and the pound sterling, the difference from the US dollar six-month LIBOR is -300 basis points.³

15. Performance criteria on the introduction or modification of multiple currency practices. The performance criteria on the introduction or modification of multiple currency practices (MCP) will exclude the contemplated implementation or modification of the multiple price foreign exchange auction system, developed in consultation with Fund staff, which gives rise to an MCP.

B. Adjustment Factors

16. NIR and NDA targets are calculated on the basis of projections of the contribution of the National Hydrocarbon Revenue Fund (FNRH) to the budget, the amount of the European Union (EU) fishing compensation, and the volume of net international assistance. The latter is defined as the difference between: (a) the sum of the cumulative loan disbursements of official foreign currency-denominated loans and grants (budget support, excluding assistance under the Heavily Indebted Poor Countries (HIPC) Initiative and project-related loans and grants) and the impact of any debt relief obtained after June 30, 2006; and (b) the total amount of cash payments for servicing the external debt (including interest⁴ paid on the BCM's foreign liabilities).

² <http://www.imf.org/external/np/spr/2015/conc/index.htm>.

³ The program reference rate and margins are based on the "average projected rate" for the US dollar six-month LIBOR over the period of 10 years in the fall 2017 edition of the *World Economic Outlook (WEO)*: for 2017, the average for the period 2017-26; for 2018, the average for the period 2018-27. For 2019, the average for the period 2019-28 on the basis of the fall 2018 edition of the WEO.

⁴ Until the first review of the program (quantitative targets for June 2018 and before), principal amortization payments were also included. However, because these principal payments affect both assets and liabilities of the BCM, they are neutral on NIR et hence should not be part of adjustment factors. Hence, these principal payments are excluded from the definition of the adjustment factors from the second program review onward (quantitative targets for December 2018 and following).

17. If the volume of net international assistance or the FNRH's contribution to the budget or the amount of EU fishing compensation falls short of the amounts projected in Table 1, the NIR floor will be lowered, and the NDA ceiling will be raised by an amount equivalent to the difference between the recorded and projected amounts. For its part, the NDA ceiling will be converted into ouguiya at the programmed exchange rates. The lowering of the NIR floor will be limited to US\$70 million. The raising of the NDA ceiling will be limited to the ouguiya equivalent of US\$70 million, at the programmed exchange rates. If the volume of net international assistance or the FNRH's contribution to the budget or the amount of EU fishing compensation exceeds the amounts indicated in Table 1, the NIR floor will be raised, and the NDA ceiling will be lowered by an amount equivalent to the difference between the recorded and projected amounts.

18. The floor pertaining to the primary fiscal balance excluding grants will be adjusted symmetrically upwards (respectively, downwards) by an amount equivalent to the excess (respectively, shortfall) of disbursements of the EU fishing compensation relative to the amounts projected in Table 1.

19. The floor relating to the primary fiscal balance excluding grants will also be adjusted symmetrically upwards or downwards by an amount equivalent to 50 percent of the difference between the actual budgetary extractive revenues and those projected in Table 1. Extractive budgetary revenues are defined as the mining and hydrocarbon tax and non-tax revenues included in the TOFE. Extractive tax revenues correspond to TOFE headings denominated "SNIM VAT", "SNIM single tax" and hydrocarbon tax revenues (BIC, ITS, other). Non-tax extractive revenues correspond to dividends paid by SNIM, to mining revenues (cadastral revenues, operating revenues, and other mining revenues); and non-tax revenue from hydrocarbons (bonuses, royalties, capital income, profit oil, etc.).

20. The ceiling on nonconcessional external debt contracted or guaranteed will be adjusted upward up to US\$ 103 million exclusively for the following two projects: the complementary financing for the wind power station project in Boulenoir, and the financing for the fishing port project of Nouakchott (development pole at PK28). It will also be adjusted by up to US\$307 million exclusively for Mauritania's participation in the Grande Tortue/Ahmeyim offshore gas project. This limit is cumulative from November 1, 2017.

C. IMF Reporting Requirements

21. To facilitate the monitoring of developments in the economic situation and performance of the program, the Mauritanian authorities will provide the IMF with the information listed below:

Central Bank of Mauritania (BCM)

- The monthly statement of the BCM and monthly statistics on: (a) the gross international reserves of the BCM (calculated at the programmed and actual exchange rates); and (b) the balance of the FNRH, as well as the amounts and dates of its receipts and expenditures (transfers to the Treasury account). These details will be provided within a period of two (2) weeks after the end of each month;

- The monthly monetary survey, the consolidated balance sheet of the commercial banks, and the weekly statistics on the net foreign exchange positions of the individual commercial banks, by foreign currency and in consolidated form, at the official exchange rates recorded. These details will be supplied within a period of four (4) weeks after the end of each month;
- The monthly cash flow table and projections to the end of the year, within a period of 15 days after the end of each month;
- Data on Treasury bill auctions and on the new stock of Treasury bills, within a period of one (1) week after each auction;
- Monthly data on the volume of each public enterprise's liabilities to the banking sector, within a period of one (1) month after the end of each month;
- The BCM undertakes to consult with IMF staff on any proposed new external debt;
- Monthly external debt data within a period of 30 days after the end of the month under consideration, following the monthly meeting of the technical committee on debt, the minutes of which will be attached. The information required consists of:
 - The external debt status file: external debt service of the BCM, the government, and the SNIM, including any changes in arrears and in rescheduling operations; the amount of debt service that became payable and the portion of it paid in cash; the HIPC relief granted by the multilateral and bilateral creditors; and the amount of HIPC relief provided to Mauritania in the form of grants;
 - The quarterly balance of payments and the annual data on the stock of external debt (broken down by creditor, debtor, and currency denomination), within a period of 45 days after the end of each quarter, or year;
 - Quarterly statistics on the autonomous factors and on foreign exchange market operations, within a period of 10 days after the end of the month;
 - Quarterly statistics on the required reserves and the current account balance, by bank, within a period of 10 days after the end of the month;
 - Quarterly data on lending and borrowing rates, by bank, as well as the liquidity ratios;
 - Quarterly data on capital-debt ratios and on claims, classified by bank and consolidated, within a period of 45 days after the end of the reference period.

Ministry of Economy and Finance

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

- Monthly data from the Treasury on budget operations: revenue (including FNRH transfers), expenditure and financing, data on the special accounts operations, execution of the domestically funded portion of the capital budget (capital expenditure, purchases of goods and services, and wages included in this budget), and monthly reports on revenue collected by the Directorates of Taxes and Customs. This information will be provided within a period of two (2) weeks after the end of each month;
- Monthly data, reconciled between the Treasury and the Budget Office, on the execution of expenditure on wages, including a breakdown of the indicator-based balance and civil service reviews of wages authorized for payment and of those in the process of being validated for payment for diplomatic missions, military personnel, the gendarmerie, the national guard, and public institutions;
- Monthly reports on the execution of externally funded capital expenditure, based on the summary statement of the consolidated capital budget, as well as on the external grants and loans received or contracted by the government, its agencies, and public enterprises, classified by donor or creditor and by disbursement currency. This information will be provided within a period of two (2) weeks after the end of each month;
- A monthly list of new medium-term and long-term foreign borrowings contracted or guaranteed by the government, with indications, for each loan, of: the creditor, the borrower, the amount, and the currency denomination, as well as the maturity and grace period, interest rate, and fees. This list should also cover loans under negotiation. Data on new external debt will be provided within a period of two (2) weeks;
- Monthly reports on the production of oil and other hydrocarbons and the related financial flows, including data on oil sales and the breakdown of oil revenue among the various partners, within a period of one (1) month after the end of each month;
- Annual balance sheets, audited or certified by a statutory auditor, for the public enterprises and autonomous public institutions;
- Quarterly data on the operations of enterprises in the oil sector and on those in the mining sector.

National Statistics Office

- The monthly consumer price index, within a period of two (2) weeks after the end of each month;
- The quarterly industrial production index, within a period of 45 days after the end of each quarter;
- Quarterly memoranda on economic activity and foreign trade.

Technical Committee on Program Monitoring

22. Monthly program implementation report: four (4) weeks, at the latest, after the end of the month.
23. All data will be sent by electronic means. Any revision of previously reported data will be immediately submitted to IMF staff, together with an explanatory memorandum.

D. Central Government Operations Table

24. The Treasury will compile a monthly budget execution report in the format of a central government operations table (TOFE). For the preparation of this table, the definitions below will be applied:

- **Grants** are defined as the sum of the following components: foreign project grants (used for the implementation of foreign-financed investment projects contained in the parts of the consolidated investment budget covering the central government and other administrative units (EPA) —parts BE and BA); and foreign program grants for budget support, including multilateral HIPC debt relief as regards the public external debt and the external debt of the BCM and the SNIM (including the portion of the relief pertaining to the debt to the African Development Fund/African Development Bank on Cologne terms);
- **Domestic bank financing** of the government deficit is defined as a change in net banking system credit to the government, that is, claims on the government minus government deposits with the banking system (excluding deposits of public institutions and EPA at the BCM, but including the HIPC account);
- **Domestic nonbank financing** of the government deficit is defined as a change in the stock of Treasury bills held by nonbanks;
- **Domestic arrears** are defined as a net change (beyond a period of three months) in the Treasury float and in the stock of domestic claims on the government recorded by the Ministry of Finance (including but not limited to cumulative payment arrears to public enterprises (water, electricity, etc.) and international organizations, and those covered by government contracts and court decisions);
- **External financing** is defined as the sum of the net drawings on the FNRH (i.e., the opposite of a change in the FNRH's offshore account balance), net disbursements of foreign loans, and exceptional financing. The latter comprises: (a) the cumulative debts payable and technical arrears defined in paragraph 9; and (b) the debt relief obtained on the government's external debt net of HIPC assistance, deemed to be a part of grants.



ISLAMIC REPUBLIC OF MAURITANIA

November 21, 2018

SECOND REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUEST FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

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

Risk of external debt distress:	High
Overall risk of debt distress:	High
Granularity in the risk rating:	Sustainable
Application of judgment:	No

Mauritania's risk of external debt distress remains high owing to a substantial increase in external debt during 2015–17 to finance infrastructure and external deficits, a contraction in nominal GDP due to the 2014–15 terms-of-trade shock, and the depreciation of the exchange rate in 2016.¹ The PV of PPG external debt-to-GDP persistently breaches the relevant threshold. However, with a projected downward trend in this ratio, prospects are still for external debt sustainability, although falling below the threshold is delayed by two years under current baseline projections compared to the November 2017 DSA owing to the rescheduling of repayments on an existing debt and a weaker outlook for the current account balance. The stress tests reveal breaches of the relevant thresholds by all the debt indicators for multiple stress tests. The overall risk of debt distress is also high, reflecting the dominant role of external debt in the public debt dynamics; under the baseline and multiple stress tests, the PV of public debt-to-GDP remains above the benchmark value for several years. Projected export and growth performance as well as fiscal and debt trajectories continue to be vulnerable to lower metal prices, adverse weather, policy implementation risks, and regional security developments. The DSA highlights the need to follow sound economic policies, including a prudent borrowing strategy that avoids non-concessional borrowing and relies instead on grants and concessional financing taken up at a pace consistent with absorptive capacity.

¹ Prepared under the joint Fund-Bank Low-Income Country Debt Sustainability Framework. The previous DSA was prepared in the context of the Request for a Three-Year Arrangement Under the ECF in November 2017 (IMF Country Report 17/369). Mauritania's Composite Indicator (CI) index, based on the October 2018 WEO, is 2.68 (just below the upper threshold value of 2.69) indicating that the country's debt-carrying capacity is weak. However, Mauritania retains a medium rating as this is a first change in classification (the previous rating and the CI score (2.89) calculated using the April 2018 WEO data gives a rating of medium) and a change in the rating requires two consecutive changes. As compared to the April 2018 WEO calculation the decline in debt-carrying capacity primarily reflects a reduction in the projected import coverage of reserves.

PUBLIC DEBT COVERAGE

1. Public sector debt comprises debt contracted by the central government, the central bank (BCM), and state-owned enterprises (SOEs) and debt guaranteed by the government. It excludes borrowing by the state-owned mining company, SNIM, as the company is run on a commercial basis and has borrowed without government guarantees up to end-2016. In 2017 the government provided a guarantee on a new external loan (\$105 million or 2.1 percent of 2017 GDP) contracted by SNIM, although to date no disbursements under this loan have been made; the DSA projections include the related disbursements and debt service as part of public and publicly guaranteed (PPG) debt. SNIM's non-guaranteed external debt is classified as private external debt;² at end-2017 SNIM's outstanding external debt amounted to 8.4 percent of GDP. Apart from SNIM, outstanding external debt contracted directly by SOEs is virtually zero—at end-2017 this amounted to \$0.62 million (0.017 percent of total PPG external debt).³ Instead, SOEs primarily receive foreign financing through on-lending of loans contracted by the government; at end-2017, the stock of such on-lent debt is estimated at \$161 million (4.5 percent of total external PPG debt, 3.3 percent of GDP) mostly to the electricity sector. Public external debt also includes a passive debt in arrears owed to Kuwait.⁴

Coverage of Public Sector Debt	
Subsectors of the public sector	Sub sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	X
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

2. Two changes in coverage have been made compared to the November 2017 DSA. First, Mauritania's SDR allocation is now excluded (1.8 percent of GDP at end-2017); official external debt data published by the authorities still include it.⁵ Second, this DSA now includes, as of 2018, a government debt

² SNIM's shareholders comprise the government (majority) and two other shareholders with significant holdings. The company has managerial independence including over pricing and employment policies. It operates on a commercial basis, is profitable and does not receive subsidies from, and pays dividends, to the government. It publishes annual reports and audited accounts. Nevertheless, SNIM debt represents a contingent liability for the central government as a majority shareholder and the DSA captures this through the contingent liability test.

³ Owed by the Airport Company of Mauritania (SAM) and the predecessor (SONELEC) of SOMELEC, the electricity company.

⁴ A passive pre-HIPC debt, estimated at 20 percent of GDP in 2017, is owed to the Kuwait Investment Authority (KIA) since the 1970s. Negotiations are continuing between the authorities and the Kuwait to achieve debt relief on at least comparable terms to, or better than, the 2002 HIPC Initiative operation. The authorities are seeking full debt relief from Kuwait, but no agreement has been reached yet. This DSA assumes full debt relief in 2019; in the previous DSA the debt relief was assumed to be granted in 2018.

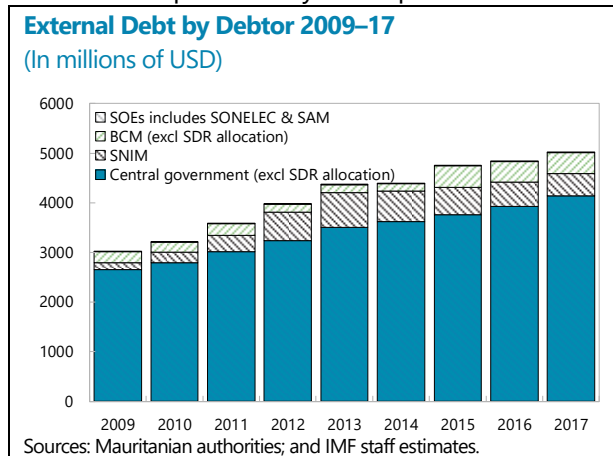
⁵ A country's SDR allocation is not included in the nominal debt stock of gross external debt, because IMF members are generally under no obligation to reconstitute their SDR holding. However, the DSA captures the net interest

(continued)

to the BCM recognized under a 2018 convention between the BCM and the Ministry of Economy and Finance (MOEF).⁶ Although the coverage of debt includes both the government and the BCM, this debt is not netted out of the stock of domestic debt as the debt service payable by the government is not insignificant and constitutes a fiscal risk. The debt comprises the repayment of past BCM advances to the government, foreign exchange losses, and other unpaid amounts and fees owed to the BCM which remained from two earlier similar conventions signed in 2004 and 2013; it amounts to MRO 153.9 billion (8.3 percent of 2018 GDP) to be repaid over 40 years of which a 10-year grace period. The rest of public sector domestic debt comprises government treasury bills and bonds amounting to 5.2 percent of GDP at end-2018.

DEBT DEVELOPMENTS

3. Public debt rose sharply by about 20 percent of GDP between 2014–16 before stabilizing in 2017, reflecting sizeable external borrowing and a drop in nominal GDP. External borrowing financed large capital investment projects, primarily for infrastructure as part of the government’s strategy for stronger, more diversified and inclusive growth. Domestic debt fell by 1.2 percent of GDP during 2015–17 (with a debt stock of 5 percent of GDP at end-2017), while the ratio of external public debt rose by almost 23 percent during 2015–16, before plateauing in 2017 at 93 percent of GDP.^{7 8} The increase in external debt of \$799 million (15 percent of 2014 GDP) between 2014–17 was compounded by an 8.7 percent contraction in the nominal dollar GDP during that period on account of a terms-of-trade shock during 2014–15, and by the depreciation of the exchange rate in 2016. Mauritania’s stock of external debt includes a passive debt in arrears owed to Kuwait. Excluding this latter debt, external public debt reached 72.5 percent of GDP at end-2017. Much of the nominal increase during 2015-16 owed to a \$300 million non-concessional deposit from Saudi Arabia to support the BCM’s reserves in 2015. The rest was mostly contracted by the central government to finance public investment projects.



payments that arise when SDR holdings are below a participant’s allocation. This will impact the magnitude of debt service and the PV of PPG debt in the DSA.

⁶ This convention was adopted by the government and is expected to be approved by parliament before end-2018. While much of the debt it covered was already covered under earlier similar conventions, these had lapsed and the value of outstanding amounts plus further accrued debts was not formally recognized. Therefore, data for these debts prior to 2018 are not included in the domestic debt data.

⁷ The changes in public domestic and external debt do not sum to the change in total public debt. The discrepancy arises from different exchange rates (average or end-period) implicitly used to value foreign currency debt in local currency for the calculation of total public debt.

⁸ In Table 1, PPG external debt is recorded as 91.9 percent of GDP; the difference stems from different exchange rates (average or end-period) implicitly used to value foreign debt in local currency vs GDP in foreign currency. The 2017 ratio of public external debt to GDP was revised upward by 1.8 percent of GDP since the last review under the ECF arrangement following incorporation of the late reconciliation of debt stocks (and related loan disbursements) with some creditors and GDP revisions.

4. External debt is largely composed of public debt contracted on concessional or semi-concessional terms with official creditors. External PPG debt represented about 93 percent of total external debt at end-2017. The largest debtor was the central government accounting for 90.6 percent of total external debt, while the BCM accounted for 9.4 percent. The share of BCM's debt in total external debt rose sharply in 2015 when it contracted a \$300 million non-concessional deposit from Saudi Arabia to support its foreign exchange reserves. This deposit was scheduled to be repaid over 3 years beginning 2018, but was rescheduled in 2018 with repayments deferred by three years. Private external debt comprises that of SNIM and commercial banks and has been broadly stable as a share of total external debt in recent years. Bilateral and multilateral creditors have accounted for approximately half of PPG external debt in recent years, with Arab bilateral and multilateral funds accounting for the largest share at end-2017. In terms of currencies, PPG external debt at end-2017 was mostly denominated in US dollars and currencies pegged to it (slightly over 60 percent of PPG external debt).

Mauritania: External Debt, 2013–17

	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
	(In millions of USD)					(In percent of GDP)				
External debt	4,562.9	4,566.1	4,950.7	5,107.5	5,306.4	79.7	84.7	102.5	109.0	107.8
Public and publicly guaranteed (PPG) external debt	3,675.0	3,766.7	4,202.5	4,348.0	4,566.0	64.2	69.9	87.0	92.8	92.7
<i>Of which: Excluding passive debt to Kuwait</i>	2,674.0	2,769.5	3,208.6	3,354.9	3,571.6	46.7	51.4	66.4	71.6	72.5
Bilateral creditors	1,977.4	1,986.3	2,250.9	2,274.8	2,325.6	34.5	36.8	46.6	48.6	47.2
Paris Club	136.3	123.1	119.4	115.9	119.7	2.4	2.3	2.5	2.5	2.4
<i>Of which: France</i>	95.5	87.0	81.4	81.6	85.1	1.7	1.6	1.7	1.7	1.7
Spain	35.8	31.7	34.3	31.1	30.9	0.6	0.6	0.7	0.7	0.6
Non Paris Club	1,841.1	1,863.3	2,131.6	2,158.9	2,205.9	32.2	34.6	44.1	46.1	44.8
<i>Of which: China</i>	333.4	367.3	340.4	339.3	346.4	5.8	6.8	7.0	7.2	7.0
Kuwait 1/	1,140.9	1,140.1	1,141.8	1,156.2	1,174.8	19.9	21.1	23.6	24.7	23.9
Saudi Arabia 2/	214.6	212.0	509.4	531.9	552.4	3.7	3.9	10.5	11.4	11.2
Multilateral creditors	1,697.6	1,780.4	1,951.5	2,073.1	2,240.4	29.7	33.0	40.4	44.3	45.5
<i>Of which: Islamic Development Bank (IDB)</i>	218.1	273.8	340.5	371.6	395.1	3.8	5.1	7.0	7.9	8.0
International Development Association (IDA)	396.6	379.5	385.6	365.6	389.3	6.9	7.0	8.0	7.8	7.9
International Monetary Fund (IMF) 3/	131.2	120.2	115.7	96.7	111.4	2.3	2.2	2.4	2.1	2.3
Arab Monetary Fund (AMF)	18.7	47.4	62.4	159.8	149.1	0.3	0.9	1.3	3.4	3.0
Arab Fund for Economic and Social Development (AFESD)	702.5	749.0	819.2	856.4	950.8	12.3	13.9	17.0	18.3	19.3
Non-PPG debt (by debtor)	887.9	799.4	748.3	759.6	740.4	15.5	14.8	15.5	16.2	15.0
SNIM 4/	693.9	618.2	546.8	482.5	415.1	12.1	11.5	11.3	10.3	8.4
Commercial banks	194.0	181.2	201.5	277.1	325.3	3.4	3.4	4.2	5.9	6.6
Memorandum items:										
Passive debt to Kuwait Investment Authority (KIA)	1,001.0	997.2	993.9	993.1	994.4	17.5	18.5	20.6	21.2	20.2
Saudi deposit at the central bank	-	-	300.0	300.0	300.0	-	-	6.2	6.4	6.1
Domestic debt	233.1	324.7	262.2	221.6	250.4	4.1	6.0	5.4	4.7	5.1
Nominal GDP	5,724.2	5,391.5	4,830.5	4,684.5	4,923.0	-	-	-	-	-

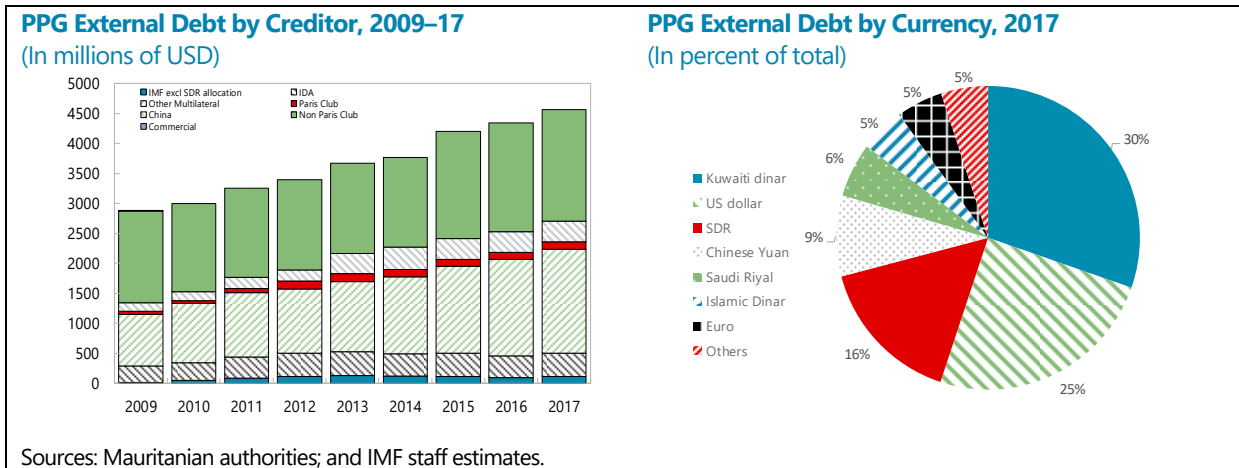
Source: Mauritanian authorities.

1/ Including passive debt under negotiation.

2/ Including deposit at the central bank.

3/ Excluding SDR allocation.

4/ Creditors include AfDB, KfW, France, IDB, EIB.



5. The authorities continue to actively seek debt relief from Kuwait. An agreement has not yet been reached between the Kuwait Investment Authority (KIA) and Mauritania to resolve this longstanding issue. Both parties are seeking agreement on the valuation of the debt, including interest in arrears. Under the 2002 Paris Club agreement following the completion point for Mauritania in 2002, Mauritania is expected to seek debt relief on at least comparable terms from non-Paris Club creditors. In the DSA's baseline projection, staff assumes full debt relief on these arrears in 2019; in the previous DSA debt relief was assumed to be granted in 2018.

6. The authorities' external borrowing strategy is aimed at strengthening debt sustainability while providing sufficient financing for priority projects that are key to their economic development strategy. To that end, they intend to give preference to loans on concessional terms and grants to finance their development projects, and to contain the pace of borrowing consistent with strengthening debt sustainability. However, in cases where adequate concessional financing is not available to finance priority development projects, notably large-scale projects critical to economic diversification, external non-concessional loans may be contracted on an exceptional basis for priority projects. Under the ECF-supported program two exceptions (amounting to \$103 million) to the program's zero non-concessional debt limit are provided for two projects.⁹ Consistent with this strategy, following the sharp uptick in PPG external debt in recent years, the authorities decided not to sign any new large project loans in 2018. In addition, the increase in external debt has been curtailed by the slower-than-planned execution of foreign-financed projects due to capacity constraints and delays in project implementation. However, it is expected that new borrowing will pick up in 2019 to support the authorities' national development strategy.

7. The authorities are taking measures to improve debt management. To better align borrowing with spending priorities, especially for large infrastructure projects, and to strengthen institutional coordination, the responsibilities and conditions of loan approvals among the ministries are being clarified. In this respect, the National Public Debt Committee (CNDP) was reactivated in April 2018 with updated terms of reference under which it will be involved in the process of selecting, scheduling and monitoring public investment projects established under the new Public Investment Program (PIP) institutional framework. It will also play a role in aligning external borrowing with investment priorities and assessing the

⁹ Boulenoir electricity wind farm project and the Nouakchott fishing port project development hub at PK28. The exception has only been needed for the Boulenoir loan which was contracted in late 2017.

impact on debt of any new project funded through external borrowing before its inclusion in the PIP. To this end, measures are being taken to strengthen the Debt Directorate's capacity to perform debt sustainability analyses, and the directorate and other debt-related units benefited from IMF technical assistance on the evaluation and analysis of loans. Also, in April 2018, a coordination procedure between the Public Investment Analysis and Programming Committee (CAPIP) and the CNDP outlining their responsibilities in terms of project selection was established. In September 2018, a gateway interface between the SYGADE-SIGIP-RACHAD software applications for institutions involved in debt-related operations (the debt, budget, treasury, and investment directorates, and the BCM) was established to coordinate external debt disbursements and debt service payments and improve debt recording and monitoring; the interface will permit debt service payment transactions to be included in the automated chain of expenditure system. The activation of the CNDP and the measures being undertaken to centralize and coordinate the process of contracting new external loans in the public sector as well as in the monitoring of debt service should contribute to a comprehensive coverage of the public sector external debt, as in principle such contracting can only be done with approval from the MOEF. However, efforts to strengthen debt management capacity should continue, with responsibilities progressively centralized within the MOEF. Ongoing efforts to strengthen external statistics by the BCM, notably concerning the external financial and capital accounts and producing an international investment position, should also help to improve the coverage of private sector external debt.

MACROECONOMIC PROJECTIONS

8. The projections in the baseline scenario are consistent with the macroeconomic framework presented in the Staff Report for the second ECF program review. Compared to the previous DSA in November 2017, the long-term outlook is broadly similar. In the medium-term, the positive impact of higher iron prices is offset by higher oil import prices, and the suspension of a previously expected expansion of a gold treatment plant that was to have come on line in 2020. As a result, real GDP growth is now lower and the current account deficit wider. The growth of exports is lower reflecting lower projected gold exports and a more moderate rate of increase in fish exports owing to base year effects and in line with the authorities' policy of managing fish resources sustainably. The growth of imports decelerates during 2020–22 primarily because of revised projections of project disbursements for SNIM, the state mining company, as well as lower imported inputs for the gold treatment plant. Fiscal policy and projections are in line with the original program projection with revenues and grants somewhat higher than previously projected reflecting improvements in tax administration achieved in 2017–18.

9. Over the long run, real GDP growth is projected to be slightly higher on average during 2018–28 than in the November 2017 DSA, and slightly lower in 2029–38. For 2018–19, real GDP is projected at 5.3 percent of GDP, owing to sustained non-extractive growth supported by the authorities' public investment program, FDI, and planned structural reforms aimed at improving the business climate and diversifying the economy; gains are projected in the agricultural, fishing, construction and service sectors. In the extractive sector, growth is supported by past upgrades in iron ore and gold coming online; the impact of these earlier gold treatment enhancements is projected to be greater in the longer term than previously projected, offsetting in part the loss in output of gold from the suspended later expansion of the gold treatment plant. Inflation, as measured by the GDP deflator projected to average 2.3 percent per year during 2018–28.

10. The current account deficit is projected at 7.7 percent of GDP on average over 2018–28, somewhat wider than before, primarily reflecting lower gold production and exports, and the impact of higher oil prices. Notwithstanding a lower rate of growth, fish exports in nominal terms have been revised upwards capturing base year effects and ongoing efforts to improve the quality of fish processing.

	2017	2018	2019	2020	2021	2022	2023	2018-2028	2029-38 1/	
Real GDP growth										
Nov. 2017 DSA	3.1	2.7	4.5	7.5	7.3	5.9	5.2	5.1	4.7	
Current	3.0	3.5	5.7	4.8	5.6	5.6	5.3	5.2	4.6	
Nominal GDP (in millions of US\$)										
Nov. 2017 DSA	5,125	5,324	5,432	5,768	6,238	6,741	7,184	7,233	13,427	
Current	4,923	5,252	5,551	5,775	6,058	6,372	6,629	6,853	12,661	
Exports, goods & services (growth; in percent)										
Nov. 2017 DSA	18.5	3.1	2.2	18.5	11.9	-0.7	3.0	2.6	2.4	
Current	16.9	3.2	8.3	3.4	1.7	2.6	1.8	2.9	1.2	
Imports, goods & services (growth; in percent)										
Nov. 2017 DSA	6.2	3.6	0.9	3.4	6.5	1.3	3.1	1.8	2.6	
Current	13.1	7.2	1.8	-5.3	-0.1	-1.9	2.6	1.3	1.5	
Current account balance (in percent of GDP)										
Nov. 2017 DSA	-10.8	-11.3	-10.3	-5.1	-3.5	-3.8	-3.7	-5.2	-4.8	
Current	-14.4	-15.9	-12.6	-8.9	-8.1	-5.6	-5.9	-7.7	-4.4	
Revenue and grants (in percent of GDP)										
Nov. 2017 DSA	26.8	26.9	26.8	26.0	25.8	25.9	25.8	26.0	25.8	
Current	28.1	28.8	28.7	28.6	28.8	29.0	29.0	28.4	28.0	
Primary fiscal balance (in percent of GDP)										
Nov. 2017 DSA	1.2	1.2	1.5	1.7	1.7	1.6	1.1	0.7	-1.4	
Current	1.2	1.5	1.5	1.7	1.6	1.6	1.6	1.4	0.9	
Price of iron ore (US\$/Ton)										
Nov. 2017 DSA	71.7	62.0	57.1	54.6	54.6	54.6	54.6	55.5	54.6	
Current	71.1	69.6	67.5	65.8	65.8	65.8	65.8	66.3	65.8	

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

1/ For Nov. 2017 DSA 2030-37

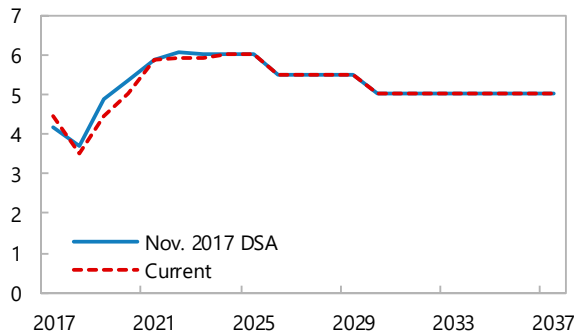
11. The fiscal outlook as measured by the primary fiscal balance is projected to be on average 1.4 percent of GDP during 2018–28, higher than before, reflecting already achieved gains in tax administration and further planned tax reforms. In the longer run, the rationalization of subsidies and decline in the wage bill as a share of GDP are projected to contribute to a further increase in the primary fiscal balance.

12. Taking into account the existing pipeline of project loans and new borrowing needs, external debt disbursements are projected to average 4.4 percent of GDP in 2018–20, unchanged from the last DSA. Over the long term, disbursements are projected to decline gradually to 3.5 percent by 2038, reflecting the greater prioritization of public investment, sound debt management, and a crowding in of private investment and FDI as the authorities' structural reforms take hold. The average grant element of new disbursements gradually declines from 32 percent on average during 2018–28 to 24 percent during 2029–38, reflecting a shift from multilateral sources to non-Paris Club official bilateral creditors and commercial loans. On domestic debt, treasury bonds with maturities greater than one year are progressively introduced beginning in 2024, following planned improvements in debt issuance procedures and reforms in the monetary policy framework. However, reliance on domestic bond financing is projected to be small in view of the shallow depth of the local market and to contain debt service pressures on the budget, with new disbursements amounting to 2 percent of GDP on average in 2018–28, and 1½ percent of GDP in 2029–38.

Figure 1. Mauritania: Macroeconomic Projections, 2017–37

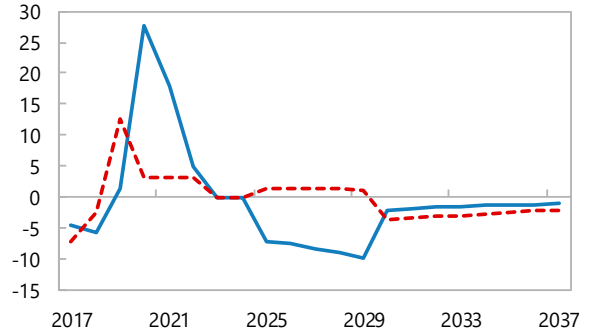
Real Non-Extractive GDP Growth

(Percent change)



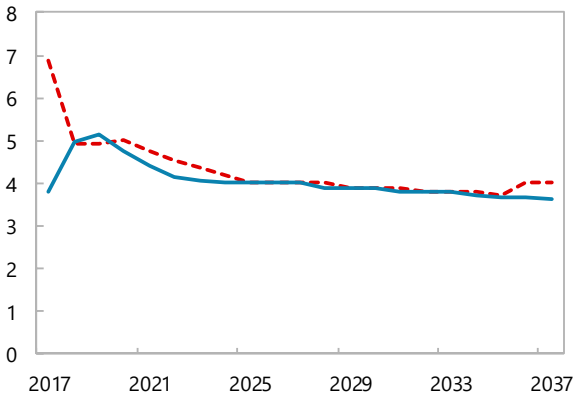
Real Extractive GDP Growth

(Percent change)



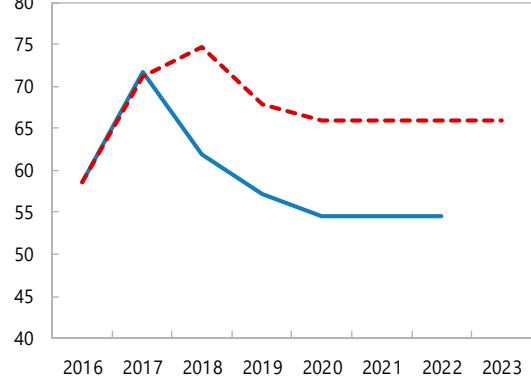
Projected New Debt Disbursements

(In percent of GDP)



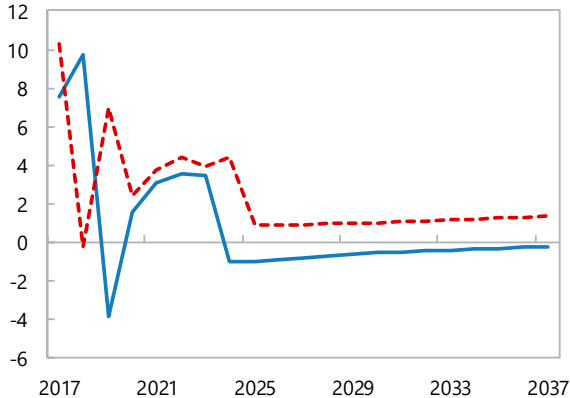
Price of Iron Ore

(US\$/Ton)



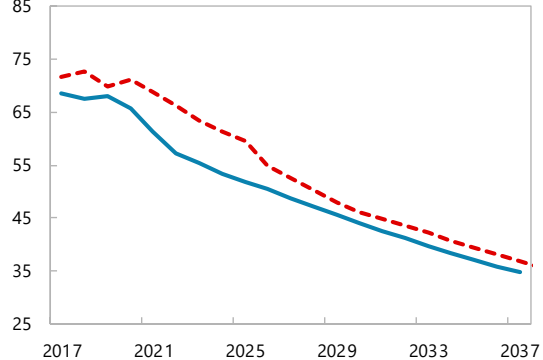
Terms of Trade

(Percent change)



PPG External Debt 1/

(In percent of GDP)



Source: Mauritanian authorities; and IMF staff estimates

1/ Excluding arrears to Kuwait for which debt relief under HIPC-MDRI is assumed.

13. The LIC-DSF realism tools suggest that projections underpinning this DSA are reasonable (Figures 3 and 4). The decomposition of the drivers of debt dynamics, which compare past and projected dynamics and forecast errors in previously projected debt dynamics, flags the importance of unexpected volatile commodity prices which have a significant impact on the current account and growth owing to the undiversified structure of the economy. In addition, the large unanticipated increase in borrowing during 2014-17 is not expected to recur in the context of the authorities' ECF-supported program and their strong commitment to prudent debt management consistent with debt sustainability. Cross-country experience with fiscal adjustment under IMF programs for low-income countries indicates that the programmed three-year primary balance adjustment for Mauritania is realistic. Also, with respect to the projected baseline pick-up in growth, the growth dampening effect of the programmed fiscal adjustment is more than offset by the pickup in growth in the extractive sector and the return to average weather conditions and its impact on agriculture and livestock relative to the preceding period of drought. Consistent with this, the current DSA does not anticipate any major change in the contribution of public investment to growth over the medium term, but rather growth being driven by an increase in the contribution from other factors (private investment, labor and TFP) compared to the past. In sum, the realism tools indicate that the macroeconomic projections are realistic but also flag the potential downside risks of volatile commodity prices and unrealized increases in the drivers of growth.

COUNTRY CLASSIFICATION AND STRESS TESTS

14. Mauritania's debt-carrying capacity remains "medium." Based on the IMF's October 2018 *World Economic Outlook* (WEO) data and the 2017 CPIA, the Composite Indicator (CI) index is calculated at 2.68, indicating a weak debt-carrying capacity. However, since this is the first change in classification relative to its previous "medium" capacity, the medium rating is retained.¹⁰ The relevant debt and debt service burden indicators are listed below.

Calculation of the CI Index					
Components	Coefficients (A)	10-year average values (B)		CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385		3.370	1.30	48%
Real growth rate (in percent)	2.719		4.520	0.12	5%
Import coverage of reserves (in percent)	4.052		24.032	0.97	36%
Import coverage of reserves ² (in percent)	-3.990		5.775	-0.23	-9%
Remittances (in percent)	2.022		1.906	0.04	1%
World economic growth (in percent)	13.520		3.583	0.48	18%
CI Score				2.69	100%
CI rating				Weak	

¹⁰ The score is just below the threshold value of 2.69 for a weak classification. A change in the classification of debt-carrying capacity requires two consecutive changes from the previous classification. As calculated using the April 2018 WEO data, the classification was medium with a CI score of 2.89. As compared to the April 2018 WEO calculation, the decline in debt-carrying capacity primarily reflects a reduction in the projected import coverage of reserves. Under the previous DSA (in 2017), the country classification which was based on the CPIA of 3.36 was medium debt-carrying capacity.

15. For the scenario stress tests default values have been used. Under the combined contingent liability stress tests, no contingency is included for PPPs because to date there are none;¹¹ however, following the adoption of a new PPP law in 2017 a first PPP project is being launched (no firm numbers are available on the magnitude of this PPP) and more are expected in the future. For SOEs, the default parameter of 2 percent of GDP is retained, to capture a potential fiscal risk stemming from SNIM, although in the past SNIM has operated successfully on commercial terms; by way of comparison SNIM's external debt (not guaranteed by the government) was equivalent to 8 percent of GDP. Given the concentration of Mauritania's exports on metal commodities the commodity price stress is triggered using the default parameter values.

EXTERNAL debt burden thresholds	
PV of debt in % of Exports	180
GDP	40
Debt service in % of Exports	15
Revenue	18
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	55

Combined Contingent Liability Shock			
1 The country's coverage of public debt	The central government, central bank, government-guaranteed debt		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2	
4 PPP	35 percent of PPP stock	0.00	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		7.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

DEBT SUSTAINABILITY ASSESSMENT

A. External Debt Sustainability

16. Baseline projections for one of the four debt indicators—the PV of debt-to-GDP—persistently breach its respective threshold (Table 1 and Figure 2). The breaches for two other indicators are small and temporary (one year). The baseline evolution and breaches of all indicators are generally in line with the November 2017 DSA. The PV of debt-to-GDP ratio shows a similar starting point and downward trend but the rescheduling of repayments of the Saudi loan by three years, a slower projected growth in nominal GDP, and a weaker outlook for the current account balance delays the crossover point to below the applicable threshold by two years, from 2024 to 2026. The PV of debt-to-exports breaches the applicable threshold in the first projection year and remains below thereafter. The debt service-to-revenues indicators breaches the relevant threshold only in 2021 (reflecting the onset of repayments on the rescheduled Saudi loan); this breach is smaller and shorter than in the November 2017

¹¹ The default value for the PPP contingent liability shock is based on the World Bank's cross-country database of PPPs capital stock. In the database, Mauritania is shown to have no PPP capital stock, and with no alternative firm numbers available on the current or potential prospective size of the capital stock the zero default value has been retained.

DSA. Both debt-service indicators are closer to their threshold during the projection period than before, hovering just below their respective thresholds, in part reflecting the downward revision (20 percent to 15 percent and 20 percent to 18 percent, respectively) of the thresholds since the previous DSA.¹²

17. The standardized stress tests show breaches of the thresholds by all the debt indicators (Table 2). The most extreme shocks are the combination shock (PV of debt-to-GDP ratio), the export growth shock (PV debt-to-exports ratio and debt service-to-exports ratio) and the one-time depreciation shock (debt service-to-revenues ratio). Other shocks also result in breaches of the relevant thresholds for all the debt indicators.

18. The tailored commodity price shock results in a persistent breach of the threshold for all four debt indicators. In addition, the tailored stress test for the combined contingent liability shock causes a persistent breach of the PV of debt-to-GDP indicator, and a one-year breach for the debt service-to-revenues indicator.

B. Public Debt Sustainability

19. The dynamics of total public debt is dominated by external debt (Table 3 and Figure 3). The public debt stock is mostly composed of external debt, with domestic debt (primarily short-term treasury bills) amounting to only 5 percent of GDP at end-2017. In 2018, the stock of domestic debt is projected to increase with the addition of debts owed by the government to the BCM covered under the 2018 convention (see earlier discussion on public debt coverage) amounting to 8.3 percent of 2018 GDP. Under the baseline PV of public debt-to-GDP ratio shows a sustained breach of the public debt benchmark value: the addition of this debt causes a one-time increase in the debt ratio, which thereafter steadily declines falling below the 55 percent benchmark in 2023. The breach is less pronounced and protracted than in the external DSA. The PV of debt-to-revenue and debt-service-to-revenues indicators also show a steady decline from an initial high point in 2018.¹³

20. The standardized stress tests suggest that the largest negative impact (most extreme shock) on the three debt indicators would stem from an export growth shock (PV of debt-to-GDP ratio and PV of debt-to-revenues ratio) and a real GDP growth shock (debt service-to-revenue ratio) (Table 4). Under all the standardized stress shocks the PV of debt-to-GDP breaches the benchmark value. As regards the tailored stress tests, both contingent liability and commodity price shocks result in breaches of the benchmark value for the PV of debt-to-GDP. These two shocks also have significant impacts on the remaining two debt indicators.

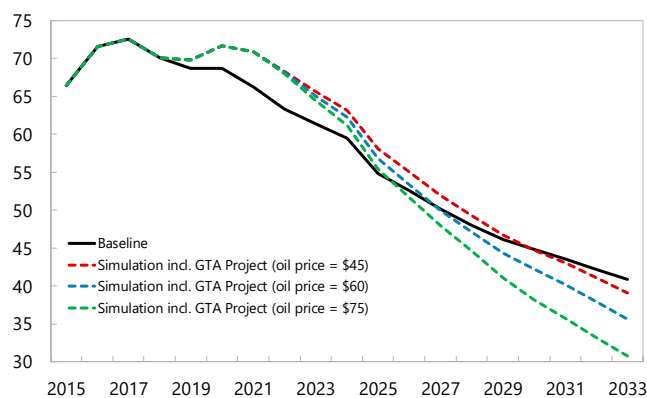
¹² The external debt sustainability framework (Table 1) shows a sizeable negative residual (i) in 2018, reflecting a combination primarily of net private sector financial inflows of the mining sector and the impact of endogenous price and exchange rate dynamics; and (ii) in 2019, reflecting assumed debt relief on the debt in arrears to Kuwait.

¹³ The public debt sustainability (Table 4) shows a sizeable residual in 2019, which reflects debt relief on the debt in arrears to Kuwait, as in the external debt sustainability analysis. Other residuals are due to debt disbursements on loans on-lent by the government to parastatals that are not captured in the central government budget; debt service on these loans, however, is paid by the central government and is included in the budget.

POTENTIAL IMPACT OF OFF-SHORE GAS

21. The long-term outlook would significantly improve with the development of the off-shore gas field Grande-Tortue/Ahmeyim (GTA). Feasibility studies are proceeding apace with a final investment decision (FID) expected by end-2018 on the first of the three phases of the project (Box 1). Until the FID is reached, however, this project has not been incorporated in baseline projections given considerable uncertainty on its implications for the macroeconomic projections and any related PPG external borrowing. Despite the sizeable upfront costs borne by Mauritania's national oil company (NOC) during the first few years of the project, large revenues would accrue to the budget starting in 2022. These revenues could be used to expand growth-enhancing spending which, if efficient and supported by structural reforms, could boost actual and potential growth and reduce long-run debt-to-GDP ratios. Alternatively, if the revenues are saved or used to substitute for external borrowing, net public external debt would eventually drop below the baseline (Text Figure).

External Public Debt, Illustrative Scenario, 2015–33
(GTA Phase 1 only; excl. Kuwaiti debt, in percent of GDP)



Sources: Mauritanian authorities; World Bank; and IMF staff calculations.

22. In the short term, however, the NOC's participation in the GTA project may put debt sustainability at risk. The NOC's participation in the Phase I of the project, estimated at about \$307 million, would need to be financed by external borrowing. Under the ECF-supported program, there is zero limit on non-concessional borrowing (NCB), and any such borrowing to finance the project would require an exception to the program limit, as has been provided for two other project loans. If the project is financed in full by external borrowing, it would lead to an increase in the debt-to-GDP ratio by up to 5 percent of GDP in 2022 relative to the baseline (Text Figure).

23. Simulations are highly sensitive to multiple technical and economic parameters, including projected oil and gas prices. So far, until the FID is made, the debt and macroeconomic impact of the GTA has not been included in baseline projections.

Box 1. The Grande-Tortue/Ahmeyim Gas Project and Its Financial Impact¹

The Grande-Tortue/Ahmeyim (GTA) gas project is an off-shore gas field straddling the maritime boundary between Mauritania and Senegal, under development by BP (operator). With gas resources estimated at 15 trillion cubic feet, the field will be developed as an export project. Phase 1 of production of 2.3 million tons annually (mtpa) would involve drilling several kilometers in very deep water of about 2,800 meters, bringing the gas through 80 km of flowlines to a floating treatment vessel and further to a liquification vessel anchored 8 km offshore in water 30 meters deep, protected by a newly built breakwater. First gas is planned for end-2021. During phases 2 and 3, gas processing and treatment would be done on platforms and each phase would raise production by 4 mtpa over 2–3 years, for about 25 years. The first phase has higher unit costs but allows production to be jumpstarted rapidly, while the subsequent phases would achieve higher rates of return. The final investment decision (FID) to launch the project is expected by end-2018.

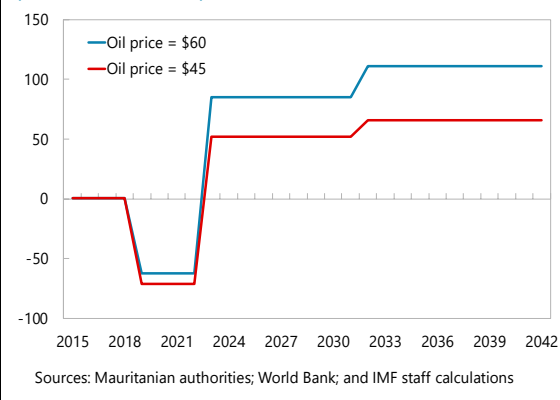
Estimates suggest aggregate gross revenues for all three phases around \$80 billion over a total of 30 years, under a baseline Brent oil price of \$60 per barrel. Revenues minus costs will be shared among BP, Kosmos Energy, the two national oil companies, and the two governments as profit oil, income taxes, and dividends. Net revenues for Mauritania could reach \$14 billion during 2022–51 (about 9 percent of 2018 GDP annually), of which \$1.4 billion in dividends to the national oil company SMHPM. These estimates vary between \$4.2–25.5 billion under oil price assumptions between \$30–90 per barrel.

Mauritania’s financial participation in GTA as a shareholder is estimated at \$307 million (5.5 percent of GDP) for Phase 1, possibly rising to \$0.8–1 billion for all three phases, if it buys the maximum contractual share of 14 percent. The minimum participation is 10 percent. The share is payable over four years, with a first payment of \$70 million (1¼ percent of GDP) due in 2019. Financing options considered by the authorities include pre-financing by BP or by the gas marketing company, official and commercial loans, a drawdown of the government’s oil fund, the use of the 2015 Saudi deposit at the BCM, or combinations thereof. Phases 2 and 3 may be financed by the consortium through project financing, which would reduce the need for the government to fund subsequent development costs.

Projected revenues from Phase 1 are highly uncertain and depend largely on international oil price assumptions. Phase 1 entails payments by the national oil company SMHPM of its share in the project during the first few years, followed by positive cash flows during the production period 2022–42 (Box Figure). Total net revenues from Phase 1 for Mauritania—in the form of income taxes, profit oil, and dividends to SMHPM—could reach between \$0.9 billion for a Brent price of \$45 per barrel to \$1.7 billion at \$60 (17–31 percent of 2019 GDP).

The World Bank is supporting Mauritania and Senegal to strengthen their negotiating and institutional capacities, with grants of \$20 million and \$29 million, respectively.

Simulated GTA Phase 1 Net Revenues, 2015–42
(In millions of USD)



¹ Sources: Mauritanian authorities, World Bank, BP, Kosmos Energy, and IMF staff estimates.

RISK RATING AND VULNERABILITIES

24. Mauritania's risk of external debt distress remains high owing to sharp increase in borrowing during 2014-16 to finance infrastructure and external deficits, and a contraction in nominal GDP due to a large terms-of-trade shock and some exchange rate depreciation in 2016. The projected trajectory of the debt-to-GDP and the PV of debt-to-GDP ratios is slightly higher than in the November 2017 DSA, reflecting a lower level of gold production associated with the suspension of an expansion of gold extraction capacity in the early years of the projection period. Nevertheless, these two debt burden indicators continue to show a clear downward trend. However, because of a less favorable macroeconomic outlook and the rescheduling of repayments of the Saudi loan, the prospects for an exit from a high risk of distress have been delayed by two years, with the PV of external PPG debt-to-GDP showing a sustained breach of the relevant threshold. The projected trajectories of the two debt service indicators remain close to their thresholds pointing to the need to monitor closely the consequences of any new borrowing on debt service. The stress tests illustrate the vulnerabilities of the debt indicators to negative shocks affecting export and growth performance and the fiscal path, stemming from lower global commodity prices, adverse weather, policy implementation risks, and regional security developments.

25. The DSA also suggests that the overall risk of debt distress is high, with the PV of public debt-to-GDP breaching the benchmark value for a sustained period. Overall public debt dynamics are dominated by those of external PPG debt.

26. The DSA highlights the need to follow sound economic policies, including a prudent borrowing strategy that takes on new debt at a moderate pace, avoids non-concessional borrowing, and relies instead on grants and concessional financing. To avoid exacerbating short-term liquidity risks, new borrowing resulting in significant additional short-term debt service should be avoided. The authorities should also continue their best efforts to resolve the external debt in arrears with Kuwait. More generally, raising prospects for debt sustainability hinge on sustaining structural reforms to promote inclusive growth and economic diversification through private sector development; improving public financial management to raise the efficiency and growth dividends of public current and capital spending; and strengthening debt management capacity. Sound fiscal policy geared towards creating fiscal space for growth-enhancing social and infrastructure spending is also needed. These objectives are reflected in the authorities' growth and development strategy and thus far under the IMF-supported program, the authorities have made progress in implementing the policies and reforms needed to achieve these objectives.

AUTHORITIES' VIEWS

27. While the authorities acknowledge the need for prudent debt policies and stronger public investment management, they question the rating of high risk of debt distress. In particular, the authorities point to the low debt service burden, which in their view makes their largely concessional debt stock manageable. They note that the deposit made at the central bank by a development partner was rescheduled, which suggests a low rollover risk. They look forward to the rebasing of their national accounts, which they expect will raise GDP and therefore reduce debt ratios.

Table 1. Mauritania: External Debt Sustainability Framework, Baseline Scenario, 2015–38
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/ Historical Projections	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038		
External debt (nominal) 1/	106.5	110.4	107.0	102.9	80.8	79.2	75.4	71.2	68.8	53.5	36.6	88.6	70.4
<i>of which: public and publicly guaranteed (PPG)</i>	91.0	94.1	91.9	90.1	69.9	69.8	67.4	64.5	62.4	48.7	34.6	76.4	63.0
Change in external debt	19.3	3.8	-3.4	-4.1	-22.1	-1.5	-3.9	-4.2	-2.3	-2.6	-2.2		
Identified net debt-creating flows	19.5	12.6	-2.9	1.1	0.1	-1.6	-2.6	-4.3	-3.7	-1.8	-1.8	3.6	-1.8
Non-interest current account deficit	18.9	14.0	12.2	13.9	10.8	7.1	6.5	4.1	4.5	4.2	3.4	15.3	6.4
Deficit in balance of goods and services	-87.4	-89.1	-97.2	-96.2	-95.1	-89.8	-86.2	-82.0	-80.6	-65.7	-41.2	-106.7	-80.5
Exports	33.8	35.7	39.7	38.4	39.3	39.1	37.9	37.0	36.2	29.8	18.4		
Imports	-53.6	-53.5	-57.6	-57.9	-55.7	-50.7	-48.3	-45.1	-44.4	-36.0	-22.8		
Net current transfers (negative = inflow)	-3.7	-5.2	-5.1	-3.3	-3.5	-3.1	-2.8	-2.7	-2.7	-2.0	-0.9	-3.8	-2.7
<i>of which: official</i>	-2.1	-3.6	-3.2	-1.4	-1.6	-1.3	-1.0	-1.0	-1.0	-0.7	-0.4		
Other current account flows (negative = net inflow)	110.0	108.4	114.5	113.4	109.3	100.1	95.5	88.9	87.9	72.0	45.5	125.8	89.6
Net FDI (negative = inflow)	-10.4	-5.8	-11.9	-11.3	-7.0	-6.7	-6.5	-5.9	-6.0	-4.1	-4.2	-10.0	-5.9
Endogenous debt dynamics 2/	11.1	4.4	-3.2	-1.5	-3.7	-2.0	-2.5	-2.5	-2.2	-2.0	-1.0		
Contribution from nominal interest rate	0.9	1.1	2.2	2.0	1.9	1.8	1.7	1.6	1.5	0.8	0.7		
Contribution from real GDP growth	-0.4	-2.0	-3.2	-3.5	-5.6	-3.7	-4.2	-4.0	-3.6	-2.7	-1.7		
Contribution from price and exchange rate changes	10.6	5.3	-2.2	...	...	...	...	...	...	...	...
Residual 3/	-0.3	-8.8	-0.5	-5.2	-22.1	0.0	-1.3	0.1	1.3	-0.7	-0.4	-0.2	-3.1
<i>of which: exceptional financing</i>	-0.1	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	74.6	71.6	51.7	51.8	50.0	48.0	46.6	36.9	27.7		
PV of PPG external debt-to-exports ratio	...	...	188.0	186.5	131.5	132.5	131.8	129.6	128.7	124.1	150.5		
PPG debt service-to-exports ratio	17.0	18.7	10.5	12.8	12.2	12.0	14.3	13.3	12.9	12.8	18.3		
PPG debt service-to-revenue ratio	20.9	25.6	15.4	17.5	17.3	16.9	19.2	17.4	16.4	13.8	12.2		
Gross external financing need (Billion of U.S. dollars)	0.8	0.8	0.6	0.8	0.9	0.7	0.7	0.6	0.6	0.7	0.7		
Key macroeconomic assumptions													
Real GDP growth (in percent)	0.4	1.8	3.0	3.5	5.7	4.8	5.6	5.3	5.1	4.7	3.2	5.2	
GDP deflator in US dollar terms (change in percent)	-10.8	-4.8	2.0	3.0	0.0	-0.7	-0.6	-0.4	-1.2	1.3	1.7	1.2	0.5
Effective interest rate (percent) 4/	0.9	1.0	2.1	2.0	1.9	2.3	2.2	2.2	2.1	1.4	2.1	1.0	1.8
Growth of exports of G&S (US dollar terms, in percent)	-22.3	2.2	16.9	3.2	8.3	3.4	1.7	2.6	1.8	3.2	2.1	5.6	2.9
Growth of imports of G&S (US dollar terms, in percent)	-27.0	-3.2	13.1	7.2	1.8	-5.3	-0.1	-1.9	2.6	2.7	2.1	5.0	1.3
Grant element of new public sector borrowing (in percent)	...	...	...	31.9	31.9	31.9	32.0	31.6	31.6	28.5	20.9	...	31.2
Government revenues (excluding grants, in percent of GDP)	27.6	26.1	27.1	28.0	27.7	27.7	28.2	28.4	28.4	27.6	27.6	24.0	27.9
Aid flows (in Billion of US dollars) 5/	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	2.6	3.0	2.8	2.3	2.0	1.9	1.5	1.1	...	2.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	39.5	41.6	40.0	38.9	39.8	39.8	35.3	29.5	...	38.6
Nominal GDP (Billion of US dollars)	5	5	5	5	6	6	6	6	7	9	16		
Nominal dollar GDP growth	-10.4	-3.0	5.1	6.7	5.7	4.0	4.9	5.2	4.0	6.5	6.5	4.5	5.7
Memorandum items:													
PV of external debt 7/	...	...	89.6	84.4	62.6	61.2	57.9	54.6	53.0	41.7	29.7		
In percent of exports	...	...	226.0	219.9	159.2	156.5	152.9	147.7	146.4	140.0	161.3		
Total external debt service-to-exports ratio	23.9	25.8	30.9	34.7	32.0	31.0	32.7	30.8	29.8	25.0	29.0		
PV of PPG external debt (in Billion of US dollars)	...	...	3.7	3.8	2.9	3.0	3.0	3.1	3.1	3.3	4.5		
(PVT-PVt-1)/GDPt-1 (in percent)	...	...	1.8	-16.9	2.2	0.6	0.5	0.5	0.5	0.8	0.8		
Non-interest current account deficit that stabilizes debt ratio	-0.4	10.2	15.6	18.1	32.8	8.6	10.3	8.3	6.8	6.8	5.6		

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g) + \epsilon \alpha (1+r)] / (1+g+p+pg)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, p = growth rate of GDP deflator in U.S. dollar terms, ϵ = nominal appreciation of the local currency, and α = share of local currency-denominated external debt in total external debt.

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

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

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

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

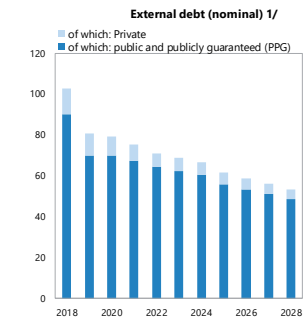
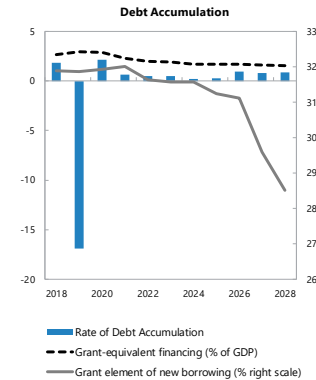
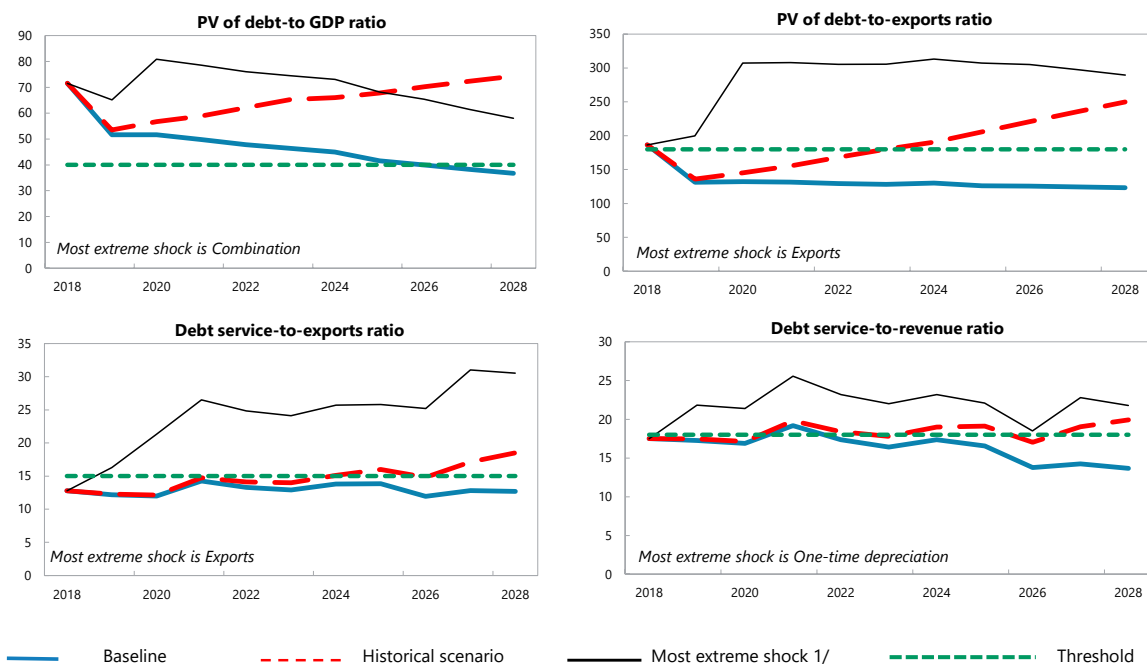


Figure 2. Mauritania: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2018–28



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices ^{2/}	No	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Table 3. Mauritania: Public Sector Debt Sustainability Framework, Baseline Scenario, 2015-2038
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028	2038	Historical	Projections
Public sector debt 1/	96.7	98.9	97.0	103.5	82.1	80.5	76.4	72.2	69.2	52.5	38.5	82.4	70.6
of which: external debt	91.0	94.1	91.9	90.1	69.9	69.8	67.4	64.5	62.4	48.7	34.6	76.4	63.0
Change in public sector debt	18.1	2.2	-2.0	6.5	-21.4	-1.6	-4.1	-4.2	-3.0	-2.8	-1.3		
Identified debt-creating flows	12.4	-0.4	-6.7	-4.3	-5.5	-3.7	-4.2	-4.2	-3.3	-3.7	-2.5	-1.6	-4.1
Primary deficit	2.3	-0.5	-1.2	-1.5	-1.5	-1.7	-1.6	-1.6	-1.6	-1.3	-0.9	0.3	-1.4
Revenue and grants	29.4	28.0	28.1	28.8	28.7	28.6	28.8	29.0	29.0	28.0	28.0	25.2	28.4
of which: grants	1.8	1.9	1.0	0.8	1.0	0.8	0.6	0.6	0.6	0.4	0.4		
Primary (noninterest) expenditure	31.7	27.5	26.9	27.3	27.3	26.8	27.2	27.4	27.4	26.8	27.1	25.5	27.0
Automatic debt dynamics	10.1	0.2	-5.5	-2.9	-4.0	-1.9	-2.6	-2.6	-1.7	-2.5	-1.6		
Contribution from interest rate/growth differential	-0.2	-2.4	-3.4	-4.0	-6.3	-4.2	-4.6	-4.4	-4.1	-2.9	-1.7		
of which: contribution from average real interest rate	0.1	-0.7	-0.5	-0.7	-0.7	-0.4	-0.4	-0.4	-0.5	-0.2	0.1		
of which: contribution from real GDP growth	-0.3	-1.7	-2.9	-3.3	-5.6	-3.8	-4.2	-4.1	-3.6	-2.7	-1.8		
Contribution from real exchange rate depreciation	10.3	2.6	-2.1	...	...	...	...	...	...	...	...
Other identified debt-creating flows	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
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		
Recognition of contingent liabilities (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		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	5.7	2.6	4.8	12.0	-13.6	4.3	2.1	1.8	2.8	1.3	1.4	4.0	1.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	79.0	85.9	64.8	63.3	59.8	56.5	54.2	41.3	32.1		
PV of public debt-to-revenue and grants ratio	...	...	281.0	298.3	225.5	221.6	208.0	195.0	186.8	147.4	114.4		
Debt service-to-revenue and grants ratio 3/	8.0	9.4	15.8	34.8	34.4	33.1	31.8	26.2	22.7	15.5	16.5		
Gross financing need 4/	4.6	2.1	3.2	8.3	8.2	7.5	6.4	4.9	3.9	3.0	3.7		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	0.4	1.8	3.0	3.5	5.7	4.8	5.6	5.6	5.3	5.1	4.7	3.2	5.2
Average nominal interest rate on external debt (in percent)	0.0	0.0	1.3	1.2	1.2	1.5	1.5	1.5	1.5	1.6	2.3	0.1	1.5
Average real interest rate on domestic debt (in percent)	9.7	1.1	2.3	5.0	0.1	1.9	1.8	1.4	2.0	-0.8	0.9	4.0	0.9
Real exchange rate depreciation (in percent, + indicates depreciation)	14.4	2.9	-2.4	...	...	...	...	...	...	...	...	1.4	...
Inflation rate (GDP deflator, in percent)	-4.2	3.3	3.5	3.0	2.9	2.7	2.9	3.1	2.2	4.8	5.3	4.3	3.6
Growth of real primary spending (deflated by GDP deflator, in percent)	11.8	-11.7	0.8	5.2	5.5	3.2	6.8	6.3	5.3	3.9	4.8	5.1	5.1
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-15.8	-2.8	0.7	-8.0	20.0	-0.1	2.5	2.6	1.4	1.6	0.3	-5.9	2.6
PV 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		

Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt. Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ 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 and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio (-): a primary surplus, which would stabilize the debt ratio only in the year in question.

6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Definition of external/domestic debt	Residency-based
Is there a material difference between the two criteria?	Yes

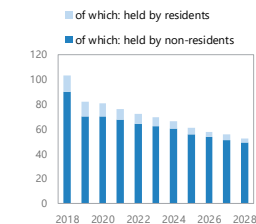
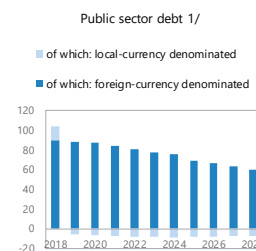
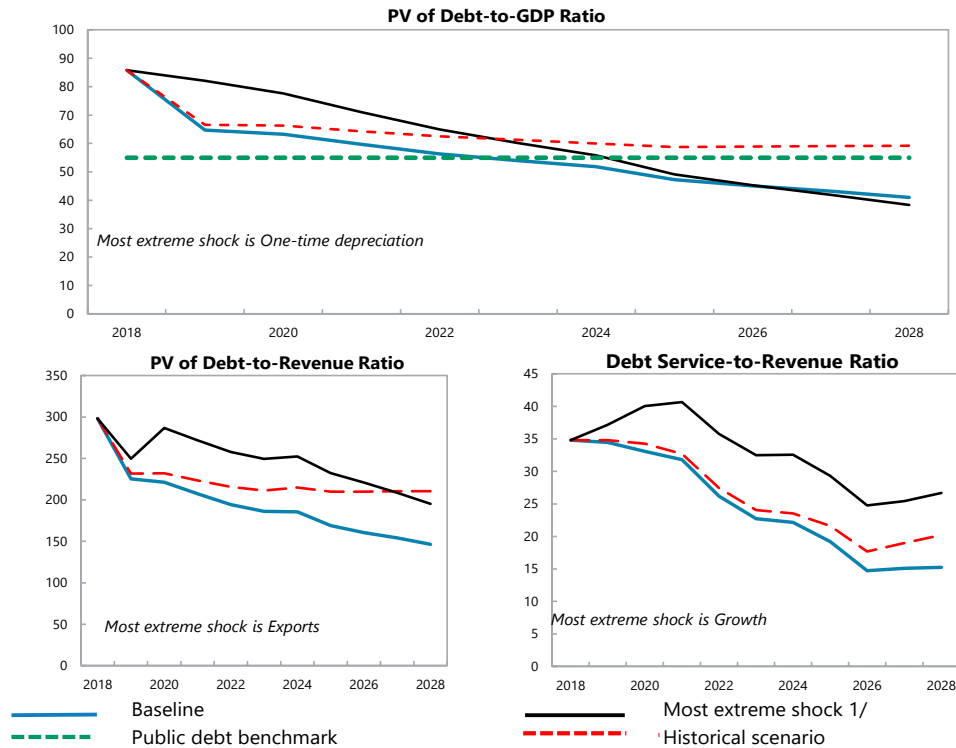


Figure 3. Mauritania: Indicators of Public Debt Under Alternative Scenarios, 2018–28



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	78%	78%
Domestic medium and long-term	1%	1%
Domestic short-term	22%	22%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.8%	1.8%
Avg. maturity (incl. grace period)	20	20
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	2.0%	2.0%
Avg. maturity (incl. grace period)	3	3
Avg. grace period	2	2
Domestic short-term debt		
Avg. real interest rate	2%	2.0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2028. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most extreme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 4. Mauritania: Sensitivity Analysis for Key Indicators of Public Debt, 2018-2028

	Projections 1/										
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PV of Debt-to-GDP Ratio											
Baseline	85.9	64.8	63.3	59.8	56.5	54.2	52.0	47.5	45.3	43.5	41.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	86	67	66	64	63	62	60	59	59	60	60
B. Bound Tests											
B1. Real GDP growth	86	72	78	76	75	75	76	73	73	73	74
B2. Primary balance	86	68	69	65	61	59	56	52	49	48	45
B3. Exports	86	72	82	79	75	73	71	65	61	58	54
B4. Other flows 3/	86	72	77	73	70	68	66	60	57	54	51
B5. One-time 30 percent nominal depreciation	86	82	78	71	65	60	56	49	46	42	39
B6. Combination of B1-B5	86	67	67	61	57	53	50	46	43	42	40
C. Tailored Tests											
C1. Combined contingent liabilities	86	70	68	64	60	58	56	51	49	47	45
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	86	68	71	72	72	73	74	71	72	72	72
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	55	55	55	55	55	55	55	55	55	55	55
PV of Debt-to-Revenue Ratio											
Baseline	298.3	225.5	221.6	208.0	195.0	186.8	186.6	169.8	161.6	155.1	147.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	298	232	233	224	217	213	217	212	211	212	212
B. Bound Tests											
B1. Real GDP growth	298	248	271	264	259	259	271	259	260	262	262
B2. Primary balance	298	235	241	225	211	202	202	184	176	170	162
B3. Exports	298	250	288	273	259	251	254	233	218	206	193
B4. Other flows 3/	298	249	269	255	241	233	235	215	202	192	180
B5. One-time 30 percent nominal depreciation	298	287	273	248	225	209	202	177	163	151	138
B6. Combination of B1-B5	298	233	235	212	196	184	180	164	154	151	144
C. Tailored Tests											
C1. Combined contingent liabilities	298	244	238	223	209	200	200	182	174	168	161
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	298	248	260	262	258	259	269	256	256	258	258
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Debt Service-to-Revenue Ratio											
Baseline	34.8	34.4	33.1	31.8	26.2	22.7	22.2	19.2	14.8	15.3	15.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2018-2028 2/	35	35	34	33	27	24	24	22	18	20	21
B. Bound Tests											
B1. Real GDP growth	35	37	40	41	36	33	33	30	26	27	28
B2. Primary balance	35	34	36	36	29	25	24	22	18	18	19
B3. Exports	35	34	34	33	28	24	24	22	21	21	21
B4. Other flows 3/	35	34	34	33	27	24	23	22	19	19	19
B5. One-time 30 percent nominal depreciation	35	35	36	36	31	27	27	24	18	19	19
B6. Combination of B1-B5	35	34	34	32	28	25	24	25	20	23	23
C. Tailored Tests											
C1. Combined contingent liabilities	35	34	39	34	28	25	24	21	17	16	16
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	35	37	36	35	34	32	32	29	25	26	28
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

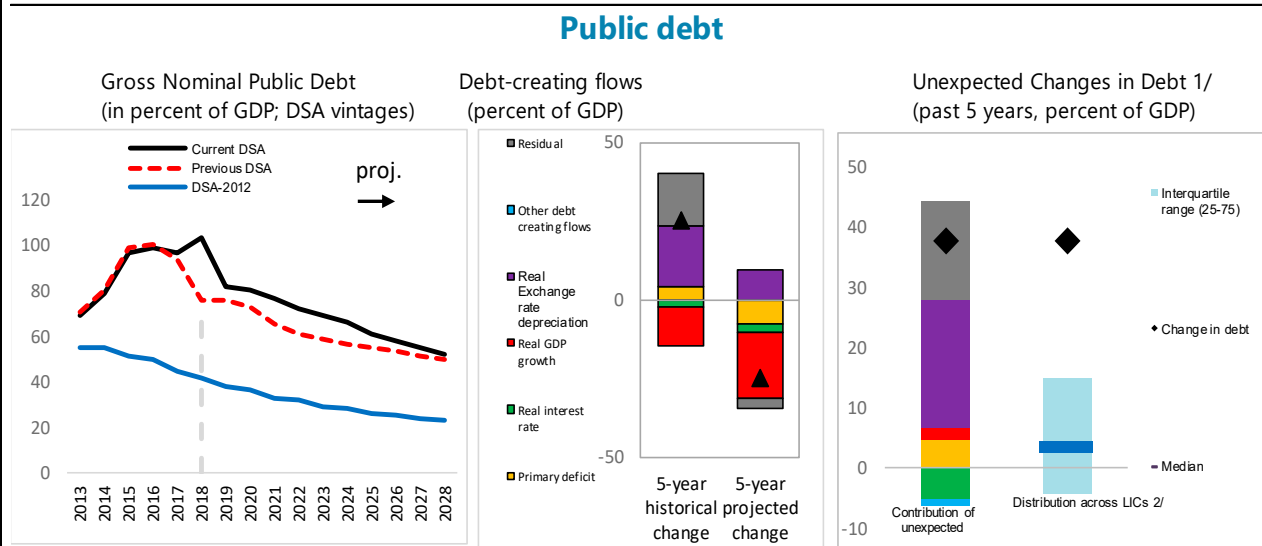
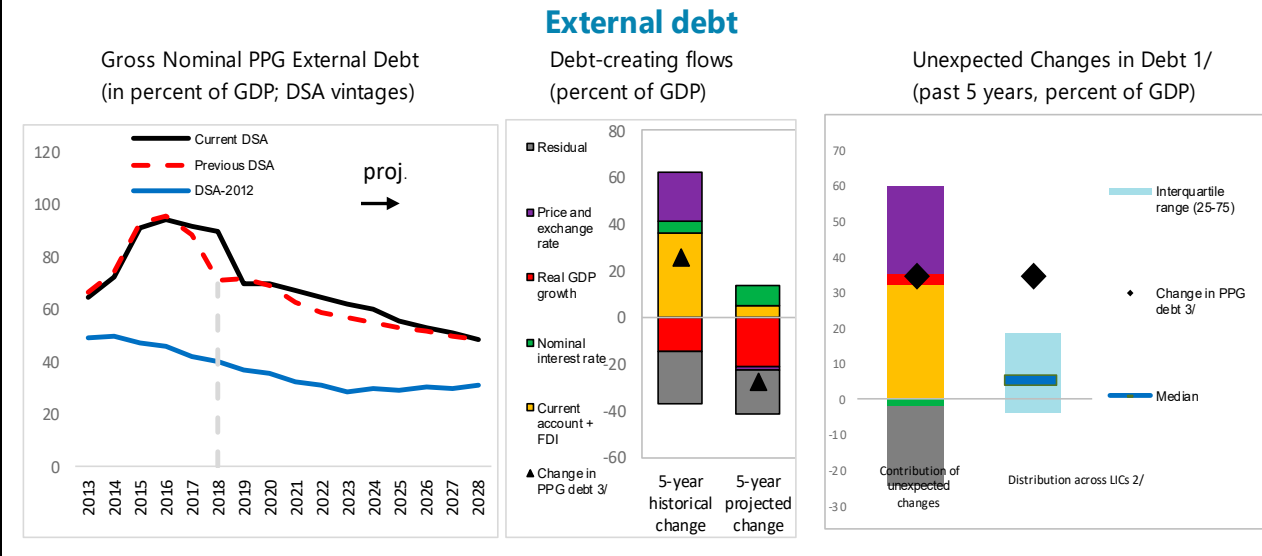
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

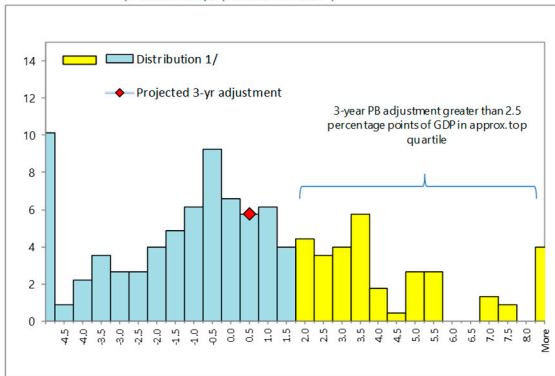
Figure 4. Mauritania: Drivers of Debt Dynamics – Baseline Scenario External Debt



- 1/ Difference between anticipated and actual contributions on debt ratios.
- 2/ Distribution across LICs for which LIC DSAs were produced.
- 3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

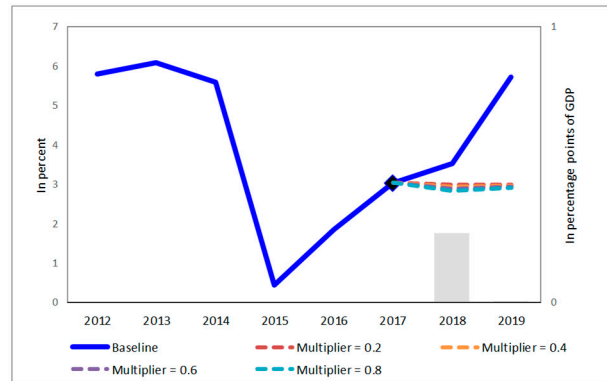
Figure 5. Mauritania: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



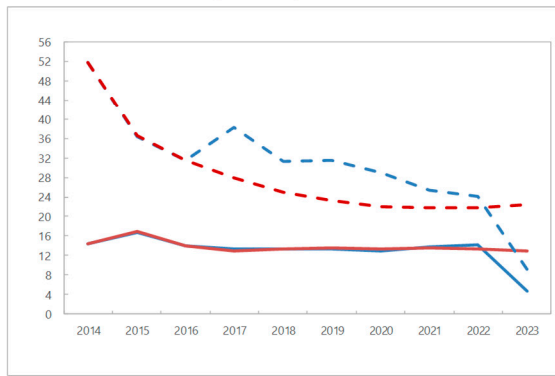
financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



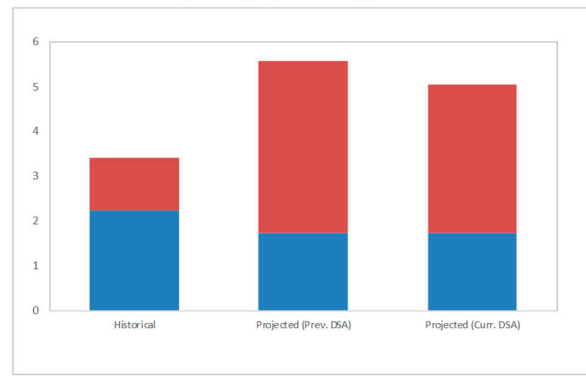
1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Public and Private Investment Rates
(% of GDP)



— Gov. Invest. - Prev. DSA — Gov. Invest. - Current DSA
 - - - Priv. Invest. - Prev. DSA - - - Priv. Invest. - Current DSA

Contribution to Real GDP growth
(Percent, 5-year average)



■ Contribution of other factors
 ■ Contribution of government capital

**Statement by Mr. Mohamed-Lemine Raghani, Executive Director for the
Islamic Republic of Mauritania, and
Mr. Mohamed Sidi Bouna, Senior Advisor to Executive Director
December 6, 2018**

I. Introduction

On behalf of my Mauritanian authorities, I would like to thank staff for the constructive engagement and the fruitful policy discussions held during the recent program review mission. Mauritania is making satisfactory progress under the ECF-supported program and the authorities continue to demonstrate strong ownership of the program. All end-June performance criteria and five of the six end-June and end-September structural benchmarks were met. The authorities also submitted to parliament in October 2018 a 2019 budget consistent with program targets.

The implementation of sound policies under the ECF and the reforms undertaken in the context of the *Stratégie de Croissance Accélérée et de Prospérité Partagée 2016-30* (SCAPP) have contributed to Mauritania's economic recovery in 2017 and 2018, despite a challenging external environment and high international oil prices which have adversely affected the external current account in 2018. The authorities are determined to pursue the reforms envisaged under the ECF and the SCAPP to lay the foundations for a strong, sustainable and equitably distributed growth while also accelerating the diversification of the economy. They are committed to a timely implementation of these reforms which they view as essential to raising living standards more rapidly and better mitigating the economic risks facing the country.

II. Recent Economic Developments and Outlook

Recent Economic Developments

Growth is projected to reach 3.5 percent in 2018 after a 3 percent increase in real GDP in 2017, led by the manufacturing sector, transports, and telecommunications, despite the slowdown in the extractive industries and the impact of the drought on agriculture. **Inflation** will remain relatively moderate at 3 percent on average in 2018, due to a deceleration in import prices —mainly during the second half of the year—, and a disciplined monetary policy implementation.

The significant **fiscal** consolidation and reforms undertaken in recent years, both on the revenue side and on expenditures, continued in 2018 and resulted in a budget surplus of 0.2 percent of GDP, despite the need to increase spending to cope with the effects of the drought and the impact of higher oil import prices on the budget. A slowdown in capital spending also contributed to the fiscal surplus. Continued insecurity in the Sahel region is also adding

upward pressure on Mauritania's military and security spending. Thus, while fiscal revenues remained strong overall in 2018, notably thanks to strong revenue mobilization efforts and sizeable oil exploration license fees, high international oil prices have had a less favorable impact on the budget in 2018 as the difference between oil import prices and retail fuel prices diminished compared to 2017.

After improving substantially in 2017, the **current account** deficit is projected to widen in 2018 driven by the effects of rising world oil prices and lower prices for iron ore. However, foreign exchange reserves will remain comfortable at 5.1 months of non-extractives imports, owing to strong FDIs. Given the pressure from the current account deficit on foreign exchange reserves, the authorities have requested that the NIR performance criterion for end-December 2018 be revised downward. Nevertheless, they are committed to accelerating the buildup of foreign exchange reserves in 2019, as the prospects in the extractive industries improve further.

The authorities take good note of the staff's **external sector assessment** in Appendix I indicating that Mauritania's external position in 2017 has improved compared to 2016 and that the overvaluation of the exchange rate has been smaller in 2017 than in 2016. Nonetheless, they also note that these estimates are subject to considerable uncertainty.

Outlook

My authorities share the assessment made in the report that Mauritania's outlook remains positive and that risks are balanced due in part to the development of the offshore gas field which will significantly improve the economic outlook from 2022. Continued reform implementation under the ECF and the SCAPP as well as an expected impetus from public and private investment should contribute to enhancing growth to 5.7 percent in 2019 and maintaining it above 5 percent throughout 2021-23. Inflation is forecast to stay moderate and below 4.5 percent over the period 2019-23. However, the authorities agree that adverse developments in global commodities markets and a worsening of the security situation in the Sahel region represent important downside risks to the outlook.

Over the medium term, the current account deficit is projected to narrow further to around 5 percent of GDP by 2022-23, as stronger exports in the extractive industries resume and domestic demand adjusts. The authorities look forward to the revision of the staff's baseline macroeconomic projections that take into account the impact of the Grande-Tortue/Ahmeyim (GTA) gas project.

III. GTA Gas Project

Mauritania is considering participating in the offshore gas project GTA alongside British Petroleum (BP) and US-based Kosmos Energy. To finance its share in the initial phase of the

project, the authorities are weighing various financing options including pre-financing by BP. Although BP's pre-financing conditions are non-concessional, the authorities believe that they offer the best available terms at the present, given the lack of concessional resources and considering the need to preserve foreign exchange reserves and overall macroeconomic stability.

The authorities would like to reassure the Board that the financing conditions contemplated by the government for Mauritania's participation in the GTA project do *not* require a government guarantee and that future government revenues will *not* be pledged as collateral for any loan. They would also like to emphasize that they will continue to seek the most favorable financing conditions for their participation in the GTA project. Given the significance of the GTA project and its potential significant impact on the country's long-term growth prospects, the authorities request the Board's approval for an exception to the program's limit on non-concessional borrowing to enable Mauritania to participate in the project. They also reiterate their commitment more broadly to seeking non-concessional resources only in exceptional circumstances and for essential development projects when concessional financing is unavailable.

IV. Macroeconomic Policies and Structural Reforms Going Forward

Fiscal Policy

The authorities have submitted to parliament in October 2018, a budget for 2019 that is consistent with program targets. Following the strong fiscal performance in recent years, the 2019 budget aims to consolidate recent achievements and reach an overall surplus of 0.2 percent of GDP by continuing to improve the performance of tax revenues and better controlling spending.

On the revenue side, the authorities' plan is to implement a set of reforms to sustain recent years' strong revenue performance achieved by the tax and customs administrations through, among others, enhanced control of taxpayers, improved collection of arrears, and strengthened control and evaluation mechanisms by the customs administration. On the expenditure side, the authorities will continue to streamline current spending, in particular, by containing the share of the wage bill in the budget. Accordingly, the Ministry of Economy and Finance now includes in the budget the salaries of all *Etablissements Publics à Caractère Administratif* (EPA) as well as non-permanent staff with the aim of capturing the wage bill of the public administrations in its entirety. Efforts are also underway to rationalize public consumption expenditures through a reduction in subsidies allocated to certain public enterprises.

Efforts are also envisaged towards improving the efficiency of investment spending. In this vein the authorities have requested technical assistance from the IMF to conduct a public investment management assessment (PIMA).

Monetary Policy

The central bank of Mauritania (BCM) is continuing to strengthen its monetary policy framework. The recent adoption of the new central bank law—which takes into account the IMF recommendations on governance, internal and external audit, publication of accounts and accounting standards—represents a significant step towards modernizing the institutional structures of the BCM.

Progress has also been made in the efforts to promote the development of the interbank market and manage liquidity more actively notably through the introduction of new intervention instruments with different maturities and the establishment of a framework of eligible collaterals for its monetary policy operations, including treasury and central bank bills. The BCM will also put in place an interest rate corridor including the new refinancing facilities with the objective of aligning more closely monetary policy rates with the interest rates on treasury bills.

To enhance the operational autonomy of the central bank, a new memorandum of understanding (MoU) on the reimbursement of the government's debt owed to BCM has been signed between the BCM and the Ministry of the Economy and Finance. The new MoU was submitted to parliament in June 2018.

Exchange Rate Policy

The authorities are also making progress in their efforts to reform the foreign exchange market with the goal to improve its functioning and introduce more flexibility to the exchange rate.

The authorities intend to continue to deepen the foreign exchange market and to converge gradually to a *modus operandi* in line with international standards. To this end, and building on the progress achieved last year, the BCM will gradually introduce a one-way wholesale auction system by the end of 2019. Also, following the action plan to develop an interbank foreign exchange market that has been finalized in September 2018, the BCM will put in place the associated regulatory framework by June 2019 and an appropriate technical platform by the end of 2019.

Financial Sector

Preserving financial stability remains a key priority for the authorities. In that respect, they have strengthened further the regulatory framework and adapted it to international standards by passing a new banking law in July 2018. The law will contribute to reinforcing prudential standards for banks and aligning them with Basel II and III Principles. The law also strengthens banks' solvency and capital requirements. Accordingly, banks' minimum capital has been raised. This has contributed to strengthening their capital adequacy ratio in 2018. The new law also establishes a general regulatory framework for Islamic banks.

To further harmonize BCM's accounting with international standards, the central bank will publish by end-December 2018 its 2017 accounts on the basis of the International Financial Reporting Standards (IFRS). Following this first important step, BCM will prepare an action plan and a timetable for transitioning to IFRS accounting standards.

Among other important recent measures, the BCM has launched a plan to modernize its payments system which should be completed by the end of 2019, with a view to promoting faster and larger financial transactions while enhancing the security of these transactions. It will also set up, by February 2019, a new credit information bureau that will collect and provide to the banking sector the consolidated credit and payment history information of borrowers, in order to reduce banks' credit risks while also encouraging access to credit.

The BCM will continue to address the vulnerabilities in the banking sector, including the relatively high NPLs and loan concentration. Starting from July 2019, the central bank will apply prudential standards to limit concentration risks and require banks to increase their capital to comply with these standards.

The BCM is also taking determined measures, along with banks, to strengthen the AML/CFT framework. With the support of the World Bank, it plans to finalize the National Risk Assessment and prepare an action plan by the end of April 2019 to address identified vulnerabilities. Further progress in this area will help address current correspondent banking relationship (CBR) pressures.

Poverty Reduction Agenda

The authorities have steadily increased their social spending over the years and they intend to further increase them in 2019 to reach 44 percent of primary budget expenditures, equivalent to 13.4 percent of non-extractive GDP. By the next program review, they envisage to improve the targeting of their social programs in order to enhance the efficiency of social spending and protect the most vulnerable households throughout the whole country. They plan to finalize the institutional strengthening of the single social registry of vulnerable households before the end of 2018.

Business Climate and Governance

Progress has been made in recent years to improve Mauritania's business climate, as shown by the steady gains in the country's ranking in the World Bank's Doing Business reports, including the most recent 2019 report in which Mauritania gained two additional places compared to 2018. However, the authorities acknowledge that much remains to be done including on resolving insolvency and accessing credit. Their current focus is on the implementation of the 2018-19 roadmap on business climate reforms adopted by the government in January 2018 which includes measures such as the adoption of a law on small claim dispute resolution and the cancellation of registration fees for SMEs.

Efforts have also been stepped up in the fight against corruption. To intensify it further, the authorities will soon set up the monitoring committee for the implementation of the national anti-corruption strategy whose members have already been selected within the public administration, the private sector and the civil society. They will also implement the action plan on the anti-corruption strategy covering 2016-20.

As part of the efforts to migrate to the 2008 System of National Accounts (SNA 2008) by end-2018, the authorities have undertaken a thorough rebasing of the country's national statistics with technical assistance from various donors, including the IMF. They have expanded coverage of the various sectors of the economy to include activities that had previously been either omitted or underestimated, thereby providing a more comprehensive and accurate picture of the economy. As a result of the rebasing exercise, nominal GDP will increase by 26 percent.

V. Conclusion

My Mauritanian authorities would like to reiterate their firm commitment to the policies and reforms set forth under the ECF-supported program and request the Board's support for the completion of the second review and for the modification of the two performance criteria related to official reserves. They also seek the Board's approval for an exception to the program's limit on non-concessional borrowing to enable Mauritania to participate in the GTA project which is expected to have a significant impact on the country's economic outlook.