Islamic Republic of Mauritania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 2, 2007

The following item is a Letter of Intent of the government of the Islamic Republic of Mauritania, which describes the policies that the Islamic Republic of Mauritania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of the Islamic Republic of Mauritania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Letter of Intent

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

Nouakchott, November 2, 2007

Dear Managing Director:

The government that was formed last April has set as priorities the consolidation and furtherance of democracy, the strengthening of governance, and the intensification of efforts to stimulate economic growth and reduce poverty. The government intends in particular to enhance the effectiveness of government intervention; to promote private sector development; to combat corruption and improve fiscal management; and to implement integrated emergency programs in the poorest areas.

To meet these objectives, the government intends to continue implementing the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF) arrangement that was approved on December 18, 2006.

The attached Memorandum on Economic and Financial Policies (MEFP) takes stock of performance under the program during the first half of 2007, describes the economic and financial policies the government intends to implement during the second year of the program, and sets out the macroeconomic objectives, structural measures, and indicators for that year.

In view of Mauritania’s continued strong performance, we hereby request completion of the second review under the PRGF arrangement, and approval for a third disbursement for an amount of SDR 1.93 millions. We also request a waiver for the nonobservance of the end-June 2007 performance criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt, because of loans that had been contracted with the Islamic Development Bank and the Arab Fund for Economic and Social Development to finance water and electricity supply projects deemed crucial from an economic and social standpoint. We have reached agreements in principle on more favorable terms that would increase the grant element of these two loans, and will ensure that these new terms become effective as soon as possible. The third and fourth review of Mauritania’s performance under the arrangement will be conducted by end-March, 2008 and end-September, 2008, respectively.
The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF’s policies on such consultation.

Sincerely yours,

/s/            /s/
Ousmane Kane  Abderrahmane Ould Hama Vezaz
Governor of the Minister of Economy and Finance
Central Bank of Mauritania
Memorandum of Economic and Financial Policies

November 2, 2007

I.  INTRODUCTION

1. The election of Mr. Sidi Mohamed Ould Cheikh Abdallahi as Head of State in March 2007 and the formation of a government led by Zeine Ould Zeidane in April constitute the culmination of the democratic transition process, which the international community commended for its transparency and impartiality. Our country now has legitimate and pluralistic institutions.

2. The new government set as priorities the consolidation and furtherance of democracy, the strengthening of governance, and the intensification of efforts to stimulate economic growth and reduce poverty. We intend in particular: to enhance the effectiveness of government intervention by focusing on improving in health, education, access to drinking water and energy, and basic infrastructure; to promote private sector development; to combat corruption and improve fiscal management; and to implement integrated emergency programs in the poorest areas, starting with the town of Tintane, which was devastated by floods last August. The repatriation of persons displaced abroad is also one of the government’s priorities for strengthening social cohesion. The pursuit of these objectives will be guided by the second Poverty Reduction and Strategy Paper (PRSP2) and will be consistent with macroeconomic stability. To that end we intend to pursue the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and growth Facility (PRGF) arrangement.

3. In the Memorandum on Economic and Financial Policies (MEFP) of November 29, 2006, we described the broad outline of this program for the period October 2006–September 2009, as well as the actions we intended to take during the first year. The purpose of this memorandum, which complements the MEFP of November 2006 and our Letter of Intent of March 7, 2007, is to take stock of program implementation, update the medium-term framework, and describe the actions to be taken during the second year of the program.

II.  ECONOMIC CLIMATE AND REFORM: RECENT DEVELOPMENTS

4. Despite a faster-than-expected decline in oil production as a result of repeated technical problems, macroeconomic developments in the first part of 2007 remained broadly consistent with the objectives of the PRGF-supported program. Average oil production amounted to 16,250 barrels a day during the first eight months of 2007, when we were expecting an average of 21,000 barrels a day over the year, based on the information we had been provided by the operator. Non-oil GDP growth was in line with expectations, benefiting from the upswing in agricultural production and construction, and the development of new
mining projects. Despite inflationary pressure related to the rise in the prices of a number of imported foodstuffs, consumer prices continued to decelerate in 2007, with year-on-year inflation moving from 8.9 percent at end-2006 to 6.6 percent at end-August 2007, mainly as a result of a slowdown in food and transport prices.

5. The current account slid from a surplus equivalent to 1.5 percent of GDP in the first half of 2006 to a deficit equivalent to 7.3 percent of GDP in the first half of 2007, owing mainly to the drop in oil exports, compounded by the negative effect of the rise in import prices. The gross international reserves of the Central Bank of Mauritania (BCM) amounted to $258 million at end-August or 3.4 months of imports of goods and services,1 which was slightly higher than expected, as informal capital inflows seemingly related to the electoral process more than offset the shortfall in oil exports. Having remained stable for a number of weeks after the launch of the exchange market in January 2007, the exchange rate vis-à-vis the dollar appreciated from UM/$269 at end-April to UM/$255 at end-August, as a result initially of BCM intervention to limit the inflationary impact of the appreciation of the Euro against the dollar.

6. All end-June quantitative performance criteria were met (Table 1), with the exception of the criterion on the contracting or guaranteeing of new medium- and long-term nonconcessional external debt by the government and the BCM, owing to the coming into effect, on June 17 and May 26, 2007, respectively, of loans contracted with the Islamic Development Bank (IsDB) and the Arab Fund for Economic and Social Development (AFESD). The quantitative indicative target related to the treasury float was met by a large margin as a result of better tracking of the cash balance position and the computerization and decentralization of the chain of spending. However, the indicative target related to poverty reducing spending was not met owing to delays in the execution of the investment budget. Lastly, the measures covered by structural benchmarks were implemented (Table 2).

7. With regard to the contracted nonconcessional debt, it consists of two loans that are important to our poverty reduction strategy. The first loan was contracted with the AFESD for an amount of 37 million Kuwaiti dinars (approximately $129 million). Following an increase in prices since the initial project assessment, this loan complements an initial loan from the same agency to finance the Aftout Essahli project, which will supply drinking water to Nouakchott from the Senegal river, and will prevent delays in the execution of this project that is vital to our country. While estimates made prior to the signing of the loan pointed to a grant element in excess of the 35 percent program threshold, the grant element later turned out to be 34.6 percent. We consequently initiated negotiations with the AFESD in early August, which led to an agreement in principle on more favorable terms, which make the loan concessional.

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1 Imports of goods and services, with the exception of imports of the extractive industries and imports funded with foreign aid.
8. The second nonconcessional financing (for an amount of about $18 million), which was guaranteed by the government, was contracted with the IsDB and comprises a loan of SDR 2.65 million and a leasing agreement in the amount of Euro 10.1 million that will contribute to financing a project to boost the electricity production capacity of the national electricity company (SOMELEC). The latter can no longer meet the demand for power, which is major impediment to growth and employment, in particular in the manufacturing sector. There also, we have reached an agreement in principle with the IsDB and the Japanese authorities on improved financial terms, thanks in particular to a Euro 1.75 million grant from Japan, which will complement the IsDB funding. We have also started proceedings to amend the arrangements related to the different components of this financing package to ensure that these components are complementary and that they are treated as a single integrated debt, meeting thereby the conditionality of the PRGF arrangement.

9. We have continued to implement a prudent monetary policy, guided by our inflation reduction objectives. Broad money grew by 5 percent over the first six months of the year, slightly less than was expected (7 percent). After growing strongly in the period preceding the elections, the ratio of currency in circulation to broad money returned to its normal level. Mainly as a result of increased activity in the construction sector and advances to some public enterprises, credit to the economy accelerated, increasing by 12 percent in the first seven months of the year, compared with only 7 percent for all of 2006. Interest rates on Treasury bills remained within the 11–13 percent range, while the central bank’s discount rate was reduced from 14 percent to 12 percent on October 16, 2007.

10. The non-oil basic fiscal balance recorded a surplus of 0.5 percent of non-oil GDP in the first semester, compared with the 1.4 percent deficit forecast in the program. This good performance is due to a higher-than-expected level of tax revenue and the low rate of execution of domestically financed capital expenditure, which more than offset the low level of nontax revenue from the fishing sector and public enterprise dividends. It is worth noting that the wage bill was 5 percent higher than projected, owing mainly to inaccuracies related to the end-2006 wage bill used as the basis for the projections. In order to limit the impact of the decline in oil revenue on the level of reserves of the National Hydrocarbon Revenue Fund (FNRH), transfers from the Fund to the budget were revised downwards. As provided for in the program, the Treasury position vis-à-vis the BCM and Treasury bill issues were adjusted accordingly.

11. Following the reorganization of the ministries in April 2007 and with a view to finance our new priorities, we prepared a supplementary budget law (LFR), which was adopted by the parliament on August 21, 2007. The LFR provides for UM 6 billion in new spending (equivalent to 0.9 percent of non-oil GDP) to be financed by additional revenue and savings on spending on goods and services.

12. We also continued to implement our structural reform program. The structural benchmark related to the publication of the audit of the BCM’s financial statements was met
in June and the draft law on a transparent and optimal oil revenue management was submitted to parliament on October 15, 2007.

13. With regard to taxes, targeted audit programs were implemented by the Directorate General of Taxes (DGI), and the customs administration now has the latest version of the ASYCUDA software. Expenditure execution was substantially accelerated with the transfer of payment order authority to the line ministries in early 2007 and the rollout of the RACHAD computer application. We also published the 2006 annual report of the General State Inspectorate. Finally, in order to safeguard the integrity of the government treasury, all the autonomous accounts of the ministerial departments (excluding foreign financing) and government entities were transformed into subaccounts of the Treasury.

14. As part of our efforts to improve governance, we adopted a law on financial transparency, which requires that a number of high-level government officials declare their assets. We also created a commission for financial transparency in public life, headed by the President of the Supreme Court. Lastly, since June 2007, the monthly cash balance position has been published on the Treasury’s website.

15. We continued to work toward a more transparent and optimal oil revenue management. The draft law that we submitted to parliament on October 15 is consistent with the recommendations of the IMF’s Fiscal Affairs Department and strengthens the provisions of the April 2006 ordinance on the FNRH. It provides for the incorporation of the management of the FNRH in the budgetary process, particularly through the establishment of a hydrocarbons council. Furthermore, the report on the Extractive Industries Transparency Initiative (EITI) for 2006 was published at the beginning of August, and we started to audit the end-December 2006 accounts of the national hydrocarbon company (SMH).

16. We also made further progress in modernizing the financial system. In addition to the above-mentioned audit of the BCM, we completed in October 2007 the audit of the end-2005 financial statements of each of the commercial banks. A new electronic payment card was introduced in August. After the adoption in April of the regulations organizing the money market, we adopted a manual of procedures for liquidity management instruments, including the issuance of BCM bonds by the BCM. With assistance from the World Bank and the Bank of France, we started to prepare the implementing regulations of the law on the banking sector. With the support of the United Nations Development Programme (UNDP) and in coordination with the World Bank, the African Development Bank, the IMF, and the commercial banks, we finalized the implementing regulations of the law on microfinance. Following their adoption and publication on the BCM’s website, we have started implementing these regulations.

17. With respect to public enterprises, we adjusted the prices of gas cylinders in February 2007 and the water and electricity rates in November 2007 to restore the operating balance of the distribution companies and prevent any further drain on the 2007 budget.
18. Finally, in terms of economic statistics, we prepared and published a quarterly industrial production index and a quarterly bulletin on foreign trade.

III. MEDIUM-TERM MACROECONOMIC FRAMEWORK

19. We are convinced that the achievement of our goals of accelerating economic growth, significantly reducing poverty, and improving the living conditions of households in the medium term will require the reform of the management of our public enterprise portfolio and the government’s gradual divestment from the productive and commercial sector, a more transparent and effective public expenditure management, and a stronger private sector. Private sector development is considered essential to growth and promoting employment. A strategy for the development of this sector is being prepared and will in particular address the issues of access to bank financing, basic infrastructure development, improvement in the business climate, increased foreign direct investment, implementation of the commercial code, and adoption of a new investment code.

20. Our medium-term macroeconomic framework was updated to take into account recent developments, and more specifically the substantial downward revision of oil production prospects for the coming years, which have resulted both from the problems experienced with the Chinguetti oilfield operations and from the uncertainty about the timing of the start-up of production operations at the Tevet and Tiof oilfields, which will probably be delayed until 2011–12. In keeping with these objectives, and in light of these developments, our economic program for 2008–10 targets: (a) an annual non-oil GDP growth of more than 4.5 percent on average; (b) a gradual decline in inflation to less than 5 percent; and (c) an increase in BCM reserves to a level equivalent to more than three months of imports at the end of the period.

21. To increase poverty reducing spending while ensuring medium-term sustainability in a context of reduced oil revenue, our medium-term fiscal framework seeks to substantially reduce the deficit of the basic non-oil fiscal balance over the 2008–10 period by increasing tax revenue and re-prioritizing public spending. This reprioritization is based on the justification of sectoral appropriations and a willingness to control operating expenses, including the progression of the wage bill, pending the results of the civil service reform.

22. Finally, in order to mobilize financial assistance from our development partners and foster the development of a public-private partnership, which is necessary for the achievement of our objectives, we will organize, with the support of the World Bank, European Union, UNDP, and the IMF, a consultative group in Paris on December 4–6, 2007.

IV. PROGRAM FOR THE PERIOD OCTOBER 2007-SEPTEMBER 2008

23. In 2007, growth in the non-oil sector will be sustained, on account of the resurgence in agricultural output and construction and the buoyancy of the mining sector. Total GDP growth would nonetheless be limited to about 1 percent owing to the difficulties encountered
by the oil sector. In 2008, we have based our projections on a prudent hypothesis of a gradual reduction in oil production, which should average 13,000 barrels a day over the year. Growth in non-oil GDP should continue to be propelled by the mining sector in 2008, while agriculture and construction should return to growth rates consistent with their medium-term potential. Overall, our goal is to reach a growth rate of 5.7 percent in 2007 and 5.0 percent in 2008 for the non-oil sector. Given the substantial increase in electricity rates in the second half of the year, inflation should be higher than initially envisaged in 2007 but should remain below 8 percent. In 2008, our objective will be to bring year-on-year inflation down to less than 6 percent and international reserves to the equivalent of 2.8 months of imports of good and services at year end.

A. Public Finance

Fiscal policy

24. During the last months of 2007, we are committed to executing the LFR in accordance with program objectives, and, in particular, to limiting the basic non-oil balance deficit to UM 19.6 billion (2.9 percent of non-oil GDP), a level slightly lower than the supplementary budget estimate (UM 20.2 billion). In response to the worrisome increase in the wage bill, measures—including reconciling the payroll file with the civil service roster, checking employee indemnities, and suspending unregistered staff—will be taken to keep spending within program levels. The additional expenses envisaged in the LFR will be executed only if the additional revenue expected by end-2007 materialize, failing which decisions will be taken on which expenses to implement. We will monitor budget execution on a weekly basis to ensure that it is consistent with program objectives and, if need be, to make the necessary adjustments in a timely manner. The revenue departments, line ministries, and budget and treasury directorates will participate in this monitoring, which will be facilitated by the use of the RACHAD payments system.

25. The 2008 budget law will be part of our medium-term fiscal framework and will seek to limit the basic non-oil budget deficit to UM 13.8 billion (1.9 percent of non-oil GDP), consistent with medium-term sustainability, the maintenance of precautionary savings in the oil fund, and reduced domestic borrowing. In order to allow a level of spending that is compatible with our poverty reduction objectives, we will adopt fiscal policy and tax administration modernization measures that would increase revenue by the equivalent of at least 0.6 percent of non-oil GDP. We will also make every effort to contain nonpriority current spending and to limit the increase in the wage bill in nominal terms, pending measures that will follow the civil service census scheduled for end-2007 to early-2008. The budget deficit will be financed mainly through the transfer from the FNRH (of UM 22.4 billion), concessional financing, and grants. The target for the basic non-oil fiscal balance will be revised to take into account expenditures financed with domestic resources aimed at facilitating the return of displaced persons or to respond to humanitarian disasters, such as the one in Tintane. In addition, the overall fiscal balance could be adjusted to take
into account investment or poverty reducing spending to the extent that new concessional
external financing becomes available, provided that the corresponding borrowing and
spending are compatible with debt sustainability, macroeconomic stability, and sectoral
absorption capacity.

26. To accelerate convergence with the Economic Community of West African States
(ECOWAS), simplify procedures for operators, and generate additional revenue, we will
adopt by end-December 2007 an updated list of essential goods benefiting from VAT and
customs duties exemptions. We will continue to harmonize our classification with that of
ECOWAS in 2008. In 2008, we will also prepare a study to evaluate the cost of exceptional
regimes (mining and oil sector, public enterprises, and new investment code) and will
develop an action plan to reduce the informal sector and reform domestic taxation.

**Tax administration and fiscal management**

27. Based on IMF staff recommendations, we will continue to strengthen tax
administration, focusing our efforts on identifying taxpayers and on modernizing the VAT
administration. By end-2007, we will establish a centralized taxpayer database covering
Nouadhibou and Nouakchott based on a single identifier. This data file will be updated after
the taxpayer census that will be completed by June 2008. With regard to VAT, we will put in
place by end-2007 an effective refund system and will simplify the legislation to raise its
threshold to UM 30 million. In parallel, we will develop the intermediate regime for small-
and medium-sized enterprises. We will also proceed to the reallocation of enterprises
between the Large Enterprise Directorate (DGE) and the Small- and Medium-sized
Enterprises Directorate based on the new VAT threshold, which will allow for the
development and implementation of selective monitoring programs based on risk analysis.
We also intend to strengthen the human and other resources of the DGI and the oil taxation
expertise of the DGE. Lastly, the customs administration will continue to implement its
action plan, in particular as regards the modernization of customs clearance procedures, and
will prepare a computerized risk assessment system.

28. With technical assistance from our partners, we will pursue public finance reforms in
order to strengthen budget preparation, the monitoring of budget execution, and the
supervisory bodies, and to modernize public finance management. By end-2007, we will
adopt a timetable for budget preparation. A new organic law will be drafted in 2008 to
modernize the legal framework for preparing and executing the budget, with a view to
gradually move towards management by program and by objectives. In the meantime, we
will apply the existing organic law, strictly limiting commitments to budget lines for the
central government and government agencies, the military, and embassies. However,
appropriations may be transferred, following the issuance of an order by the Ministry of
Economy and Finance, from the reserves for common and miscellaneous expenses. These
reserves will not exceed 5 percent of total budget appropriations. Any additional
appropriation, including for wages, must be the subject of a supplementary budget law. We
will gradually develop accrual basis accounting and will change the budget and accounting classification by end-2007 to make it consistent with the standards of the 2001 Government Finance Statistics Manual.

29. Budget execution will be further strengthened by the introduction of the RACHAD payment module by end-November 2007; the adoption, in November 2007, of an order limiting the use of requests for immediate payment to cases of emergency and strictly defined categories of expenditures—this will improve the quality of financial control; and an enhanced accountability by payment authorization officers, especially through the adoption of a procedures manual. Payment authorizations will be regulated on a monthly basis, taking into the account cash balance forecasts, which will be updated weekly. We will also strengthen the monitoring of poverty reducing expenditures using the functional classification.

Civil service reform

30. With the assistance of the World Bank, we will continue civil service reforms and the modernization of the government, which are key to controlling the wage bill and improving the quality of the public service. An exhaustive census of government employees will be conducted by end-March 2008 and will be supplemented with an assessment of functional personnel needs in each ministry by end-August 2008. On this basis, we will take measures to tailor staffing to personnel needs while improving the quality of public service within the framework of the 2009 budget. A system of integrated government personnel management, including a hiring and staffing forecast management system, will also be introduced. In 2008, we will evaluate our pension and retirement system, with a view to restructuring it. In the short term, on the basis of the simplified civil service census conducted in recent months, we will reconcile the payroll with the civil service database by end-January 2008. The implementing regulations of the general status for civil servants and government officials will also be finalized by March 2008.

Oil revenue management

31. With regard to greater transparency in oil revenue management, we will publish the annual budget of the SMH and the contracts to which it is a party. We will also publish the audit of SMH’s end-2006 accounts by end-2007, and the audit of its end-2007 accounts by end-June 2008. The SMH will remain a minority partner in production sharing arrangements until it acquires all the necessary skills to manage oil projects. The audit of the FNRH’s 2006 financial statements will be completed and published by end-November 2007. We will also continue to publish the EITI annual reports. Finally, by end-2007 we will adopt the law on the oil code and a new model of production sharing contract.
B. Monetary and Exchange Policies

32. The BCM’s monetary policy will continue to be guided by its inflation reduction targets. In 2007, broad money is expected to grow on par with non-oil GDP. Given that objective, the anticipated improvement in the banking system’s external position and the planned reduction in the government’s debt to the banking sector and public enterprises should be compatible with a growth of credit to the private sector of about 14.6 percent. The monetary policy council will determine on a monthly basis the level of intervention rates consistent with reaching these objectives. To facilitate the achievement of these objectives within the framework of a flexible exchange policy, we will pursue a more active liquidity management. In collaboration with the commercial banks and the Ministry of Economy and Finance, and based on liquidity absorption needs, the BCM will enhance the modalities of its collaboration with the Treasury and will stand ready to use the new liquidity management instrument (BCM bills) as necessary. With assistance from the IMF, the BCM will prepare, by end-December 2007, a program for restructuring and securitizing some of its claims on the government and a memorandum of understanding between the BCM and the Ministry of Economy and Finance establishing transparent modalities for assigning the cost of monetary policy and determining the nature and the modalities of the services exchanged between the two institutions.

33. The BCM will continue to implement a monetary policy consistent with the macroeconomic stabilization objectives. The fiscal and monetary policy coordination committee, comprising representatives of the central bank and the ministries, will meet weekly to discuss the short-term operational implementation of monetary policy objectives, on the basis of BCM staff estimates of autonomous liquidity factors. Based on the automated expenditure management system and information on revenue collection, the committee will update, on a weekly basis and starting in November 2007, its monthly liquidity forecasts and the schedule of Treasury bills and BCM bills auctions. This will make it possible to limit budgetary commitments to available resources, to ensure that the expenditure identified as priority are properly executed, and that the schedule for issuing Treasury bills and BCM bills is consistent with fiscal and monetary policy objectives. We will support the development of secondary markets for securities, which will contribute to increasing liquidity on these markets and to developing the money market. The publication of information on overall liquidity conditions, by creating greater visibility, will enable market participants to more effectively manage their cash flow and help reduce the demand for excess reserves. The BCM will improve payment systems to strengthen the efficiency of the money market.

34. Consistently with its monetary policy, the BCM will implement a flexible exchange policy, limiting its foreign exchange market interventions to the smoothing of day-to-day fluctuations. This flexible policy will help us cope with possible changes in our terms of trade and safeguard the competitiveness of the Mauritanian economy.
C. Financial Sector Reform and Safeguards Assessment

35. We will continue to modernize the financial system with a view to enhancing competition by consolidating the sector and the possible entry of new actors. With assistance from the World Bank and the Banque de France, and in consultation with the IMF, we will adopt by end-December 2008, all the implementing regulations of the banking sector law. By March 2008, an initial set of regulations considered as a priority will be adopted, including the ones related to terms and conditions for bank licensing, risk concentration, management rules applicable to affiliates, and on the establishment of a sanction policy. These texts will provide for: the full provisioning of the banks’ nonperforming loans by end-2009, the increase of their net capital up to a per-bank minimum of UM 4 billion by end-2009 and UM 6 billion by end-2010, and the conversion of their accounting systems to international financial reporting standards (IFRS). By end-2008, we will establish a deposit guarantee fund to which all the banks will contribute. This fund will only be used once the terms of the regulations on net capital and provisioning are met. We will also strengthen on-site controls and continue to prohibit the distribution of dividends by banks with provisioning shortfalls. We will prepare a plan to implement the recommendations of the audits of the commercial banks’ end-2005 financial statements and, by end-2008, we will have the end-2007 financial statements of all banks audited by internationally renowned firms. The banks will also publish on a weekly basis the rates for their services. Finally, with the assistance of the World Bank and UNDP in particular, we will prepare a chart of accounts for microfinance by end-December 2007.

36. The BCM will continue to strengthen its accounting practices, in particular by implementing the recommendations of the IMF safeguards assessment reports. Thus, we will proceed to adopt international accounting standards and strengthen internal audit procedures by: (a) preparing, in collaboration with the new audit firm and by end-March 2008, a program for converting the BCM’s financial statements to IFRS standards, pending the conversion of its accounting systems to those standards; (b) resolving, by end-December 2007, any of the BCM’s external audit qualifications within the immediate control of the BCM; (c) continuing the half-yearly audits, by an internationally renowned firm, of BCM international reserves; and (d) preparing an annual audit and an interim audit at June 30 of the BCM. The investment committee will continue to actively manage the BCM’s international reserves. Finally, by May 2008, in coordination with the IMF, we will adopt a strategic plan for market and financial system development supported by the reorganization of the BCM.

D. External Sector and Financing Policies

37. The outlook for the external sector will continue to be dominated by the developments in oil, mining, and fishing exports. Although the outlook for the oil sector has considerably deteriorated, mining output is expected to increase as a result of the anticipated growth in the output of the national industrial and mining company, the start-up of operations
at the Tasiast gold mine in July, and the resumption of copper exports from the Akjoujt mine. Overall, exports should decline noticeably over the next three years, which, combined with an increase in extractive industry imports, will result in a deepening of the trade deficit and current account deficit, with the latter plunging from 6.7 percent of GDP in 2007 to 16.2 percent of GDP in 2010. This deficit would be largely financed by direct investments by the extractive industries, which would enable the BCM to accumulate additional international reserves, which would cover more than three months of imports (excluding extractive industry imports and imports financed with foreign aid) at end-2010. In the short run, however, the level of reserves will be impacted by the shortening (from 180 to 90 days) at the beginning of July of the duration of documentary credits used by oil sector importers within the framework of an agreement with the oil trading company. The termination of this measure should allow for a replenishment of these reserves from an import coverage level of 1.8 months at end-2007 to 2.8 months at end-2008.

38. In order to avoid a repetition of recent problems related to the contracting of nonconcessional debt, we will considerably strengthen the framework for debt management, which will continue to be governed by the medium- and long-term debt sustainability imperative. To better monitor and manage public debt, we will adopt by end-March 2008 an order instituting budgetary and accounting mechanisms and modalities for disseminating information on the government external debt. We will also install the latest version of the DMFAS program in the debt directorate and will ensure that the dissemination of debt data will comply with IMF recommendations. A technical committee will meet monthly and will transmit its minutes to the IMF staff to keep it informed of any new loans contracted and of the level of debt service.

39. To bring our external indebtedness to a sustainable level, we will continue our efforts to find a solution to the problems of arrears owed to some of our partners, in particular Kuwait, Libya, and the Arab Organization of Petroleum Exporting Countries (AOPEC), on terms comparable with those granted under the enhanced Highly Indebted Poor Countries (HIPC) Initiative. Finally, we will resort solely to concessional borrowing and grants to consolidate our gains in terms of debt sustainability under the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI), of which we were a beneficiary in 2006. In keeping with that commitment, we will complete the ongoing negotiations with the AFESD and IsDB.

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2 In July 2007, we sent a letter to Kuwait proposing the cancellation of the arrears, offering different options for the treatment of interest, and encouraging the Kuwaiti authorities to invest in Mauritania. We sent a similar letter of the United Arab Emirates requesting the cancellation or rescheduling of our debt under the enhanced HIPC Initiative. We are continuing to negotiate with Algeria within the framework of a mixed commission. Finally, we sent a letter to Libya last November proposing relief of our debt under the HIPC Initiative.
E. Governance

40. We will continue our efforts to improve governance with the ongoing preparation of a strategy to combat corruption. The government intends to ask Transparency International to include Mauritania in its reports. We will conduct a diagnostic study by end-March 2008 of the relationship between the competences of the budget control institutions and their weaknesses, on the basis of which we will define an overall strategy to improve the quality of ex-ante and ex-post controls and of audits of the quality and effectiveness of expenditures. By June 2008, the budget control institutions’ annual audit reports for 2007 will be published. These reports will adequately cover the administration’s response to the administrative violations and irregularities found the previous year. After revising the public procurement code, we will establish by end-June 2008 a negative list of government suppliers.

F. Public Enterprises

41. We have decided to restructure our public enterprise portfolio in order to improve the quality of the services they provide, guarantee their financial viability, and introduce greater competition. To that end, in coordination with the World Bank, we will conduct an in-depth review of the monitoring and control of these enterprises by the Ministry of Economy and Finance, and will adopt a strategy for restructuring them, providing in particular for the government’s divestment of some enterprises and the introduction of performance contracts for the others. Within this framework, performance contracts with SOMELEC, the national water utility, and SMH will be completed by June 2008.

42. In coordination with the World Bank and the French Development Agency, we will prepare a restructuring strategy for SOMELEC by end-June 2008. In the medium term, this strategy will aim at increasing production and improving competition, including through the opening of the sector to new actors. Pending the implementation of this strategy, the financial viability of the company will be ensured through: (a) adjustment of electricity tariffs, including the 21.6-percent increase implemented in November 2007; (b) a UM 3.4-billion government loan guarantee to clear arrears to suppliers and a UM3-billion government current transfer, which will be included in the 2008 budget law; (c) measures to fight against fraud and increase billing recovery. The 2008 budget will also continue providing subsidy for gas in the amount of UM 1.5-billion to avoid severe environmental damages stemming from the use of wood for domestic purpose that would result from high gas prices. We will take, by the time of the third review, a decision on the best way (i.e. to liquidate or to restructure and then sell) to disinvest from Air Mauritanie. Completion of the third review will be conditional on the government taking a decision on how to disinvest from Air Mauritanie. The government will provide no financial assistance or guarantee to Air Mauritanie prior to such decision.
G. Improvement of Economic Statistics

43. By end-November, the National Statistical Council will adopt a national statistical development strategy, which will cover as a sectoral priorities short-term statistics, national accounts, and balance of payments, and will identify the actions needed to implement the General Data Dissemination System. With technical assistance from Afristat and the IMF, the National Statistical Office will finalize the final national accounts for 2001-05 by end-December 2007, the provisional national accounts for 2006 by end-January 2008, and the provisional national accounts for 2007 and final national accounts for 2006 by end-September 2008. Lastly, we will strengthen monitoring of the extractive industries by adopting a new quarterly format for data transmission by end-December 2007.

V. PROGRAM MONITORING

44. To monitor program execution, Table 3 establishes quantitative performance criteria for end-December 2007 and quantitative indicators for March, June, and September 2008. The quantitative indicators for end-June 2008 will be converted to performance criteria at the time of the third program review. The Technical Memorandum of Understanding (TMU) defines these quantitative criteria and benchmarks and the readjustment factors for contingencies. Table 4 identifies performance criteria and structural benchmarks and the corresponding cutoff dates. These criteria and benchmarks are more precisely defined in the TMU. The fiscal and monetary policy coordination committee will monitor on a weekly basis developments in quantitative performance criteria related to the basic non-oil fiscal balance and net domestic and foreign assets of the BCM.

45. Program implementation will be assessed every six months in consultation with IMF staff. The third and fourth staff reviews will take place by end-March 2008 and end-September, 2008, respectively.
Table 1. Quantitative Performance Criteria and Indicative Targets for the First Year of the PRGF-Supported Program 1/

(Cumulative change from end-December 2006)

<table>
<thead>
<tr>
<th></th>
<th>End-December 2006</th>
<th>End-March 2007</th>
<th>End-June 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial Stock</td>
<td>Target</td>
<td>Adjusted target</td>
</tr>
<tr>
<td>Net international reserves of the BCM (floor); in million of US$ 3/</td>
<td>3.6</td>
<td>2.5</td>
<td>-22.5</td>
</tr>
<tr>
<td>Net domestic assets of the BCM (ceiling); in billion of UM 3/</td>
<td>79.3</td>
<td>1.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Basic non-oil government balance (floor); in billion of UM</td>
<td>...</td>
<td>-9.8</td>
<td>-9.8</td>
</tr>
<tr>
<td>New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in million of US$</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Short-term debt (ceiling); in million of US$</td>
<td>42.5</td>
<td>-2.4</td>
<td>-2.4</td>
</tr>
<tr>
<td>New external payments arrears (continuous ceiling); in million of US$</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Treasury float (ceiling); in billion of UM 4/</td>
<td>12.5</td>
<td>-1.8</td>
<td>-1.8</td>
</tr>
<tr>
<td>Poverty reducing expenditures (floor); in billion of UM 4/ 5/</td>
<td>...</td>
<td>12.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Adjustors (in million of US$)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net international assistance</td>
<td>...</td>
<td>-2.8</td>
<td>...</td>
</tr>
<tr>
<td>Cumulative disbursements of official loans and grants in foreign currency</td>
<td>...</td>
<td>0.0</td>
<td>...</td>
</tr>
<tr>
<td>Impact of any additional debt relief</td>
<td>...</td>
<td>0.0</td>
<td>...</td>
</tr>
<tr>
<td>Cumulative amounts of external cash debt service payments</td>
<td>...</td>
<td>-2.8</td>
<td>...</td>
</tr>
<tr>
<td>FNRH contribution to the budget</td>
<td>...</td>
<td>27.5</td>
<td>...</td>
</tr>
</tbody>
</table>

Memorandum item: UMS/$ exchange rate (program) 268.6

End-December 2006

Sources: Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding.
2/ Performance criteria, unless otherwise indicated.
3/ Adjusted upward (NIR) and downward (NDA) by net international assistance and FNRH contribution to the budget.
4/ Indicative target.
5/ The end-June 2007 estimate underestimates actual poverty-reducing expenditure as the authorities have yet to reclassify expenditure executed under the advance decree.
Table 2. Structural Performance Criteria and Benchmarks for the First Year of the PRGF-Supported Program

<table>
<thead>
<tr>
<th>Prior action:</th>
<th>Date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Government adoption of 2007 budget ordinance consistent with paragraphs 25–29 of the MEFP of November 29, 2006.</td>
<td>Approval of the arrangement</td>
<td>Completed</td>
</tr>
<tr>
<td><strong>Performance criteria:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Elimination of the requirement to partially surrender fish export proceeds to the BCM.</td>
<td>End-December 06</td>
<td>Met</td>
</tr>
<tr>
<td>• Adoption by cabinet of ordinance on the statutes of the central bank that will establish price stability as the primary objective of the BCM, protect the governor of the central bank from arbitrary dismissal, and place stronger limits on direct monetary financing of the government.</td>
<td>End-December 06</td>
<td>Met</td>
</tr>
<tr>
<td>• Adoption by cabinet of ordinance on commercial banking that will limit loans to related parties and ensure separation between bank managers and owners.</td>
<td>End-December 06</td>
<td>Met</td>
</tr>
<tr>
<td><strong>Benchmarks:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Introduction of a new instrument for bank liquidity management.</td>
<td>End-January 07</td>
<td>Met 1/</td>
</tr>
<tr>
<td>• Semiannual adjustment of water and electricity rates based on the estimated operating balance.</td>
<td>End-January 07</td>
<td>Met 2/</td>
</tr>
<tr>
<td>• Transmission to Fund staff of the computerized monthly monitoring of budget execution with a lag of no more than a month (budget allotments, commitments, payment orders).</td>
<td>End-January report available at end-February 2007</td>
<td>Met 3/</td>
</tr>
<tr>
<td>• Publication of the audit of BCM’s 2006 financial statements.</td>
<td>End-June 07</td>
<td>Met</td>
</tr>
<tr>
<td>• Submission to parliament of a draft law on a transparent and optimal oil revenue management, consistent with paragraph 32 of the MEFP of November 29, 2006.</td>
<td>End-August 07</td>
<td>Met 4/</td>
</tr>
</tbody>
</table>

Sources: Mauritanian authorities; and Fund staff.

1/ The operational framework for the central bank bills was adopted by the monetary policy committee on April 18, 2007.
2/ This measure was implemented on March 15, 2007.
3/ The end-March report was transmitted to Fund staff in early April. Subsequent monthly reports have been submitted on a monthly basis.
4/ A draft law was submitted to parliament on October 15, 2007.
Table 3. Quantitative Performance Criteria and Quantitative Benchmarks for the Second Year of the PRGF-Supported Program 1/
(Cumulative change at end-December 2006 for 2007 targets and at end-December 2007 for 2008 targets)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Initial Level</td>
<td>Initial Target</td>
<td>Revised Stock</td>
<td>Country report No. 07/224 Target</td>
<td>Revised Target 2/ Country report No. 07/224 Revised Target 2/</td>
<td></td>
</tr>
<tr>
<td>Quantitative targets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net international reserves of the BCM (floor); in million of US$ 3/</td>
<td>3.6</td>
<td>76.7</td>
<td>51.1</td>
<td>66.2</td>
<td>-16.6</td>
<td>-8.9</td>
</tr>
<tr>
<td>Net domestic assets of the BCM (ceiling); in billion of UM 3/</td>
<td>79.3</td>
<td>-17.6</td>
<td>-9.2</td>
<td>-12.9</td>
<td>4.9</td>
<td>4.0</td>
</tr>
<tr>
<td>Basic non-oil government balance (floor); in billion of UM</td>
<td>...</td>
<td>-0.7</td>
<td>-1.4</td>
<td>-19.6</td>
<td>-19.6</td>
<td>-21.1</td>
</tr>
<tr>
<td>New medium- and long-term nonconcessional debt contracted or guaranteed by the government and the BCM (ceiling); in million of US$</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Short-term debt (ceiling); in million of US$</td>
<td>42.5</td>
<td>-34.6</td>
<td>-38.2</td>
<td>-42.5</td>
<td>-46.6</td>
<td>0.0</td>
</tr>
<tr>
<td>New external payments arrears (continuous ceiling); in million of US$</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Treasury float (ceiling); in billion of UM 4/</td>
<td>12.5</td>
<td>-6.1</td>
<td>-7.9</td>
<td>-5.5</td>
<td>-7.9</td>
<td>0.0</td>
</tr>
<tr>
<td>Poverty reducing expenditures (floor); in billion of UM 4/</td>
<td>...</td>
<td>46.1</td>
<td>46.1</td>
<td>64.1</td>
<td>64.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Adjustors (in million of US$)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net international assistance</td>
<td>...</td>
<td>-11.7</td>
<td>-12.1</td>
<td>-19.8</td>
<td>-18.6</td>
<td>-3.0</td>
</tr>
<tr>
<td>Cumulative disbursements of official loans and grants in foreign currency</td>
<td>...</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Impact of any additional debt relief</td>
<td>...</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cumulative amounts of external cash debt service payments</td>
<td>...</td>
<td>-11.7</td>
<td>-12.1</td>
<td>-19.8</td>
<td>-18.6</td>
<td>-3.0</td>
</tr>
<tr>
<td>FNRH contribution to the budget</td>
<td>...</td>
<td>82.6</td>
<td>66.3</td>
<td>110.1</td>
<td>94.0</td>
<td>37.7</td>
</tr>
<tr>
<td>Memorandum item: UM/$ exchange rate (program)</td>
<td>268.6</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

Sources: Mauritanian authorities; and Fund staff projections.

1/ For definitions and adjustors, see the technical memorandum of understanding.
2/ Performance criteria, unless otherwise indicated.
3/ Adjusted by net international assistance and FNRH contribution to the budget (see technical memorandum of understanding).
4/ Indicative target.
Table 4. Performance Criterion and Structural Benchmarks for the Second Year of the PRGF-Supported Program

<table>
<thead>
<tr>
<th>Performance criterion:</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Submission to Parliament of a list of products for which VAT or customs tariff exemptions will be eliminated.</td>
<td>End-December 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structural benchmarks:</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Assignment of a single tax identifier to all taxpayers registered in Nouadhibou and Nouakchott and establishment of a centralized taxpayer database.</td>
<td>End-December 2007</td>
</tr>
<tr>
<td>• Resolution of the external audit qualifications on the BCM's 2006 financial statements within the immediate control of the BCM.</td>
<td>End-December 2007</td>
</tr>
<tr>
<td>• Adoption of an order instituting fiscal and accounting systems and modalities for disseminating information on the government external debt.</td>
<td>End-March 2008</td>
</tr>
<tr>
<td>• Adoption by the monetary policy council of implementing regulations of the banking sector law on licensing of banks, risk concentration, and rules of management applicable to affiliates.</td>
<td>End-March 2008</td>
</tr>
</tbody>
</table>

Sources: Mauritanian authorities; and Fund staff.
TECHNICAL MEMORANDUM OF UNDERSTANDING

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

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

I. DEFINITIONS

A. Performance Criteria and Quantitative Benchmarks

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

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

5. **Government balance** is defined for program monitoring purposes as non-oil central government basic balance excluding grants, which is equal to **non-oil government revenue** (excluding grants) minus **government expenditure** (excluding foreign-financed investment expenditure and interest due on external debt). The government balance will be measured based on Treasury data. Revenue are defined in accordance with the *Government Financial Statistics manual (GFSM 2001)*, excluding the revenue related to oil- and other hydrocarbon-related activities and transfers from the National Hydrocarbon Revenue Fund (FNRH) to the budget. They will be monitored on a cash basis (*recettes encaissées par le Trésor*). Expenditure will be monitored on the basis of payment orders, including the interest on domestic debt (paid by the Treasury or automatically debited from the treasury account at the
BCM, including but not limited to discounts on treasury bills held by banks and nonbanks and interest charges on the consolidated debt of the government vis-à-vis the BCM).

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

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

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

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

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

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3 Although the definition does not include public enterprise loans that are not government-guaranteed, this type of borrowing is to be avoided except in exceptional circumstances an after consultation with IMF staff.
B. Performance Criteria and Structural Benchmarks

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

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

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

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

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

II. Program Adjustors

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

17. In case net international assistance or the contribution of the FNRH to the budget falls short of the amounts projected in Table 3, the floor for NIR will be adjusted downward and the ceiling on NDA will be adjusted upward by an amount equivalent to the difference between the actual levels and the projected levels. In the case of the NDA, this amount will be converted into ouguiyas at the program exchange rates. The cumulative downward adjustments to NIR will be limited to $25 million. The cumulative upward adjustments to NDA will be limited to the ouguiya equivalent of $25 million at program exchange rates. In case the contribution of the FNRH to the budget exceeds the amounts projected in Table 3, the floor for NIR will be adjusted upward and the ceiling on NDA will be adjusted downward by an amount equivalent to the difference between the actual levels and the projected levels.
18. The floor on the government balance will be adjusted downwards by an amount equivalent to the **national aid** collected to finance solidarity expenditures related to the floods in Tintane and the repatriation of persons displaced abroad. National aid contributions will be deposited in a special allocation account created for that purpose and spending will originate from that account.

**III. REPORTING REQUIREMENTS**

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

**BCM**

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

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

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

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

- Monthly external debt data within one month of the end of each month, following the monthly meeting of the technical debt committee, the minutes of which will be attached. This information shall include:
  1) The external debt data file: service of the external debt of the BCM, government, and SNIM, including changes in arrears and rescheduling operations, debt service due and paid in cash, HIPC relief granted by multilateral and bilateral creditors and the amount of HIPC relief provided to Mauritania in the form of grants.
  2) The monthly list of medium- and long-term public or publicly guaranteed external loans contracted during each month, identifying, for each loan: the creditor, the borrower, the amount and currency, the maturity and grace period, interest rate arrangements and commissions. The list must also include any loans currently being negotiated.
• Quarterly complete balance of payments and data on the outstanding stock of external debt (by creditor, by debtor and by currency) within one month following the end of each quarter.

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

**Ministry of Economy and Finance**

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

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

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

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

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

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

• Quarterly data on the operations of oil sector enterprises and on those in the mining sector.
National Statistical Office

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

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

IV. CENTRAL GOVERNMENT OPERATIONS TABLE

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

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

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

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

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

Changes in deposit and reciprocal accounts shall be taken into account in domestic financing.
• **External financing** is defined as the sum of: the net outflows from (i.e. the opposite of the change in the balance of the FNRH’s offshore account); net disbursements of foreign loans; and exceptional financing. The latter comprises (a) the accumulation of arrears on the debts owed to Libya, Kuwait, Libya, Algeria, the United Arab Emirates, and Arab Organization of Petroleum Exporting Countries, as defined in paragraph 8; and (b) debt relief obtained on external government debt net of the HIPC assistance that is treated as grants.
ANNEX: DEFINITION OF DEBT SET FORTH IN NO. 9 OF THE GUIDELINES

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

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

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